CITY OF PHILIP, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT WITH SUPPLEMENTARY INFORMATION

DECEMBER 31, 2025

CITY OF PHILIP

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Philip, South Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Philip, South Dakota (the City), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule, the schedule of the proportionate share of net pension (asset)/liability, and the schedule of the contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2026, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
September 24, 2026

CITY OF PHILIP

STATEMENT OF NET POSITION
DECEMBER 31, 2025

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 4,381,508	$ 1,790,304	$ 6,171,812
Receivables, net	667,182	66,148	733,330
Inventories	61,521	29,926	91,447
Net pension asset	962	240	1,202
Restricted assets:			
Cash and cash equivalents	-	55,100	55,100
Capital assets:			
Capital assets not being depreciated	3,257,591	847,830	4,105,421
Capital assets being depreciated, net	12,218,000	2,719,826	14,937,826
Total capital assets	15,475,591	3,567,656	19,043,247
Total assets	20,586,764	5,509,374	26,096,138
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	90,819	22,705	113,524
Total deferred outflows of resources	90,819	22,705	113,524
LIABILITIES			
Accounts payable	4,610	9,713	14,323
Accrued interest payable	5,481	4,544	10,025
Revenue received in advance	-	5,331	5,331
Customer deposits	-	8,011	8,011
Noncurrent liabilities:			
Portion due or payable within one year:			
Bonds payable	35,777	32,420	68,197
Compensated absences	28,281	4,173	32,454
Portion due or payable after one year:			
Bonds payable	1,563,634	1,193,235	2,756,869
Compensated absences	7,070	1,044	8,114
Total liabilities	1,644,853	1,258,471	2,903,324
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	51,051	12,763	63,814
Total deferred inflows of resources	51,051	12,763	63,814
NET POSITION			
Net investment in capital assets	13,876,180	2,342,001	16,218,181
Restricted for:			
SDRS pension	40,730	10,182	50,912
Unrestricted	5,064,769	1,908,662	6,973,431
Total net position	$ 18,981,679	$ 4,260,845	$ 23,242,524

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2025

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Primary government:							
Governmental activities:							
General government	$ 463,917	$ 8,570	$ -	$ -	$ (455,347)		$ (455,347)
Public safety	222,086	550	-	-	(221,536)		(221,536)
Public works	771,805	450	69,706	6,042,907	5,341,258		5,341,258
Health and welfare	10,562	-	700	-	(9,862)		(9,862)
Culture and recreation	119,095	-	17,397	-	(101,698)		(101,698)
Conservation and development	13,777	-	-	-	(13,777)		(13,777)
Interest and fiscal charges	30,061	-	-	-	(30,061)		(30,061)
Total governmental activities	1,631,303	9,570	87,803	6,042,907	4,508,977		4,508,977
Business-type activities:							
Water	248,685	275,086	-	-		$ 26,401	26,401
Sewer	158,940	165,695	-	1,182,422		1,189,177	1,189,177
Garbage	96,620	107,452	-	-		10,832	10,832
Total business-type activities	504,245	548,233	-	1,182,422		1,226,410	1,226,410
Total government	$ 2,135,548	$ 557,803	$ 87,803	$ 7,225,329	4,508,977	1,226,410	5,735,387
General revenues:							
Taxes:							
Property taxes					562,653	-	562,653
Sales taxes					713,682	-	713,682
State shared revenues					23,351	-	23,351
Grants and contributions					12,844	-	12,844
Unrestricted investment earnings					158,568	57,047	215,615
Miscellaneous					97,621	1,500	99,121
Transfers					1,065,787	(1,065,787)	-
Total general revenues and transfers					2,634,506	(1,007,240)	1,627,266
Change in net position					7,143,483	219,170	7,362,653
Net position - beginning					11,838,196	4,041,675	15,879,871
Net position - ending					$ 18,981,679	$ 4,260,845	$ 23,242,524

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2025

	Major Fund			Nonmajor Fund	
	General Fund	Capital Project Fund - Hansen Subdivision	Capital Project Fund - NE Sewer/ Stewart, Pine, Elm	Capital Projects Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 3,859,101	$ 450,932	$ 71,475	$ -	$ 4,381,508
Receivables, (net of allowances for uncollectibles, if any):					
Accounts	5,407	-	-	-	5,407
Property taxes	3,400	-	-	-	3,400
Special assessments	9,815	-	-	-	9,815
Due from other governments	648,560	-	-	-	648,560
Inventories:			-		
Supplies	61,521	-	-	-	61,521
Total assets	$ 4,587,804	$ 450,932	$ 71,475	$ -	$ 5,110,211
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 4,610	$ -	$ -	$ -	$ 4,610
Total liabilities	4,610	-	-	-	4,610
Deferred inflows of resources:					
Unavailable revenue - property taxes	3,400	-	-	-	3,400
Unavailable revenue - special assessments	9,815	-	-	-	9,815
Total deferred inflows of resources	13,215	-	-	-	13,215
Fund balances:					
Nonspendable:					
Inventory	61,521	-	-	-	61,521
Committed:					
Rubble site expansion	119,920	-	-	-	119,920
Capital outlay	1,003,538	-	-	-	1,003,538
Assigned:					
Next year's budget	67,900	-	-	-	67,900
Unassigned:	3,317,100	450,932	71,475	-	3,839,507
Total fund balances	4,569,979	450,932	71,475	-	5,092,386
Total liabilities, deferred inflows of resources, and fund balances	$ 4,587,804	$ 450,932	$ 71,475	$ -	$ 5,110,211

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2025

Total fund balances for governmental funds		$ 5,092,386
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	$ 331,271	
Construction in progress	2,926,320	
Building and improvements, net of $1,817,901 accumulated depreciation	8,366,148	
Equipment, net of $710,653 accumulated depreciation	269,791	
Infrastructure, net of $4,081,516 accumulated depreciation	3,582,061	
Total capital assets		15,475,591
Assets such as taxes receivable and special assessment receivables are not available to pay for current period expenditures and therefore are deferred in the funds.		13,215
Net pension liability (asset) reported in the governmental activities is not an available financial resource and therefore is not reported in the funds.		962
Pension related deferred outflows are components of the net pension (asset)/liability and therefore are not reported in the funds.		90,819
Long-term liabilities, including bonds payable and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds. Balances at December 31, 2025 are:		
Bonds payable	(1,599,411)	
Accrued interest	(5,481)	
Compensated absences	(35,351)	
Total long-term liabilities		(1,640,243)
Pension related deferred inflows are components of the net pension (asset)/liability and therefore are not reported in the funds.		(51,051)
Total net position of governmental activities		$ 18,981,679

The accompanying notes are an
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CITY OF PHILIP

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2025

	Major Fund			Nonmajor Fund	Total
	General Fund	Capital Project Fund - Hansen Subdivision	Capital Project Fund - NE Sewer/ Stewart, Pine, Elm	Capital Projects Fund	Governmental Funds
REVENUES					
Taxes	$ 1,284,038	$ -	$ -	$ -	$ 1,284,038
Licenses and permits	8,570	-	-	-	8,570
Intergovernmental revenue	6,121,695	-	-	-	6,121,695
Charges for goods and services	31,615	-	-	-	31,615
Fines and forfeits	550	-	-	-	550
Miscellaneous revenue	226,142	-	-	-	226,142
Total revenues	7,672,610	-	-	-	7,672,610
EXPENDITURES					
Current:					
General government	471,522	-	-	-	471,522
Public safety	212,584	-	-	-	212,584
Public works	131,307	-	-	-	131,307
Health and welfare	10,562	-	-	-	10,562
Culture and recreation	95,310	-	-	-	95,310
Conservation and development	13,777	-	-	-	13,777
Debt service:					
Principal	34,716	-	-	-	34,716
Interest and other fiscal charges	30,260	-	-	-	30,260
Capital outlay	6,457,432	989,751	1,509,031	-	8,956,214
Total expenditures	7,457,470	989,751	1,509,031	-	9,956,252
OTHER FINANCING SOURCES (USES):					
Transfers in	-	1,810,500	1,805,520	-	3,616,020
Transfers out	(1,776,127)	(414,616)	(359,490)	-	(2,550,233)
Sale of municipal property	77,654	-	-	-	77,654
Long-term debt issued	605,627	-	-	-	605,627
Total other financing sources (uses)	(1,092,846)	1,395,884	1,446,030	-	1,749,068
Net change in fund balances	(877,706)	406,133	(63,001)	-	(534,574)
Changes in nonspendable	17,572	-	-	-	17,572
Fund balances - beginning	5,430,113	-	-	179,275	5,609,388
Adjustments:					
Change within reporting entity (nonmajor to major)	-	44,799	134,476	(179,275)	-
Adjusted fund balance - beginning	5,430,113	44,799	134,476	-	5,609,388
Fund balances - ending	$ 4,569,979	$ 450,932	$ 71,475	$ -	$ 5,092,386

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2025

Net change in fund balances - total governmental funds		$ (534,574)
The change in net position reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay ($8,956,214) exceeded depreciation expense ($700,618) in the current period.		8,255,596
In the statement of activities, gain $46,717 and losses $-0- on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds $77,654 from the disposal of capital assets are reflected, regardless of whether a gain or loss is realized.		(30,937)
Governmental funds recognize property taxes and special assessments as revenue in the fiscal period for which they were levied provided they are collected within 45 days, but the statement of activities includes property taxes and special assessments as revenue in the period for which the taxes are levied.		(10,328)
Individual governmental funds recognize inventory using the purchase method. In the the government-wide financial statements, however, inventory is presented using the consumption method. This adjustment recognizes the change in inventory in the individual governmental funds.		17,572
Bond proceeds are reported as financing sources in governmental funds and thus contributed to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not effect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Advances:		
Bonds		(605,627)
Repayments:		
Bonds		34,716
Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. The adjustment combines the net change of these balances.		
Accrued interest	$ 199	
Compensated absences	(3,084)	(2,885)
Changes in the net pension asset and the pension related deferred inflows and outflows are direct components of pension assets and are not reflected in the governmental funds.		19,951
Change in net position of governmental activities		$ 7,143,484

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2025

	Enterprise Funds			
	Major Funds		Nonmajor Fund	
	Water	Sewer	Garbage	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 814,553	$ 811,546	$ 164,205	$ 1,790,304
Receivables, (net of allowances for uncollectibles, if any):				
Accounts	18,581	14,663	11,074	44,318
Due from other governments	-	21,830	-	21,830
Inventories - supplies	28,527	1,399	-	29,926
Total current assets	861,661	849,438	175,279	1,886,378
Noncurrent assets:				
Restricted cash and cash equivalents	-	55,100	-	55,100
Net pension asset	156	84	-	240
Capital assets:				
Land	-	30,757	-	30,757
Construction in progress	-	817,073	-	817,073
Buildings and improvements	2,526,114	2,947,394	4,380	5,477,888
Machinery and equipment	375,157	244,560	-	619,717
Less accumulated depreciation	(1,494,725)	(1,878,674)	(4,380)	(3,377,779)
Total noncurrent assets	1,406,702	2,216,294	-	3,622,996
Total assets	2,268,363	3,065,732	175,279	5,509,374
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows	14,758	7,947	-	22,705
LIABILITIES				
Current liabilities:				
Accounts payable	9,322	391	-	9,713
Accrued interest payable	-	4,544	-	4,544
Revenue received in advance	5,331	-	-	5,331
Customer deposits	8,011	-	-	8,011
Bonds payable - current portion	-	32,420	-	32,420
Compensated absences - current portion	2,504	1,669	-	4,173
Total current liabilities	25,168	39,024	-	64,192
Noncurrent liabilities:				
Bonds payable	-	1,193,235	-	1,193,235
Compensated absences	626	418	-	1,044
Total noncurrent liabilities	626	1,193,653	-	1,194,279
Total liabilities	25,794	1,232,677	-	1,258,471
DEFERRED INFLOWS OF RESOURCES				
Pension related deferred inflows	8,296	4,467	-	12,763
NET POSITION				
Net investment in capital assets	1,406,546	935,455	-	2,342,001
Restricted for:				
SDRS pension	6,618	3,564	-	10,182
Unrestricted	835,867	897,516	175,279	1,908,662
Total net position	$ 2,249,031	$ 1,836,535	$ 175,279	$ 4,260,845

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2025

	Enterprise Funds			
	Major Funds		Nonmajor Fund	
	Water	Sewer	Garbage	Total
OPERATING REVENUES				
Charges for goods and services:				
Ordinary revenues	$ 245,086	$ 111,007	$ 107,452	$ 463,545
Revenues securing bond issues	-	54,688	-	54,688
Contributions and donations	30,000	-	-	30,000
Total operating revenues	275,086	165,695	107,452	548,233
OPERATING EXPENSES				
Personnel services	68,672	40,336	-	109,008
Cost and materials	100,410	2,657	96,620	199,687
Other current expenses	13,309	8,956	-	22,265
Depreciation	66,294	80,571	-	146,865
Total operating expenses	248,685	132,520	96,620	477,825
Operating income (loss)	26,401	33,175	10,832	70,408
NONOPERATING REVENUES (EXPENSES)				
Interest income	29,135	23,330	4,582	57,047
Rental income	-	1,500	-	1,500
Interest expense	-	(26,420)	-	(26,420)
Total nonoperating revenues (expenses)	29,135	(1,590)	4,582	32,127
Net income (loss) before transfers and contributions	55,536	31,585	15,414	102,535
Transfers in	-	774,106	-	774,106
Transfers out	(317,000)	(1,522,893)	-	(1,839,893)
Capital contributions	-	1,182,422	-	1,182,422
Change in net position	(261,464)	465,220	15,414	219,170
Total net position - beginning	2,510,495	1,371,315	159,865	4,041,675
Total net position - ending	$ 2,249,031	$ 1,836,535	$ 175,279	$ 4,260,845

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

STATEMENT OF CASH FLOWS - PAGE 1 OF 2
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2025

	Enterprise Funds			
	Major Funds		Nonmajor Fund	
	Water	Sewer	Garbage	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 250,159	$ 172,612	$ 106,038	$ 528,809
Internal activity - payments from other funds	2,778	447	-	3,225
Other operating cash receipts	30,000	-	-	30,000
Payments to suppliers	(110,228)	(11,404)	(96,620)	(218,252)
Payments to employees	(71,431)	(41,760)	-	(113,191)
Net cash provided by (used in) operating activities	101,278	119,895	9,418	230,591
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers In	-	774,106	-	774,106
Transfers Out	(317,000)	(1,522,893)	-	(1,839,893)
Net cash provided by (used in) noncapital financing activities	(317,000)	(748,787)	-	(1,065,787)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	-	(774,106)	-	(774,106)
Proceeds from capital debt	-	340,471	-	340,471
Capital contributions	-	1,182,422	-	1,182,422
Principal payments on bonds	-	(30,172)	-	(30,172)
Interest payments on bonds	-	(26,395)	-	(26,395)
Other receipts	-	1,500	-	1,500
Net cash provided by (used in) capital and related financing activities	-	693,720	-	693,720
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	29,135	23,330	4,582	57,047
Net cash provided by (used in) investing activities	29,135	23,330	4,582	57,047
Net change in cash and cash equivalents	(186,587)	88,158	14,000	(84,429)
Balances - beginning of the year	1,001,140	778,488	150,205	1,929,833
Balances - end of the year	$ 814,553	$ 866,646	$ 164,205	$ 1,845,404
RECONCILIATION OF CASH TO THE STATEMENT OF NET POSITION				
Cash and cash equivalents	$ 814,553	$ 811,546	$ 164,205	$ 1,790,304
Restricted cash	-	55,100	-	55,100
	$ 814,553	$ 866,646	$ 164,205	$ 1,845,404

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

STATEMENT OF CASH FLOWS - PAGE 2 OF 2
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2025

	Enterprise Funds			
	Major Funds		Nonmajor Fund	
	Water	Sewer	Garbage	Total
CASH FLOWS FROM CAPITAL AND RELATED				
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 26,401	$ 33,175	$ 10,832	$ 70,408
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	66,294	80,571	-	146,865
Change in operating assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	7,487	7,364	(1,414)	13,437
Inventories	(563)	105	-	(458)
Pension related accounts	(3,241)	(1,746)	-	(4,987)
Increase (decrease) in:				
Accounts payable	4,054	104	-	4,158
Revenue received in advance	1,029	-	-	1,029
Customer deposits	(665)	-	-	(665)
Accrued leave liabilities	482	322	-	804
Net cash provided by operating activities	$ 101,278	$ 119,895	$ 9,418	$ 230,591

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2025

	Custodial Fund
ASSETS	
Cash and cash equivalents	$ 12,813
Total assets	12,813
LIABILITIES	
Current liabilities:	
Accounts payable	-
Total liabilities	-
NET POSITION	
Restricted for:	
Lake Waggoner golf course	12,813
Total net position	$ 12,813

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2025

	Custodial Funds
ADDITIONS:	
Contributions and donations	$ 42,068
Other additions	650
Total additions	42,718
DEDUCTIONS:	
Other deductions	193,036
Total deductions	193,036
Change in net position	(150,318)
Total net position - beginning, as previously reported	-
Error correction	163,131
Total net position - beginning, restated	163,131
Total net position - ending	$ 12,813

The accompanying notes are an
integral part of these financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The reporting entity of the City of Philip, South Dakota (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Fund Financial Statements, continued:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the City's financial reporting entity are described below:

Governmental Funds:

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Capital Projects Fund – Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments.

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria are met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit – even if that government is not expected to make any payments – is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Fund Financial Statements, continued:

Proprietary Funds, continued:

b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Fiduciary Funds

The fiduciary fund consists of the following sub-category and is never considered to be a major fund:

Custodial Funds – Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. Custodial funds are used to account for the accumulation and distribution of property tax revenues and various pass-through funds.

The City reports the following **major governmental funds:**

General Fund – See the description above. The General Fund is always considered to be a major fund.

Hansen Subdivision Capital Projects Fund – To account for financial resources to be used for the construction of street and infrastructure in a new subdivision.

NE Sewer/Stewart, Pine, and Elm Capital Projects Fund – To account for financial resources to be use for the sewer relining and manhole replacement project and the improvements of street and infrastructure.

The City reports the following **major enterprise funds:**

Water Fund – financed primarily by user charges this fund accounts for the construction and operation of the municipal water system and related facilities

Sewer Fund – financed primarily by user charges this fund accounts for the construction and operation of the municipal waste water system and related facilities.

The remaining enterprise fund is not considered a major fund: Garbage Fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City, the length of that cycle is 45 days. The revenues which are accrued at December 31, 2025, are property taxes and special assessments.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Accounting, continued:

Fund Financial Statements, continued:

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Unavailable revenues, where asset recognition criteria have been met but for which revenue recognition criteria have not been met, are reported as a deferred inflow of resources.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Cash and Cash Equivalents

For the purpose of financial reporting, the City includes all cash accounts not subject to withdrawal restrictions or penalties, treasury bills, and money market funds with an original maturity of three months or less as cash and cash equivalents. Certificates of deposit, regardless of maturity, are not considered to be cash and cash equivalents.

Inventories

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Inventory in the proprietary funds is recorded as an asset when acquired. The consumption of inventories is charged to expense as it is consumed. Inventories are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase and charged to expense as it is consumed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Inventories, continued

Fund Financial Statements:

In the fund financial statements, purchases of supply inventory items are recorded as expenditures at the time individual inventory items are purchased. Reported inventories are equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Capital Assets

Capital assets include land, buildings, improvements other than buildings, machinery, furniture and equipment, construction in progress, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets.

The accounting treatment for capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated acquisition value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant, and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2025 balance of governmental activities capital assets includes approximately 20 percent for which the costs were determined by estimates of the historical costs. The total December 31, 2025 balance of business-type capital assets includes approximately 5 percent for which the costs were determined by estimations of the historical cost. These estimated historical costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon, or deflated current replacement costs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

Government-wide Financial Statements, continued:

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Infrastructure."

Depreciation of all exhaustible capital assets is charged as an allocated expense against operations in the government-wide statement of activities, and in the proprietary fund financial statements. Accumulated depreciation is reported on the government-wide statement of net position and on each proprietary fund's statement of net position.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land & land rights	All	- N/A -	- N/A -
Buildings	$ 25,000	Straight-line	15 – 99 Years
Improvements	$ 10,000	Straight-line	10 – 50 Years
Machinery	$ 15,000	Straight-line	3 – 15 Years
Infrastructure	$ 25,000	Straight-line	5 – 40 Years
Furniture and equipment	$ 5,000	Straight-line	5 – 15 Years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide financial statements.

Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Term Liabilities, continued

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide financial statements. The long-term liabilities primarily consist of revenue bonds and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide financial statements.

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

Pensions

For purposes of measuring the net pension (asset)/liability, deferred outflows of resources and deferred inflows of resources related to pensions, the pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS), and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. City contributions and net pension (asset)/liability are recognized on an accrual basis of accounting.

Program Revenues

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Program Revenues, continued

2. Program – specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

3. Program – specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Position, revenues and expenses are reported in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

Equity Classifications

Government-wide Financial Statements:

Equity is classified as net position and is displayed in three components:

1. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

3. Unrestricted net position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Financial Statements, continued

Proprietary fund equity is classified the same as in the government-wide financial statements.

Application of Net Position

It is the City's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

1. Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

2. Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

3. Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end.

4. Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund Balance may be assigned by the City Council.

5. Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance Classification Policies and Procedures, continued

The City uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar-for-dollar spending. Additionally, the City first uses committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City does not have a formal minimum fund balance policy.

Adjustment of Beginning Balance

Government- Wide Financial Statements

During the current fiscal year, adjustments were made to beginning fund balance accounts relating to changes in the reporting entity. The following is a schedule of these adjustments:

Reporting Units Affected by Adjustment of Beginning Balances

	Governmental Funds	
	Major	Nonmajor
Beginning Balance	$ 5,430,113	$ 179,275
Change in Reporting Entity:		
Nonmajor to Major Fund	179,275	(179,275)
Adjusted Beginning Balance	$ 5,609,388	$ -

The Hansen Subdivision Capital Projects Fund and the NE Sewer/Stewart, Pine, and Elm Capital Projects Fund had been reported as Nonmajor Governmental Funds in the previous year and are considered Major Governmental Funds in the current year.

Fiduciary Fund Statements

During the current fiscal year, the City identified and corrected an error affecting the Lake Waggoner Golf Course Fund, a fiduciary fund. Fiduciary activities are excluded from the government-wide financial statements because those resources are not available to finance the City's programs. However, fiduciary activities are reported in the fiduciary fund financial statements. Accordingly, the correction has been reflected in the fiduciary fund financial statements and had no effect on governmental activities, business-type activities, or total primary government amounts reported in the government-wide financial statements. The following is a schedule of these adjustments:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Adjustment of Beginning Balance, continued

Fiduciary Fund Statements, continued

Fiduciary Funds Affected by Adjustment of Beginning Balances

	Fiduciary Fund
	Lake Waggoner Golf Course
Beginning Balance	$ -
Change in Reporting Entity:	
Correction of Error	161,131
Adjusted Beginning Balance	$ 161,131

During the prior year, the City received a contribution of $163,131 related to the management and operation of the Lake Waggoner golf course. The contribution was inadvertently omitted from the financial statements for the year ended December 31, 2024.

Property Taxes

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payable as of the following January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year. The City is permitted by several state statutes to levy varying amounts of taxes per $1,000 of taxable valuation on taxable real property in the City.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

Implementation of New Accounting Standard

In 2025, the City implemented the provisions of GASB No. 101, Compensated Absences. GASB 101 updated the recognition and measurement guidance for compensated absences. There was no effect on the beginning net position as a result of implementation of the standard.

2. DEPOSITS AND INVESTMENTS

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified public depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (NCUA). In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City has adopted a formal investment policy. It requires all depositories to provide full insurance or collateralization of all deposits and provide a report evidencing collateralization to the City. As of December 31, 2025, the City's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Investments – As of December 31, 2025, the City had no investments.

Authorized Investments by the City – The City has adopted a formal investment policy. It does not further limit investments beyond those imposed by statutes.

Credit Risk – State law limits eligible investments for the City, as discussed above. The City has adopted a formal investment policy. It does not further limit its investment choices.

Concentration of Credit Risk – The City has adopted a formal investment policy. It places no limit on the amount that may be invested in any one issuer.

2. DEPOSITS AND INVESTMENTS, continued

Interest Rate Risk – The City has adopted a formal investment policy. It does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. It does require at least an amount equal to historical average of two months' worth of City expenditures be accessible for use by the City in one day's notice.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment.

3. RECEIVABLES

Receivables are not aggregated in these financial statements. The City expects all receivables to be collected within one year. Allowances for uncollectible accounts receivable in the proprietary funds are calculated based on historical trend data. The other funds receivables are stated at face value. For the year ended December 31, 2025, the allowance for doubtful accounts in the proprietary funds was $-0-.

4. CHANGES IN CAPITAL ASSETS

A summary of changes in governmental activities' capital assets for the year ended December 31, 2025, is as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Governmental Activities:					
Capital assets not being depreciated					
Land	$ 338,767	$ -	$ (7,496)	$ -	$ 331,271
Construction in progress	575,674	8,852,689	-	(6,502,043)	2,926,320
Total capital assets not being depreciated	914,441	8,852,689	(7,496)	(6,502,043)	3,257,591
Capital assets being depreciated					
Infrastructure	7,663,577	-	-	-	7,663,577
Buildings and improvements	4,309,067	-	(627,061)	6,502,043	10,184,049
Equipment	956,050	103,525	(79,131)	-	980,444
Total capital assets being depreciated	12,928,694	103,525	(706,192)	6,502,043	18,828,070
Less accumulated depreciation for:					
Infrastructure	3,850,037	231,479	-	-	4,081,516
Buildings and improvements	2,000,043	421,478	(603,620)	-	1,817,901
Equipment	742,123	47,661	(79,131)	-	710,653
Total accumulated depreciation	6,592,203	700,618	(682,751)	-	6,610,070
Total capital assets being depreciated, net	6,336,491	(597,093)	(23,441)	6,502,043	12,218,000
Governmental activities capital assets, net	$ 7,250,932	$ 8,255,596	$ (30,937)	$ -	$ 15,475,591

4. CHANGES IN CAPITAL ASSETS, continued

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	$ 500
Public Safety	14,999
Public Works	661,334
Culture and Recreation	23,785
Total - Governmental Activities	$ 700,618

A summary of changes in business-type activities' capital assets for the year ended December 31, 2025, is as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Business-Type Activities:					
Capital assets not being depreciated					
Land	$ 30,757	$ -	$ -	$ -	$ 30,757
Construction in progress	42,967	774,106	-	-	817,073
Total capital assets not being depreciated	73,724	774,106	-	-	847,830
Capital assets being depreciated					
Buildings and improvements	5,477,888	-	-	-	5,477,888
Equipment	619,717	-	-	-	619,717
Total capital assets being depreciated	6,097,605	-	-	-	6,097,605
Less accumulated depreciation for:					
Buildings and improvements	2,936,912	105,346	-	-	3,042,258
Equipment	294,002	41,519	-	-	335,521
Total accumulated depreciation	3,230,914	146,865	-	-	3,377,779
Total capital assets being depreciated, net	2,866,691	(146,865)	-	-	2,719,826
Business-type activities capital assets, net	$ 2,940,415	$ 627,241	$ -	$ -	$ 3,567,656

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Water Fund	$ 66,294
Sewer Fund	80,571
Total - Business-Type Activities	$ 146,865

4. CHANGES IN CAPITAL ASSETS, continued

Construction in progress at December 31, 2025 is composed of the following:

Project Name	As of 12/31/2025
Governmental Activities:	
Pine St. Phase III Project	$ 71,029
Stewart/Elm/Pine Improvements	1,583,965
Myrtle/High/Hone/Dupree Improvements	20,100
Philip Avenue Improvements	14,250
Kroetch Addition (Hansen Street)	1,130,804
Airport Project	106,172
Total governmental activities	$2,926,320
Business-Type Activities:	
NE Philip Wastewater System Improvements	$ 402,457
Kroetch Addition Lift Station	414,616
Total business-type activities	$ 817,073

Governmental Activities:

The Pine Street Phase III Project is a street and infrastructure improvement project. An overlay of the project area was completed in 2013, but a complete rebuild may be considered in future years. Total cost is estimated at $2,026,700.

The Stewart, Elm and Pine Street Improvement Project is a street and infrastructure improvement project. Total cost is estimated at $1,417,000 and will be paid for from the General Fund, State Revolving Fund wastewater loan (sewer surcharge commitment), State Revolving Fund storm sewer loan (committed 2nd penny funds), West River Water Development District (WRWDD) Grant, and Community Development Block Grant Funds. This project is being combined with the NE Philip Wastewater System Improvements Project. This project was scheduled to be completed in 2025 but is still in progress.

The Myrtle, High, Hone and Dupree Street Improvement Project is a street and sewer infrastructure improvement project. Total cost is estimated at $1,323,900. This project is in the design phase, and no financial commitment has been made as of December 31, 2025.

4. CHANGES IN CAPITAL ASSETS, continued

Governmental Activities, continued:

The Philip Avenue Improvement Project is a street and infrastructure improvement project. Total cost is estimated at $884,000. This project is in the design phase, and no financial commitment has been made as of December 31, 2025.

Kroetch Addition (Hansen Street) Project is a street and infrastructure project for a new subdivision. Total cost is estimated at $1,588,475 and will be paid from the General Fund and Housing Infrastructure Finance Program (HIFP) and the West River Water Development District (WRWDD) Grant funds. This project was scheduled to be completed in 2025, but is still in progress.

The Airport Improvement Projects are for the runway 12/30 and turnarounds design and reconstruction. Total cost is estimated at $6,585,000 funded through a federal grant award of $5,719,000; state grant award of $317,750; and local share of $317,750. This project was completed in 2026. The final costs were $6,274,480 with federal funding of $5,647,032, state funding of $313,757, and local funding of $313,757.

Business-Type Activities:

The NE Philip Wastewater System Improvements Project is an area sewer relining and manhole replacement project. Total cost is estimated at $866,280 and will be paid from local ARPA funding, state ARPA funding, consolidated loan through the state of South Dakota, state ARPA grant, and the Community Development Block Grant Funds. This project is being combined with the Stewart, Elm and Pine Street Improvement Project. This project was scheduled to be completed in 2025 but is still in progress.

Kroetch Addition Lift Station is the lift station located in the Kroetch Addition, part of the Kroetch Addition Project for a new subdivision. Total cost is estimated at $400,910 and will be paid from the General Fund and Housing Infrastructure Finance Program (HIFP) and the West River Water Development District (WRWDD) Grant funds. This project was completed in 2026.

5. LONG-TERM LIABILITIES

A summary of the changes in long-term debt as of December 31, 2025 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
Revenue Bonds	$1,028,500	$ -	$ (34,716)	$ 993,784	$ 35,777
Revenue Bonds - Partially Issued	-	605,627	-	605,627	-
Compensated Absences	32,267	3,084	-	35,351	28,281
Total Long-Term Liabilities - Governmental Activities	1,060,767	608,711	(34,716)	1,634,762	64,058
Business-Type Activities:					
Bonds Payable:					
Revenue Bonds	893,527	55,927	(30,173)	919,281	32,420
Revenue Bonds - Partially Issued	-	306,374		306,374	-
Compensated Absences	4,413	804	-	5,217	4,173
Total Long-Term Liabilities - Business-Type Activities	897,940	363,105	(30,173)	1,230,872	36,593
Total Government	$1,958,707	$ 971,816	$ (64,889)	$2,865,634	$ 100,651

The City's long-term liabilities includes State Revolving Fund direct borrowing notes issued to finance eligible capital improvements.

On April 12, 2024, the City entered into State Revolving Fund Note SRF #08 in the original amount of $1,040,830, bearing interest at 3.25% and maturing on May 15, 2054. At December 31, 2025, the unpaid principal balance on SRF #08 was $306,374. No principal payments were required or made on this note during the year ended December 31, 2025. Repayment of principal will commence once the full authorized amount of the note has been drawn. At December 31, 2025, the City had remaining borrowing capacity of $734,456 under this note.

On April 12, 2024, the City entered into State Revolving Fund Note SRF #09 in the original amount of $800,342, bearing interest at 3.25% and maturing on May 15, 2056. At December 31, 2025, the unpaid principal balance on SRF #09 was $605,627. No principal payments were required or made on this note during the year ended December 31, 2025. Repayment of principal will commence once the full authorized amount of the note has been drawn. At December 31, 2025, the City had remaining borrowing capacity of $194,715 under this note.

5. LONG-TERM LIABILITIES, continued

Debt service requirements to maturity for SRF #08 and SRF #09 are not presented because, as of December 31, 2025, principal repayment had not commenced, and the final amortization schedules were not yet determinable. The repayment terms, including the commencement date of principal payments and related amortization schedules, will be established after the full authorized amounts of the notes have been drawn.

Long-term liabilities at December 31, 2025 are comprised of the following:

Governmental Activities:	
Revenue Bonds:	
$1,073,300 Clean Water SRF Loan dated 5-24-2013; final maturity date July 15, 2044; 3.25% interest rate; $10,595 quarterly payment is paid from the General Fund	$ 634,214
$414,302 Sales Tax Borrow Series 2018 SRF Loan dated 8-1-2020; final maturity date May 15, 2050; 2.50% interest rate; $4,918 quarterly payment is paid from the General Fund	359,570
Compensated Absences:	
Vacation and sick leave payable as of December 31, 2025	35,351
Total Governmental Activities	$ 1,029,135
Business-Type Activities:	
$750,000 Clean Water SRF Loan dated 5-24-2013; final maturity date July 15, 2044; 3.25% interest rate; $7,391 quarterly payment is paid from the Sewer Fund	$ 442,663
$485,821 Clean Water SRF Loan dated 8-1-2020; final maturity date May 15, 2050; 2.50% interest rate; $5,767 quarterly payment is paid from the Sewer Fund	421,641
$55,927 Consolidated Water Facilities Construction Loan dated 10-4-2022; final maturity date November 1, 2045; 2.00% interest rate; $1,414 semi-annual payment is paid from the Sewer Fund	54,977
Compensated Absences:	
Vacation and sick leave payable as of December 31, 2025	5,217
Total Business-Type Activities	$ 924,498

5. LONG-TERM LIABILITIES, continued

The annual requirements to amortize debt outstanding as of December 31, 2025, except for compensated absences, are as follows:

Year Ending December 31,	Governmental Activities Revenue Bonds Principal	Interest	Total
2026	$ 35,777	$ 29,198	$ 64,975
2027	36,872	28,104	64,976
2028	38,000	26,975	64,975
2029	39,163	25,812	64,975
2030	40,363	24,613	64,976
2031 - 2035	221,149	103,729	324,878
2036 - 2040	257,239	67,639	324,878
2041 - 2045	241,744	26,502	268,246
2046 - 2050	83,477	5,044	88,521
Total	$ 993,784	$ 337,616	$ 1,331,400

Year Ending December 31,	Business-Type Activities Revenue Bonds Principal	Interest	Total
2026	$ 32,420	$ 25,839	$ 58,259
2027	33,360	24,747	58,107
2028	34,328	23,779	58,107
2029	35,324	22,782	58,106
2030	36,350	21,756	58,106
2031 - 2035	198,242	92,292	290,534
2036 - 2040	228,880	61,654	290,534
2041 - 2045	222,488	26,810	249,298
2046 - 2050	97,889	5,914	103,803
Total	$ 919,281	$ 305,573	$ 1,224,854

6. PENSION PLAN

Plan Information

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid defined benefit plan designed with several defined contribution plan type provisions and is administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provide retirement, disability, and survivor's benefits. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12C. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at http://www.sdrs.sd.gov/publications.aspx or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

SDRS has four classes of employees, Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulations members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit.

6. PENSION PLAN, continued

Benefits Provided, continued

All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

Legislation enacted in 2021 reduced the minimum COLA from 0.5 percent to 0.0 percent.

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2025, 2024 and 2023 was $26,450, $24,141, and $23,351, respectively, equal to the required contributions each year.

6. PENSION PLAN, continued

Pension (Asset)/Liability, Pension (Revenue) Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2025, SDRS is 100.1% funded and accordingly has a net pension asset.

The proportionate share of the components of the net pension asset of the South Dakota Retirement System, for the City as of the measurement period ending June 30, 2025 and reported by the City as of December 31, 2025 are as follows:

Proportionate share of pension liability	$ 2,157,427
Less proportionate share of net pension restricted for pension benefits	2,158,629
Proportionate share of net pension (asset)/liability	$ (1,202)

At December 31, 2025, the City reported an (asset)/liability of ($1,202) for its proportionate share of the net pension (asset)/liability. The net pension (asset)/liability was measured as of June 30, 2025 and the total pension (asset)/liability used to calculate the net pension (asset)/liability was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2025, the City's proportion was 0.014135% which was an decrease of 0.000092% from its proportion measured as of June 30, 2024.

6. PENSION PLAN, continued

Pension (Asset)/Liability, Pension (Revenue) Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions, continued:

For the year ended December 31, 2025, the City recognized pension expense (reduction of pension expense) of ($24,938). At December 31, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 41,160	$ -
Changes in assumptions	-	63,814
Net difference between projected and actual earnings on pension plan investments	58,575	-
Changes in proportion and difference between the City's contributions and proportionate share of contributions	470	-
City contributions subsequent to the measurement date	13,319	-
Total	$ 113,524	$ 63,814

$13,319 reported as deferred outflow of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension (asset)/liability in the year ending December 31, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ended December 31	
2026	$ 28,155
2027	3,076
2028	1,943
2029	3,216
Total	$ 36,390

6. PENSION PLAN, continued

Actuarial Assumptions

The total pension liability/(asset) in the June 30, 2025 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50% net of pension plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%
Future COLAs	1.56%

Mortality Rates:

- All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020
- Active and Terminated Vested Members:
  - Teachers, Certified Regents, and Judicial: PubT-2010
  - Other Class A Members: PubG-2010
  - Public Safety Members: PubS-2010
- Retired Members:
  - Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65
  - Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above
  - Public Safety Retirees: PubS-2010, 102% of rates at all ages
- Beneficiaries:
  - PubG-2010 contingent survivor mortality table
- Disabled Members:
  - Public Safety: PubS-2010 disabled member mortality table
  - Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2025 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2021.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.).

6. PENSION PLAN, continued

Actuarial Assumptions, continued

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2025 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	56.3%	3.8%
Investment Grade Debt	22.8%	2.3%
High Yield Debt	7.0%	2.9%
Real Estate	12.0%	4.0%
Cash	1.9%	0.8%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

6. PENSION PLAN, continued

Sensitivity of liability (asset) to changes in the discount rate

The following presents the City's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension (asset) liability	$ 294,634	$ (1,202)	$ (243,563)

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

7. INTERFUND BALANCES AND TRANSACTIONS

The City had no interfund receivables or payables as of December 31, 2025.

Interfund Transfers

During the normal course of operations, the City transfers monies between funds for operation purposes. During the year ended December 31, 2025, interfund transfers were as follows:

Fund	Transfers From	Transfers To
Governmental activities:		
General Fund:		
Capital Projects Fund - Hansen Subdivision	$ -	$ 1,170,500
Capital Projects Fund - Stewart Street	-	605,627
	-	1,776,127
Capital Projects Fund - Hansen Subdivision		
General Fund	1,170,500	-
Sewer Fund	-	414,616
Sewer Fund	360,000	-
Water Fund	280,000	-
	1,810,500	414,616
Capital Projects Fund - Stewart Street		
General Fund	605,627	-
Water Fund	37,000	-
Sewer Fund	-	359,490
Sewer Fund	1,162,893	-
	1,805,520	359,490
Total governmental activities	3,616,020	2,550,233

7. INTERFUND BALANCES AND TRANSACTIONS, continued

Interfund Transfers, continued

Fund	Transfers From	Transfers To
Business-type activities:		
Water Fund:		
Capital Projects Fund - Hansen Subdivision	-	280,000
Capital Projects Fund - Stewart Street	-	37,000
	-	317,000
Sewer Fund:		
Capital Projects Fund - Hansen Subdivision	414,616	-
Capital Projects Fund - Hansen Subdivision	-	360,000
Capital Projects Fund - Stewart Street	359,490	-
Capital Projects Fund - Stewart Street	-	1,162,893
	774,106	1,522,893
Total business-type activities	774,106	1,839,893
Total primary government	$ 4,390,126	$ 4,390,126

The majority of the activity includes transfers to the Hansen Subdivision Capital Project Fund and the Stewart Street Capital Project Fund to help offset expenditures in excess of revenues within those two funds. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2025, the City managed its risks as follows:

Employee Health Insurance

The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

8. RISK MANAGEMENT, continued

Property Insurance

The City purchases insurance coverage for its buildings and contents from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance

The City purchases liability insurance for risks related to torts and errors and omission of public officials and airport liability from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation

The City purchases liability insurance for worker's compensation from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PHILIP

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND - PAGE 1 OF 2
YEAR ENDED DECEMBER 31, 2025

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
General property taxes	$ 567,870	$ 567,870	$ 568,604	$ 734
General sales and use taxes	600,000	600,000	713,682	113,682
Penalties and interest on delinquent taxes	600	600	1,752	1,152
Licenses and permits	8,350	8,350	8,570	220
Intergovernmental revenue:				
Federal grants	4,850,000	5,738,905	5,726,686	(12,219)
State grants	272,450	319,305	315,470	(3,835)
State shared revenues	77,300	77,300	74,211	(3,089)
County shared revenues	5,150	5,150	5,328	178
Charges for goods and services:				
Sanitation	12,550	12,550	13,518	968
Health	2,000	2,000	700	(1,300)
Culture and recreation	20,825	20,825	17,397	(3,428)
Fines and forfeits:				
Court fines and costs	500	500	550	50
Miscellaneous revenue:				
Interest earned	45,000	45,000	158,568	113,568
Rentals	1,950	1,950	450	(1,500)
Special assessments	3,380	3,380	3,376	(4)
Contributions and donations from private sources	30,000	40,520	12,844	(27,676)
Other	26,100	26,100	28,348	2,248
Airport	38,125	38,125	22,556	(15,569)
Total revenues	6,562,150	7,508,430	7,672,610	164,180
EXPENDITURES				
General government:				
Legislative	55,500	56,500	52,553	3,947
Contingency	73,465	76,465		
(Amount transferred)		(62,800)	-	13,665
Executive	133,650	133,650	128,964	4,686
Elections	750	750	-	750
Financial administration	134,500	143,690	130,514	13,176
Other	220,640	220,640	159,491	61,149
Public safety:				
Police	279,750	285,660	270,741	14,919
Fire	20,700	20,700	16,560	4,140
Other protection	3,250	3,250	1,191	2,059
Public works:				
Highways and streets	2,177,080	2,199,490	142,832	2,056,658
Airport	5,418,330	6,438,515	6,416,780	21,735
Water	2,000	2,000	243	1,757
Sanitation	13,525	29,275	17,952	11,323
Health and welfare:				
Health	5,000	5,000	4,765	235
Humane society	150	150	90	60
Ambulance	6,000	6,000	5,707	293

CITY OF PHILIP

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND - PAGE 2 OF 2
YEAR ENDED DECEMBER 31, 2025

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (continued)				
Culture and recreation:				
Recreation	103,800	104,150	79,936	24,214
Parks	10,100	20,620	15,374	5,246
Libraries	2,550	2,550	-	2,550
Conservation and development:				
Economic opportunity	51,260	51,260	13,777	37,483
Total expenditures	8,712,000	9,737,515	7,457,470	2,280,045
Excess (deficiency) of revenues over expenditures	(2,149,850)	(2,229,085)	215,140	2,444,225
OTHER FINANCING SOURCES (USES)				
Sale of municipal property	7,000	7,000	77,654	70,654
Long-term debt issued	800,000	800,000	605,627	(194,373)
Compensation for loss of property	1,000	1,000	-	(1,000)
Transfer out	-	-	(1,776,127)	(1,776,127)
Total other financing sources (uses)	808,000	808,000	(1,092,846)	(1,900,846)
Net change in fund balances	(1,341,850)	(1,421,085)	(877,706)	543,379
Changes in nonspendable	-	-	17,572	17,572
Fund balances - beginning	5,430,113	5,430,113	5,430,113	-
Fund balances - ending	$ 4,088,263	$ 4,009,028	$ 4,569,979	$ 560,951

See Independent Auditor's Report

CITY OF PHILIP

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY SCHEDULES
DECEMBER 31, 2025

1. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the schedules:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.

2. After adoption by the City Council, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.

3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.

4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.

5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.

   Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund.

   The City did not encumber any amounts at December 31, 2025.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund.

7. Budgets for the General Fund are adopted on a basis consistent with accounting principles generally accepted in the United States (US GAAP).

2. GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

The financial statements prepared in conformity with US GAAP present capital outlay expenditure and debt service information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay and debt service expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however, in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

CITY OF PHILIP

SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION (ASSET)/LIABILITY

South Dakota Retirement System
Last 10 Years

	2016	2017	2018	2019	2020
City's proportion of the net pension (asset)/liability	0.0168442%	0.0157029%	0.0161470%	0.0163369%	0.0157529%
City's proportionate share of net pension (asset)/liability	$ 56,898	$ (1,425)	$ (377)	$ (1,731)	$ (684)
City's covered-employee payroll	$ 293,355	$ 295,788	$ 310,875	$ 324,701	$ 320,308
City's proportionate share of the net pension (asset)/liability as a percentage of its covered-employee payroll	19.40%	0.48%	0.12%	0.53%	0.21%
Plan fiduciary net position as a percentage of the total pension (asset)/liability	96.89%	100.10%	100.02%	100.09%	100.04%

	2021	2022	2023	2024	2025
City's proportion of the net pension (asset)/liability	0.0158670%	0.0144340%	0.0142480%	0.0142270%	0.0141350%
City's proportionate share of net pension (asset)/liability	$ (121,514)	$ (1,363)	$ (1,391)	$ (577)	$ (1,202)
City's covered-employee payroll	$ 336,667	$ 320,926	$ 337,406	$ 368,398	$ 384,516
City's proportionate share of the net pension (asset)/liability as a percentage of its covered-employee payroll	36.09%	0.42%	0.41%	0.16%	0.31%
Plan fiduciary net position as a percentage of the total pension (asset)/liability	105.52%	100.10%	100.10%	100.00%	100.10%

Note: The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension asset which is June 30.

CITY OF PHILIP

SCHEDULE OF CONTRIBUTIONS

South Dakota Retirement System
Last 10 Years

	2016	2017	2018	2019	2020
Contractually required contribution	$ 19,327	$ 19,704	$ 20,795	$ 20,503	$ 20,975
Contributions in relation to the contractually required contribution	$ 19,327	$ 19,704	$ 20,795	$ 20,503	20,975
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
City's covered-employee payroll	$ 297,170	$ 304,308	$ 322,522	$ 318,229	$ 325,080
Contributions as a percentage of covered-employee payroll	6.50%	6.48%	6.45%	6.44%	6.45%

	2021	2022	2023	2024	2025
Contractually required contribution	$ 21,468	$ 20,701	$ 23,351	$ 24,141	$ 26,450
Contributions in relation to the contractually required contribution	21,468	20,701	23,351	24,141	26,450
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
City's covered-employee payroll	$ 335,441	$ 317,990	$ 359,831	$ 367,020	$ 403,348
Contributions as a percentage of covered-employee payroll	6.40%	6.51%	6.49%	6.58%	6.56%

CITY OF PHILIP

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
PENSION SCHEDULES
DECEMBER 31, 2025

Changes from Prior Valuation

The June 30, 2025, Actuarial Valuation reflects no changes to the plan provisions or actuarial methods and one change to the actuarial assumptions from the June 30, 2024, Actuarial Valuation.

The details of the changes since the last valuation are as follows.

Benefit Provision Changes

During the 2025 Legislative Session no significant SDRS benefit changes were made.

Actuarial Method Changes

No changes in actuarial methods were made since the prior valuation.

Actuarial Assumption Changes

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%.

As of June 30, 2024, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was less than 100% and the July 2025 SDRS COLA was limited to a restricted maximum of 1.71%. For the June 30, 2024, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA assumption of 1.71%.

As of June 30, 2025, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2026 SDRS COLA is limited to a restricted maximum of 1.56%. The July 2026 SDRS COLA will equal inflation, no less than 0% and no greater than 1.56%. For this June 30, 2025, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.56%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027, Actuarial Valuation and any recommended changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027 Actuarial Valuation.

SUPPLEMENTARY INFORMATION

CITY OF PHILIP

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2025

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Assistance Listing Number	Pass-through Entity ID Number		Disbursements/ Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed through the State of South Dakota Governor's Office of Economic Development:				
Community Development Block Grant	14.228	2223-102		$ 726,396
Total U.S. Housing and Urban Development				726,396
U.S. DEPARTMENT OF TRANSPORTATION:				
Direct Funding:				
Airport Improvement Program	20.106			5,726,686
Total U.S. Department of Transportation				5,726,686
U.S. DEPARTMENT OF TREASURY:				
Passed through the State of South Dakota Board of Water and Natural Resources:				
Coronavirus State and Local Fiscal Recovery Funds - COVID 19	21.027	2022-G-ARP-179		96,026
Total U.S. Department of Treasury				96,026
U.S. ENVIRONMENTAL PROTECTION AGENCY:				
Passed through the State of South Dakota Department of Agriculture and Natural Resources:				
Capitalization Grants for Clean Water State Revolving Funds	66.458			
Clean Water SRF Loan		461205-08	$ 306,374	
Clean Water SRF Loan		461205-09	605,627	912,001
Total U.S. Environmental Protection Agency				912,001
Total Federal Funding				$ 7,461,109

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City under programs of the general government for the year ended December 31, 2025. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City has elected not to use the de minimis indirect cost rate as allowed under the Uniform Guidance.

SEE INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council
City of Philip, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Philip, South Dakota (hereinafter referred to as the City), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 24, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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SIOUX FALLS OFFICE: 3600 S Westport, Suite 101 | Sioux Falls, SD 57106 | (605) 336-0372
EMAIL: wrc@wrccpa.com
TOLL FREE: 1-800-456-0889
FAX #: (605) 665-0592
AICPA GAQC Member

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
September 24, 2026

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Mayor and
Members of the City Council
City of Philip, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Philip, South Dakota (the City)'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2025. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
September 24, 2026

CITY OF PHILIP

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2025

FINDINGS – FINANCIAL STATEMENT AUDIT

There were no prior financial statement audit findings reported.

FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no prior major federal award programs audit findings reported.

CITY OF PHILIP

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2025

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified		
Internal Control over financial reporting:			
Material weakness(es) identified?	____ yes	X no	
Significant deficiencies identified?	____ yes	X none reported	
Noncompliance material to financial statements noted?	____ yes	X no	

Federal Awards

Internal Control over major programs:			
Material weakness(es) identified?	____ yes	X no	
Significant deficiencies identified?	____ yes	X none reported	
Type of auditor's report issued on compliance for major programs:	Unmodified		
Audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)	____ yes	X no	

Identification of major programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B Programs:	$1,000,000		
Auditee qualified as low-risk auditee?	____ yes	X no	

CITY OF PHILIP

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2025

FINDINGS – FINANCIAL STATEMENT AUDIT

There are no financial statement audit findings reported.

FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There are no major federal award programs audit findings reported.