







































**CITY OF PHILIP**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Basis of Presentation, 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 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.

**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.)
- 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.

## CITY OF PHILIP

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### **Basis of Presentation, continued**

- 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).

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.

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.

##### **Measurement Focus and Basis of Accounting**

Measurement Focus:

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.

##### *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.

## CITY OF PHILIP

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### **Measurement Focus and Basis of Accounting, continued**

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, 2017 are property taxes, special assessments and sales taxes.

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. Reported revenue received in advance or deferred inflows of resources are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

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.

**CITY OF PHILIP**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**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.

*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, machinery and equipment, 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*

Purchased capital assets are recorded at cost, or estimated historical cost, when actual cost could not be determined. Donated capital assets are valued at their estimated fair 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.

**CITY OF PHILIP**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

**Capital Assets, continued**

*Government-wide Financial Statements, continued*

The total December 31, 2017 balance of governmental activities capital assets includes approximately 25 percent for which the costs were determined by estimates of the historical costs. The total December 31, 2017 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.

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."

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with accounting principles generally accepted in the United States, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with accounting principles generally accepted in the United States.

Depreciation of all exhaustible capital assets is charged as an allocated expense against operations in the government-wide financial statements, 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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

## CITY OF PHILIP

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### **Capital Assets, continued**

###### *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.

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.

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.

##### **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.

## CITY OF PHILIP

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### **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.
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 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.



## CITY OF PHILIP

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### **Equity Classifications, continued**

###### *Government-wide Statements, continued:*

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.

##### **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 or 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.

## CITY OF PHILIP

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

#### 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.

##### **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.

#### 2. DEPOSITS AND INVESTMENTS

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. All governmental and proprietary funds essentially have access to the entire amount of their cash resources on demand. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized on the next page:

## CITY OF PHILIP

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

#### 2. DEPOSITS AND INVESTMENTS, continued

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, 2017, the City’s deposits were fully insured or collateralized and were not exposed to custodial credit risk.

**Investments** – As of December 31, 2017, the City has 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.

**CITY OF PHILIP**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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 a 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, 2017, 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, 2017 is as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
<i>Governmental Activities:</i>					
<i>Capital assets not being depreciated</i>					
Land	\$ 97,770	\$ -	\$ -	\$ -	\$ 97,770
Construction in progress	83,765	23,601	-	(12,736)	94,630
Total capital assets not being depreciated	<u>181,535</u>	<u>23,601</u>	<u>-</u>	<u>(12,736)</u>	<u>192,400</u>
<i>Capital assets being depreciated</i>					
Infrastructure	5,492,777	230,307	-	12,736	5,735,820
Buildings and improvements	2,761,818	-	-	-	2,761,818
Equipment	630,623	-	-	-	630,623
Total capital assets being depreciated	<u>8,885,218</u>	<u>230,307</u>	<u>-</u>	<u>12,736</u>	<u>9,128,261</u>

**CITY OF PHILIP**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

4. **CHANGES IN CAPITAL ASSETS, continued**

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Less accumulated depreciation for:					
Infrastructure	2,270,574	167,623	-	-	2,438,197
Buildings and improvements	1,099,792	113,165	-	-	1,212,957
Equipment	451,203	30,523	-	-	481,726
Total accumulated depreciation	<u>3,821,569</u>	<u>311,311</u>	<u>-</u>	<u>-</u>	<u>4,132,880</u>
Total capital assets being depreciated, net	<u>5,063,649</u>	<u>(81,004)</u>	<u>-</u>	<u>12,736</u>	<u>4,995,381</u>
Governmental activities capital assets, net	<u>\$5,245,184</u>	<u>\$ (57,403)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,187,781</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:

General Government	\$ 500
Public Safety	6,841
Public Works	282,778
Culture and Recreation	<u>21,192</u>

Total Depreciation Expense - Governmental Activities \$ 311,311

A summary of changes in business-type activities' capital assets for the year ended December 31, 2017 is as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
<i>Business-Type Activities:</i>					
<i>Capital assets not being depreciated</i>					
Land	\$ 30,757	\$ -	\$ -	\$ -	\$ 30,757
Construction in progress	4,000	32,500	-	-	36,500
Total capital assets not being depreciated	<u>34,757</u>	<u>32,500</u>	<u>-</u>	<u>-</u>	<u>67,257</u>
<i>Capital assets being depreciated</i>					
Buildings and improvements	4,946,150	-	-	-	4,946,150
Equipment	265,309	-	(3,160)	-	262,149
Total capital assets being depreciated	<u>5,211,459</u>	<u>-</u>	<u>(3,160)</u>	<u>-</u>	<u>5,208,299</u>

**CITY OF PHILIP**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

4. **CHANGES IN CAPITAL ASSETS, continued**

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Less accumulated depreciation for:					
Buildings and improvements	2,044,699	104,356	-	-	2,149,055
Equipment	178,390	10,323	(3,160)	-	185,553
Total accumulated depreciation	<u>2,223,089</u>	<u>114,679</u>	<u>(3,160)</u>	<u>-</u>	<u>2,334,608</u>
Total capital assets being depreciated, net	<u>2,988,370</u>	<u>(114,679)</u>	<u>-</u>	<u>-</u>	<u>2,873,691</u>
Business-type activities capital assets, net	<u>\$3,023,127</u>	<u>\$ (82,179)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,940,948</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:

Water Fund	\$ 51,048
Sewer Fund	<u>63,631</u>

Total Depreciation Expense - Business-Type Activities \$114,679

Construction in progress at December 31, 2017 is composed of the following:

<u>Project Name</u>	<u>Expended 12/31/2017</u>
Governmental Activities:	
Pine St. Phase III Project	\$ 71,029
Airport Project	1,025
SW Philip Improvement Project	21,856
Sunshine Dr. Overlay Project	<u>720</u>
Total	<u>\$ 94,630</u>

<u>Project Name</u>	<u>Expended 12/31/2017</u>
Business-Type Activities:	
Meter Project	\$ 4,000
SW Philip Improvement Project	<u>32,500</u>
Total	<u>\$ 36,500</u>

**CITY OF PHILIP**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

4. CHANGES IN CAPITAL ASSETS, continued

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 Airport Improvement Project is for an amendment to the Runway Protection Zone (PRZ) easements. Total cost is estimated at \$10,000.

The SW Philip Improvement Project is a Street and Infrastructure Improvement Project. The improvements include: sanitary sewer; storm sewer; asphalt; sidewalks; curb and gutter; and driveway approaches. Total cost is estimated at \$2,420,560 and is expected to be completed in September 2019. The project is being funded with Community Development Block Grant (CDBG) funds; SD DOT Community Access grant funds; Clean Water SRF Sanitary Sewer and Storm Sewer loans; and local funds.

The Sunshine Drive Overlay Project is a Street Overlay Project. The estimated cost to complete the project is \$159,540.

The Meter Project is an ongoing project within the Water Fund to upgrade to an automatic reading system along with meters at users' residences and businesses. Costs to date include preliminary engineering study for the project. Total cost will include meter reading software, meters, and installation. The project will be funded through Water Fund operations.

5. LONG-TERM LIABILITIES

A summary of the changes in long-term debt as of December 31, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Bonds Payable:					
Revenue Bonds	\$ 826,222	\$ -	\$ (18,678)	\$ 807,544	\$ 19,293
Compensated Absences	23,661	22,667	(18,929)	27,399	21,919
Total Long-Term Liabilities - Governmental Activities	<u>849,883</u>	<u>22,667</u>	<u>(37,607)</u>	<u>834,943</u>	<u>41,212</u>
<i>Business-Type Activities:</i>					
Bonds Payable:					
Revenue Bonds	576,679	-	(13,037)	563,642	13,466
Compensated Absences	13,720	11,569	(10,975)	14,314	11,451
Total Long-Term Liabilities - Business-Type Activities	<u>590,399</u>	<u>11,569</u>	<u>(24,012)</u>	<u>577,956</u>	<u>24,917</u>
Total Government	<u>\$ 1,440,282</u>	<u>\$ 34,236</u>	<u>\$ (61,619)</u>	<u>\$ 1,412,899</u>	<u>\$ 66,129</u>

**CITY OF PHILIP**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

5. LONG-TERM LIABILITIES, continued

Long-term liabilities at December 31, 2017 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.

\$ 807,544

Compensated Absences:

Vacation and sick leave payable to  
City employees as of December 31,  
2017; payments made from department that  
employees' normal salaries are paid.

27,399

Total Governmental Activities

\$ 834,943

*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.

\$ 563,642

Compensated Absences:

Vacation and sick leave payable to  
City employees as of December 31,  
2017; payments made from fund that  
employees' normal salaries are paid.

14,314

Total Business-Type Activities

\$ 577,956



**CITY OF PHILIP**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

5. LONG-TERM LIABILITIES, continued

The annual requirements to amortize debt outstanding for governmental activities as of December 31, 2017, except for compensated absences, are as follows:

Year Ending December 31,	Revenue Bonds		
	Principal	Interest	Total
2018	\$ 19,293	\$ 26,011	\$ 45,304
2019	19,927	25,377	45,304
2020	20,583	24,721	45,304
2021	21,260	24,044	45,304
2022	21,959	23,345	45,304
2023 - 2027	121,120	105,401	226,521
2028 - 2032	142,398	84,123	226,521
2033 - 2037	167,414	59,107	226,521
2038 - 2042	196,825	29,696	226,521
2043 - 2044	76,765	2,515	79,280
Total	<u>\$ 807,544</u>	<u>\$ 404,340</u>	<u>\$ 1,211,884</u>

The annual requirements to amortize debt outstanding for business-type activities as of December 31, 2017, except for compensated absences, are as follows:

Year Ending December 31,	Business-Type Activities Revenue Bonds		
	Principal	Interest	Total
2018	\$ 13,466	\$ 18,155	\$ 31,621
2019	13,909	17,712	31,621
2020	14,366	17,255	31,621
2021	14,839	16,782	31,621
2022	15,327	16,294	31,621
2023 - 2027	84,538	73,567	158,105
2028 - 2032	99,390	58,715	158,105
2033 - 2037	116,850	41,255	158,105
2038 - 2042	137,378	20,727	158,105
2043 - 2044	53,579	1,755	55,334
Total	<u>\$ 563,642</u>	<u>\$ 282,217</u>	<u>\$ 845,859</u>

## CITY OF PHILIP

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

#### 6. PENSION PLAN

##### **Plan Information**

All employees, working more than 20 hours per week during the year, participate in the SDRS, a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. 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/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

##### **Benefits Provided**

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation.

All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
  - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
  - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% -- 2.1% COLA

## CITY OF PHILIP

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

#### 6. PENSION PLAN, continued

##### **Benefits Provided, continued**

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

- 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.

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. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2017, 2016 and 2015 was \$19,704, \$19,327, and \$18,053 respectively, equal to the required contributions each year.

**CITY OF PHILIP**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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, 2017, SDRS is 100.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension (asset)/liability of the South Dakota Retirement System, for the City as of the measurement period ending June 30, 2017 and reported by the City as of December 31, 2017 are as follows:

Proportionate share of net position restricted for pension benefits	\$1,827,027
Less proportionate share of total pension liability	<u>1,828,452</u>
Proportionate share of net pension (asset)/liability	<u>\$ (1,425)</u>

At December 31, 2017, the City reported an (asset)/liability of (\$1,425) for its proportionate share of the net pension (asset)/liability. The net pension (asset)/liability was measured as of June 30, 2017 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, 2017, the City's proportion was 0.01570290% which was an increase/(decrease) of -0.0011413% from its proportion measured as of June 30, 2016.

**CITY OF PHILIP**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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, 2017, the City recognized pension expense/(reduction of pension expense) of (#31,346). At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 22,833	\$ -
Changes in assumptions	110,647	-
Net difference between projected and actual earnings on pension plan investments	-	27,398
Changes in proportion and difference between the City's contributions and proportionate share of contributions	3,871	1,378
City contributions subsequent to the measurement date	<u>10,174</u>	<u>-</u>
Total	<u>\$ 147,525</u>	<u>\$ 28,776</u>

\$10,174 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

<u>Year Ended December 31</u>		
2018	\$	29,596
2019		48,853
2020		36,210
2021		<u>(6,086)</u>
Total	\$	<u>108,573</u>

**CITY OF PHILIP**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

6. PENSION PLAN, continued

**Actuarial Assumptions**

The total pension (asset)/liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50 percent at entry to 3.00 percent
Discount Rate	6.50 percent net of plan investment expense

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.

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 a 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.). 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, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	<u>2.0%</u>	0.7%
Total	<u><u>100%</u></u>	

**CITY OF PHILIP**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

6. PENSION PLAN, continued

**Discount Rate**

The discount rate used to measure the total pension (asset)/liability was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from 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 (asset)/liability.

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

The following presents the Commission'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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's proportionate share of the net pension (asset) liability	\$ 260,998	\$ (1,425)	\$ (215,123)

**Pension Plan Fiduciary Net Position**

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

7. 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, 2017, 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.

## CITY OF PHILIP

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

#### 7. 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, 2017

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes:				
General property taxes	\$ 433,650	\$ 433,650	\$ 426,876	\$ (6,774)
General sales and use taxes	520,000	520,000	537,537	17,537
Amusement taxes	110	110	108	(2)
Tax deed	-	-	1,561	1,561
Penalties and interest on delinquent taxes	500	500	424	(76)
Licenses and permits	7,550	7,550	7,635	85
Intergovernmental revenue:				
Federal grants	65,000	65,000	-	(65,000)
State grants	5,500	5,500	3,000	(2,500)
State shared revenues	53,300	53,300	57,197	3,897
County shared revenues	5,410	5,410	7,932	2,522
Charges for goods and services:				
Sanitation	13,100	13,100	9,800	(3,300)
Health	1,300	1,300	272	(1,028)
Culture and recreation	18,800	18,800	20,744	1,944
Fines and forfeits:				
Court fines and costs	500	500	52	(448)
Other	-	-	60	60
Miscellaneous revenue:				
Interest earned	5,500	5,500	12,715	7,215
Rentals	2,000	2,000	2,170	170
Special assessments	10,830	10,830	3,964	(6,866)
Contributions and donations from private sources	20,075	31,075	227,116	196,041
Other	15,225	15,225	17,087	1,862
Airport	28,350	28,350	36,396	8,046
Total revenues	<u>1,206,700</u>	<u>1,217,700</u>	<u>1,372,646</u>	<u>154,946</u>
<b>EXPENDITURES</b>				
General government:				
Legislative	40,500	41,000	38,415	2,585
Contingency	58,000	58,000	-	23,700
(Amount transferred)		(34,300)		
Executive	22,660	22,660	21,955	705
Elections	700	700	8	692
Financial administration	159,305	166,515	153,985	12,530
Other	57,600	57,600	50,288	7,312
Public safety:				
Police	137,550	140,135	134,018	6,117
Fire	37,000	37,200	12,701	24,499
Other protection	1,000	1,900	1,012	888
Public works:				
Highways and streets	392,615	410,325	458,914	(48,589)
Sanitation	6,960	7,930	3,143	4,787
Airport	82,600	93,725	37,642	56,083
Health and welfare:				
Health	3,200	3,200	2,989	211
Humane society	150	150	-	150
Ambulance	3,100	3,900	3,863	37

See Independent Auditor's Report

**CITY OF PHILIP**

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
 GENERAL FUND - PAGE 2 OF 2  
 YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES (continued)</b>				
Culture and recreation:				
Recreation	68,870	70,570	59,839	10,731
Parks	5,950	5,950	3,648	2,302
Libraries	1,500	1,500	1,500	-
Conservation and development:				
Economic opportunity	8,840	21,340	15,354	5,986
Debt Service	<u>45,400</u>	<u>45,400</u>	<u>45,304</u>	<u>96</u>
Total expenditures	<u>1,133,500</u>	<u>1,155,400</u>	<u>1,044,578</u>	<u>110,822</u>
Excess (deficiency) of revenues over expenditures	<u>73,200</u>	<u>62,300</u>	<u>328,068</u>	<u>265,768</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of municipal property	1,000	1,000	-	(1,000)
Compensation for loss	<u>1,000</u>	<u>1,000</u>	<u>2,621</u>	<u>1,621</u>
Total other financing sources (uses)	<u>2,000</u>	<u>2,000</u>	<u>2,621</u>	<u>621</u>
Net change in fund balances	75,200	64,300	330,689	266,389
Changes in nonspendable	-	-	(5,613)	(5,613)
Fund balances - beginning	<u>1,942,288</u>	<u>1,942,288</u>	<u>1,942,288</u>	<u>-</u>
Fund balances - ending	<u>\$ 2,017,488</u>	<u>\$ 2,006,588</u>	<u>\$ 2,267,364</u>	<u>\$ 260,776</u>

See Independent Auditor's Report

## CITY OF PHILIP

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2017

#### 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, 2017.

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).

## **CITY OF PHILIP**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - continued DECEMBER 31, 2017**

#### **2. GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES**

The financial statements prepared in conformity with US GAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay 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.

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

South Dakota Retirement System  
Last 10 Years\*

	2014	2015	2016	2017
City's proportion of the net pension (asset)/liability	0.0168349%	0.0163160%	0.0168442%	0.0157029%
City's proportionate share of net pension (asset)/liability	\$ (121,289)	\$ (69,201)	\$ 56,898	\$ (1,425)
City's covered-employee payroll	\$ 269,342	\$ 271,928	\$ 293,355	\$ 295,788
City's proportionate share of the net pension (asset)/liability as a percentage of its covered-employee payroll	-45.03%	-25.45%	19.40%	-0.48%
Plan fiduciary net position as a percentage of the total pension (asset)/liability	107.3%	104.1%	96.89%	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.

\* This schedule is presented to illustrate the requirement to show information for 10 years; however, until a full 10-year trend is compiled, governments should present information for those year which information is available.

SCHEDULE OF CONTRIBUTIONS

**South Dakota Retirement System**  
Last 10 Years \*

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$ 18,040	\$ 18,053	\$ 19,327	\$ 19,704
Contributions in relation to the contractually required contribution	<u>18,040</u>	<u>\$ 18,053</u>	<u>\$ 19,327</u>	<u>\$ 19,704</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 275,059	\$ 274,561	\$ 297,170	\$ 304,308
Contributions as a percentage of covered-employee payroll	6.56%	6.58%	6.50%	6.48%

\* This schedule is presented to illustrate the requirement to show information for 10 years; however, until a 10-year trend is compiled, governments should present information for those year which information is available.

*Wahlenberg  
Ritzman & Co., LLC*  
*certified public accountants*

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 4, 2019.

**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) to determine the 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.

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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.

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 may exist that have not been identified.

### **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.

Yankton, South Dakota  
February 4, 2019

**CITY OF PHILIP**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2017**

**PRIOR AUDIT FINDING**

There were no prior findings reported.

**CITY OF PHILIP**

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
DECEMBER 31, 2017**

There are no financial statement audit findings to report.