

CITY OF ARLINGTON
ARLINGTON, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE ONE YEAR ENDING DECEMBER 31, 2020
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

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CITY OF ARLINGTON
ARLINGTON, SOUTH DAKOTA

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FOR THE ONE YEAR ENDING DECEMBER 31, 2020

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NOTE: All figures shown in this financial report are in U.S. dollars.
For space considerations, the "\$" symbol is not used.

INDEPENDENT AUDIT SERVICES, PC

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Governing Board
City of Arlington
Arlington, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of governmental activities, business-type activities, and each major fund of the City of Arlington (City), Kingsbury County, South Dakota, as of December 31, 2020 and for the one year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

I did not audit the financial statements of the Arlington Housing and Redevelopment Commission, which represents 100% of the assets, liabilities, net position, revenue and expenses of the discretely presented component unit on the government-wide statement of net position and statement of activities.

Management's Responsibility for the Financial Statements:

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America - this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility:

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my unmodified audit opinions on governmental activities, business-type activities and each major fund.

Basis for Disclaimer of Opinion:

The financial statements of the Arlington Housing and Redevelopment Commission (Commission), have not been audited. I was not engaged to audit the Commission's financial statements as part of my audit of the City of Arlington's basic financial statements. The Commission's financial activities are included in the City's basic financial statement as a discretely presented component unit and represents 100% of the assets, net position, revenues and expenses of the City's discretely presented component unit.

Disclaimer of Opinion

The financial statements, referred to above, of the financial position and changes in financial position of the discretely presented component unit of the City of Arlington, South Dakota as of December 31, 2020 and for the year then ended were not audited by me and, accordingly, I do not express an opinion on them.

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the City of Arlington, South Dakota, as of December 31, 2020, and the respective changes in its financial position and, where applicable, cash flows thereof for the one year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (page 3 to 8), the budgetary comparison schedules (page 39 to 41), and the pension schedules (pages 42 and 43) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 inquiries of management about the methods of preparing the formation and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report (page 44) dated September 16, 2021 on my tests of City of Arlington's compliance with certain provisions of laws, regulations, contracts and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota



September 16, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the City of Arlington's (City) annual financial report presents our discussion and analysis of the City's financial performance for the year ending December 31, 2020. Please read it in conjunction with the City's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Revenue:	
Charges for goods and services	1,982,564
Operating grants	94,465
Capital grants	0
General receipts	1,132,186

Total	3,209,215

Expenses:	
Governmental	1,264,318
Business-type	1,511,220

Total	2,775,538

Increase in Net Position	433,677
Net Position:	
December 31, 2019	8,966,412

December 31, 2020	9,400,089
	=====
Governmental Fund	
General	633,790
2nd Cent	590,932
Capital Assets	3,711,328
Long-term Debt	(138,184)
Business-Type Funds:	
Water	1,081,031
Electric	2,643,041
Sewer	878,151

Total	9,400,089
	=====

During the year ending December 31, 2020, the City:

- * Collected \$266,532 in property taxes.
- * Collected \$717,984 in sales taxes.
- * Made street improvements of \$106,427.
- * Purchased a Dirch Witch for \$63,665 with a \$50,050 bank loan.
- * Purchased ambulance equipment for \$61,328.
- * Purchased a HVAC equipment for \$10,174.
- * Purchased a pool deck for \$12,571.
- * Purchased a electrical pad mounts and meters for \$26,120.
- * Paid engineering fees related to a wastewater treatment facility of \$28,405
- * Paid down existing loans by \$319,298. See also page 36 and 37.
- * Transferred \$85,613 to the general fund with \$69,613 from the 2nd cent fund, and \$16,000 from the electric fund, for capital purchases and operations.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

The financial report consists of three parts: (1) management's discussion and analysis (page 3 to 8), (2) the basic financial statements (page 9 to 38) and (3) other supplementary information (page 39 to 43). The basic financial statements include two types of statements that present the City from two different financial points of view.

Government-wide financial statements (View #1):

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

Fund financial statements (View #2):

The remaining financial statements are fund financial statements that focus on significant operations of the governmental and enterprise activities of the City.

The governmental financial statements tell how general governmental services were financed in the short-term, as well as what remains for future spending. The governmental funds operated by the City during 2020 are the general fund and 2nd cent fund.

The enterprise fund financial statements offer short-term and long-term financial information about the activities of the City that operate like a business. Enterprise funds operated by the City during 2020 are the water, electric and sewer funds.

The fiduciary fund financial statements provide information about the financial status of activities in which the City acts solely as a trustee or agent for the benefit of those groups to whom these funds belong. In 2020 the City had no fiduciary funds.

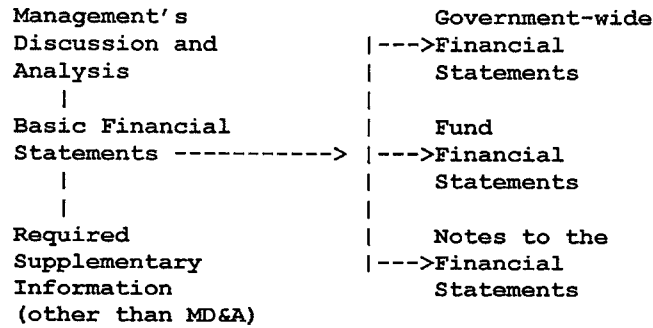
The financial statements include notes that explain in more detail some of the information found in the financial statements. The financial statements are also followed by a section of supplementary information that presents a budgetary analysis for the general fund and major special revenue fund and the City's pension information.

The Arlington Housing and Redevelopment Commission (AHRC) is a component unit of the City of Arlington. AHRC represents 100% of the balances and activity of the discretely presented component unit column of these financial statements. AHRC is organized to provide housing through the operation of a rental housing complex. AHRC is a Housing and Redevelopment Commission, established under SDCL 11-7-7. Financial information about AHRC is available at Arlington City Hall.

Required Supplementary Information:

This Management's Discussion and Analysis (page 3 to 8), the Budgetary Comparison Schedules (page 39 to 41), the Pension Schedules (page 42 and 43) are financial information required to be presented by GASB. Such information provides readers of this report with additional data that supplements the government-wide statements and fund financial statements. The Budgetary Comparison Schedule is presented on a budgetary basis of accounting, which reports capital expenditures within their respective expenditure function rather than as a separate capital outlay expenditure.

Here is an overview of the City's financial statements.



Here is a summary of the major features of these financial statement.

	Government-wide Statements	-----Fund Statements-----	
		Governmental Funds	Enterprise Funds
Scope	Entire City	City Activities except Enterprise (ie: water)	Activities operated like a private business (ie: water)
Required Financial Statements	Statement of Net Position	Balance Sheet	Statement of Net Position
	Statement of Activities	Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Revenues, Expenses and Changes in Net Position Statement of Cash Flows
Basis of Accounting	Accrual	Modified accrual	Accrual
Measurement Focus	Economic resources	Current financial resources	Economic resources
Types of Assets & Liabilities	All - financial and capital, short- and long-term	Only current financial assets and liabilities	All - financial and capital, short- and long-term
		No capital assets	
Types of Revenue and Expenditures or Expense	All - regardless of when cash is received	Revenues when cash is received during year or within 30 days of year-end	All - regardless of when cash is received
		Expenditures when goods or services are received and payment is due during year or soon after year-end	

GOVERNMENT-WIDE STATEMENTS
(Reporting the City as a whole)

The government-wide statements (page 9 and 10) report information about the City as a whole using accounting methods similar to those used for private companies. There are two government-wide statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position includes all of the government's assets and liabilities. Net position is the difference between assets and liabilities. Changes in these accounts is one way to measure the City's financial health.

Increases or decreases in net position measures improvements or declines in the City's financial health. To assess the City's overall financial health you also need to consider other factors such as changes in the, property tax base and sales tax revenue, sales tax revenue and/or grant activity.

The Statement of Activities includes all of the year's revenues and expenses. You will notice that expenses are listed in the first column by program. Revenues related each program are reported to the right of the expense. The result is a net revenue/expense for each program. After listing program activity, general receipts of the City are listed, which include all taxes and interest earned.

The government-wide financial statements have two broad categories of information: governmental activity and business-type activity.

The governmental activities include operation of the government such and City Council, public safety, streets and highway, snow removal, debt service, and recreational programs. Property taxes, sales taxes, revenue from the state, user fees and interest earnings finance most of these activities.

Business-type activities account for the City's water, electric, and sewer operations. These operations are financed mostly by user fees.

FUND FINANCIAL STATEMENTS

(Reporting the City's most significant funds)

The fund financial statements (page 11 to 16) provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting tools used to keep track of the receipt and disbursement of City's resources. State law requires the use of some funds and the City Council establishes other funds to manage money for a specific purpose, like a capital project fund for infrastructure improvements.

The fund financial statements show information in three broad categories: governmental, enterprise (business-type), and fiduciary (if any).

Governmental funds: Most of the City's basic services are included in the governmental funds, which focus on (1) how cash, and other financial assets which can readily be converted into cash, flow in and out of that fund, and (2) the balances left at year-end that are available for spending in the next year. Consequently, governmental funds statements provide you a detailed short-term view to help you determine whether there are more or fewer financial resources available for spending in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements to reconcile the differences between the governmental fund statements and the government-wide statements.

Enterprise fund: Services for which the City charges the customer a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both short-term and a long-term financial information. Water, electric and sewer funds are the enterprise fund maintained by the City.

Fiduciary funds: The City can be the agent (or fiduciary) for various internal and external parties. As such, the City would be responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities would be reported in a separate statement of fiduciary net position. Fiduciary funds would be excluded from the City's government-wide financial statements because the City could not use these assets to finance City's operations. In 2020 the City had no fiduciary funds.

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

Year Ending December 31, 2020

(Material changes for governmental activities = changes greater than \$75,000)
(Material changes for business-type activities = changes greater than \$100,000)

	Increase (Decrease)	Reason
Governmental Activities:		
Current assets	150,000	Excess receipts.
Current liabilities	(105,000)	Paid-off Arlington Communiy Development loan.
Sales taxes	112,000	Increased economic activity.
Public works	(109,000)	Fewer street projects.
Business-type Activities:		
Current assets	275,000	Excess receipts.
Capital assets	(228,000)	Capital assets purchases less depreciation
Long-term debt	(180,000)	Debt reduction.

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

The City's 2020 general fund budget of \$1,307,585 is a decrease of \$386,077 or 22.80% from 2019. The decrease was largely in the streets budget line item. There was one supplemental appropriation of \$131,100 spread over several budget line items. See page 39 for information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

At December 31, 2020, the City had invested \$9,364,982 in a broad range of capital assets, including land, buildings, improvements, equipment and intangible water rights. This amount represents a net decrease (including additions and deductions) of \$232,790, or 2.43% from December 31, 2019.

Significant capital asset activity is reported above. See page 35 for more information.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

Significant long-term debt activity is reported above. The City is current on all long-term debt. See page 36 to 38 for more information.

CURRENTLY KNOWN FACTS

In 2021, the City expects to upgrade 4 blocks of South 3rd Street for approximately \$600,000 using City money.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Arlington's business office at Drawer 379, Arlington, SD 57212 or call 605.983.5251.

CITY OF ARLINGTON
 TABLE 1 - NET POSITION (condensed and in thousands)
 FULL ACCRUAL - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 AS OF DECEMBER 31, 2020 AND DECEMBER 31, 2019

	Governmental Activities		Business-Type Activities		Total Government	
	2020	2019	2020	2019	2020	2019
Assets and deferred outflow:						
Current assets	1,239	1,089	2,221	1,946	3,460	3,035
Capital assets	3,711	3,716	5,654	5,882	9,365	9,598
Other assets	1	1	147	120	148	121
Deferred outflow	41	58	47	54	88	112
Total	4,992	4,864	8,069	8,002	13,061	12,866
Liabilities and deferred inflow:						
Current liabilities	63	168	304	310	367	478
Long-term debt outstanding	94	93	3,121	3,301	3,215	3,394
Deferred inflow	37	14	42	13	79	27
Total	194	275	3,467	3,624	3,661	3,899
Net position:						
Net invested in capital asset	3,594	3,508	2,386	2,436	5,980	5,944
Restricted	5	45	108	146	113	191
Unrestricted	1,199	1,036	2,108	1,796	3,307	2,832
Total	4,798	4,589	4,602	4,378	9,400	8,967

TABLE 2 - CHANGES IN NET POSITION (condensed and in thousands)
 FULL ACCRUAL - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 FOR THE YEAR ENDING DECEMBER 31, 2020 AND DECEMBER 31, 2019

	Governmental Activities		Business-Type Activities		Total Government	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	233	258	1,749	1,746	1,982	2,004
Operating grants and contributions	94	10			94	10
Capital grants					0	0
General revenues:						
Property taxes	266	253			266	253
Sales taxes	718	606			718	606
State shared revenue	52	51			52	51
County shared revenue	4	5			4	5
Interest earnings	6	8	2	4	8	12
Rents and franchise fees	21	24			21	24
Donations	2	20			2	20
Miscellaneous	9	18			9	18
Total revenues	1,405	1,253	1,751	1,750	3,156	3,003
Expenses:						
General government	153	146			153	146
Public safety	213	169			213	169
Public works	594	703			594	703
Health and welfare	98	76			98	76
Culture and recreation	135	122			135	122
Economic development	16	15			16	15
Interest expense	55	3			55	3
Water			229	228	229	228
Electric			1,107	1,205	1,107	1,205
Sewer			175	167	175	167
Total expenses	1,264	1,234	1,511	1,600	2,775	2,834
Revenues over (under) expenses	141	19	240	150	381	169
Sale of surplus property	2	5			2	5
Compensation for damaged property		2				2
Transfers	16	26	(16)	(26)		
Loan proceeds	50				50	
Change in net position	209	52	224	124	433	176
Net position:						
December 31, 2018		4,537		4,254		8,791
December 31, 2019	4,589	4,589	4,378	4,378	8,967	8,967
December 31, 2020	4,798		4,602		9,400	

CITY OF ARLINGTON

GOVERNMENT-WIDE - STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2020

	Primary Government			Component Unit (Not Audited) 12-31-2020
	Governmental Activities	Business- Type Activities	Total	
ASSETS:				
Current assets:				
Cash and cash equivalents	796,824	1,857,350	2,654,174	164,427
Certificates of deposit	27,417	55,000	82,417	
Taxes receivable - delinquent	8,844		8,844	
Due from governments	68,039		68,039	
Accounts receivable	18,867	154,049	172,916	
Prepaid expenses		1,928	1,928	
Special assessments receivable	13,336		13,336	
Inventory of supplies	305,490	152,618	458,108	
Capital assets:				
Land	313,460	13,500	326,960	27,108
Other capital assets, net of depreciati	3,397,868	5,342,443	8,740,311	166,700
Intangible water rights, net of amortization		297,711	297,711	
Other assets:				
Restricted cash for surcharge		147,348	147,348	
Net pension assets	281	322	603	
Total assets	4,950,426	8,022,269	12,972,695	358,235
DEFERRED OUTFLOW OF RESOURCES:				
Pension related deferred outflows	41,156	46,897	88,053	
Total deferred outflow of resources	41,156	46,897	88,053	0
LIABILITIES:				
Current liabilities:				
Accounts payable	18,762	67,772	86,534	
Customer deposits		84,320	84,320	
Noncurrent due within one year	44,656	152,005	196,661	17,000
Noncurrent liabilities:				
Leave liability	20,928	5,364	26,292	
Due in more than one year	72,600	3,115,312	3,187,912	
Total liabilities	156,946	3,424,773	3,581,719	17,000
DEFERRED INFLOWS OF RESOURCES				
Pension related deferred inflows	36,770	42,170	78,940	0
Total deferred inflows of resources	36,770	42,170	78,940	0
NET POSITION:				
Net invested in capital assets	3,594,072	2,386,337	5,980,409	176,808
Restricted for:				
Debt service		103,224	103,224	
SDRS pension purposes	4,667	5,050	9,717	
Unrestricted	1,199,127	2,107,612	3,306,739	164,427
Total net position	4,797,866	4,602,223	9,400,089	341,235

See accompanying notes.

CITY OF ARLINGTON

GOVERNMENT-WIDE - STATEMENT OF ACTIVITIES
FOR THE YEAR ENDING DECEMBER 31, 2020

Functions/Programs:	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			Component Unit (Not Audited) 12-31-2020
	Expenses	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
Primary government:								
Governmental activities:								
General government	152,878	26,708			(126,170)		(126,170)	
Public safety	213,422	40,624			(172,798)		(172,798)	
Public works	593,947	89,064	67,196		(437,687)		(437,687)	
Health and welfare	97,807	69,797	27,269		(741)		(741)	
Culture and recreation	135,616	6,717			(128,899)		(128,899)	
Economic development	16,000				(16,000)		(16,000)	
Interest and fees (all)	54,648				(54,648)		(54,648)	
Total governmental activities	1,264,318	232,910	94,465	0	(936,943)	0	(936,943)	
Business-type activities:								
Water	229,107	229,373				266	266	
Electric	1,107,454	1,357,119				249,665	249,665	
Sewer	174,659	163,162				(11,497)	(11,497)	
Total business-type activities	1,511,220	1,749,654	0	0	0	238,434	238,434	
Total primary government	2,775,538	1,982,564	94,465	0	(936,943)	238,434	(698,509)	
Component unit activity:								
Arlington Housing & Redev Commis.	251,701	359,230						107,529
General revenues:								
Taxes:								
Property taxes					266,532		266,532	
Sales taxes					717,984		717,984	
Amusement taxes					192		192	
State shared revenue					51,777		51,777	
County shared revenue					4,362		4,362	
Interest earnings					5,899	2,508	8,407	206
Rents and franchise fees					20,948		20,948	
Donations					1,650		1,650	
Miscellaneous revenue					8,006		8,006	
Sale of surplus property					2,328		2,328	
Loan proceeds					50,000		50,000	
Transfers in (out)					16,000	(16,000)	0	
Total general revenue and transfers					1,145,678	(13,492)	1,132,186	206
Change in net position					208,735	224,942	433,677	107,735
Net position:								
January 1, 2020					4,589,131	4,377,281	8,966,412	233,500
December 31, 2020					4,797,866	4,602,223	9,400,089	341,235

See accompanying notes.

CITY OF ARLINGTON
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2020

	General Fund	2nd Cent Fund	Total Governmental Funds
	-----	-----	-----
ASSETS:			
Cash and cash equivalents	220,718	576,106	796,824
Certificates of deposit	27,417		27,417
Property taxes receivable	8,844		8,844
Due from governments	53,213	14,826	68,039
Accounts receivable	18,867		18,867
Special assessments - current	4,445		4,445
Special assessments - delinquent			0
Special assessments - deferred	8,891		8,891
Inventory of supplies	305,490		305,490
	-----	-----	-----
Total assets	647,885	590,932	1,238,817
	=====	=====	=====
LIABILITIES:			
Accounts payable	18,762		18,762
	-----	-----	-----
Total liabilities	18,762	0	18,762
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - delinquent property taxes	8,844		8,844
Unavailable revenue - special assessments	13,336		13,336
	-----	-----	-----
Total deferred inflows of resources	22,180	0	22,180
FUND BALANCES:			
Nonspendable	305,490		305,490
Restricted			0
Committed		590,932	590,932
Assigned	254,440		254,440
Unassigned	47,013		47,013
	-----	-----	-----
Total fund balance	606,943	590,932	1,197,875
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
	-----	-----	-----
	647,885	590,932	1,238,817
	=====	=====	=====
Reconciliation of the above balance sheet - governmental funds to the government-wide statement of net position			
Total fund balance - governmental funds (above)			1,197,875
Amounts reported in the government-wide statement of net position are different because:			
Capital assets and other assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.			
Capital assets			6,381,203
Less: accumulated depreciation			(2,669,875)
These pension related amounts are not an available financial resource and therefore are not reported in the funds.			
Net pension assets			281
Deferred outflow of resources			41,156
Deferred inflow of resources			(36,770)
Assets such as taxes receivable (delinquent) and special assessments are not available to pay for current period expenditures and therefore are deferred in the funds.			22,180
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.			
Long term liabilities at year end consist of:			
2018 Bobcat loan			(22,774)
Fire truck bank loan			(44,432)
2020 Ditch Witch bank loan			(50,050)
Accrued leave payable			(20,928)

Total net position on government-wide statement of net position			4,797,866
			=====

See accompanying notes.

CITY OF ARLINGTON
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2020

	General Fund	2nd Cent Fund	Total Governmental Funds
	-----	-----	-----
Revenue:			
Revenue from local sources:			
Taxes:			
Ad valorem taxes	266,948		266,948
General sales and use taxes	358,992	358,992	717,984
Amusement taxes	192		192
Licenses and permits:	8,429		8,429
Intergovernmental revenue:			
Federal shared revenue:			
Grants - COVID	67,196		67,196
State shared revenue:			
Grants - ambulance	26,065		26,065
Grants - mosquito	1,204		1,204
Bank franchise tax	2,226		2,226
Commercial prorata	1,829		1,829
Liquor tax reversion	6,607		6,607
Motor vehicle licenses (5%)	16,667		16,667
Highway and bridge	24,448		24,448
County shared revenue:			
Road taxes	4,362		4,362
Charges for goods and services:			
General government	1,165		1,165
Public safety	40,624		40,624
Highway and streets	1,836		1,836
Sanitation	78,803		78,803
Health and welfare	69,797		69,797
Recreation	6,717		6,717
Cemetery	7,049		7,049
Fines and forfeits:	478		478
Miscellaneous revenue:			
Interest earned	4,717	1,183	5,900
Rental and franchise	20,948		20,948
Special assessments collected	5,042		5,042
Donations	1,650		1,650
Liquor operating agreements	16,636		16,636
Other	8,006		8,006
Total revenues	1,048,633	360,175	1,408,808
Expenditures:			
General government:			
Mayor and Council	28,632		28,632
Elections	811		811
Financial administration	95,005		95,005
Other	8,600		8,600
Public safety:			
Police	62,205		62,205
Fire	130,896		130,896
Public works:			
Highways and streets	218,545		218,545
Storm drainage	11,468		11,468
Airport	18,317		18,317
Solid waste	73,715		73,715
Cemetery	29,072		29,072
Health and welfare:			
West Nile prevention	5,058		5,058
Ambulance	53,014		53,014
Culture and recreation:			
Pool	75,317		75,317
Parks	31,921		31,921
Baseball	1,085		1,085
Library	14,435		14,435
BATA services	1,000		1,000
Economic assistance	15,000		15,000
Debt service: principal	140,956		140,956
interest and fees	4,598		4,598
Capital outlays	294,524		294,524
Total expenditures	1,314,174	0	1,314,174
Excess of revenues over (under) expenditures	(265,541)	360,175	94,634

CITY OF ARLINGTON

STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS (continued)
 FOR THE YEAR ENDING DECEMBER 31, 2020

	General Fund	2nd Cent Fund	Total Governmental Funds
	-----	-----	-----
Other financing sources (uses):			
Transfers in (from 2nd cent fund)	69,613	(69,613)	0
Transfers in (from electric fund)	16,000		16,000
Sale of surplus property	2,328		2,328
Proceeds from Ditch Witch bank loan	50,000		50,000
	-----	-----	-----
Net change in fund balance	(127,600)	290,562	162,962
Fund balance:			
January 1, 2020	734,543	300,370	1,034,913
	-----	-----	-----
December 31, 2020	606,943	590,932	1,197,875
	=====	=====	=====
Reconciliation of the above statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities.			
Amounts reported in the government-wide statement of net position are different because:			
Net change in fund balances - total governmental funds (above)			162,962
Governmental funds report capitalized cost as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation.			
2020 capitalized cost			294,524
2020 depreciation			(291,056)
2020 loss on disposition of capital asset			(8,400)
Some property taxes will not be collected for several months after the City's year-end. Therefore, they are not considered "available" revenues and are deferred in these funds statement.			
			(416)
Some special assessments will not be collected for several months after the City's year-end. Therefore, they are not considered "available" revenues and are deferred in these funds statement.			
			(3,667)
(Expenses) and reductions of expenses related to pensions do not provide current financial resources and, therefore, are not reported in the funds.			
			(40,516)
Governmental funds do not reflect the change in "accrued leave", but the statement of activities reflects the change in "accrued leave" through expenditures.			
			4,398
Current debt principal reduction (increase) is not reported in the government-wide statement of activities:			
2018 Bobcat loan			10,703
2018 Arlington Community Development loan reduction			67,475
2019 Fire truck bank loan			20,778
2019 Fire truck accounts payable			42,000
2020 Ditch Witch bank loan			(50,050)

Change in net position on government-wide statement of activities			208,735
			=====

See accompanying notes.

CITY OF ARLINGTON

STATEMENT OF NET POSITION - ENTERPRISE FUNDS
AS OF DECEMBER 31, 2020

	Water Fund	Electric Fund	Sewer Fund	Total Enterprise Funds
ASSETS:				
Current assets:				
Cash and cash equivalents	129,031	1,203,411	524,908	1,857,350
Certificates of deposit		35,000	20,000	55,000
Accounts receivable	18,421	121,958	13,670	154,049
Prepaid expenses	1,928			1,928
Inventory of supplies	20,363	119,793	12,462	152,618
Total current assets	169,743	1,480,162	571,040	2,220,945
Noncurrent assets:				
Capital assets:				
Land		1,000	12,500	13,500
Buildings		195,593		195,593
Improvements	1,871,691	2,897,505	2,380,860	7,150,056
Equipment	13,451	1,265,545	27,862	1,306,858
Construction-in-progress			28,405	28,405
Accumulated depreciation	(835,869)	(907,749)	(1,594,851)	(3,338,469)
Intangible water rights, net	297,711			297,711
Total noncurrent assets	1,346,984	3,451,894	854,776	5,653,654
Other assets:				
Restricted cash for surcharge		147,348		147,348
Net pension assets	48	232	42	322
Total assets	1,516,775	5,079,636	1,425,858	8,022,269
DEFERRED OUTFLOW OF RESOURCES				
Pension related deferred outflows	7,068	33,936	5,893	46,897
Total outflow of resources	7,068	33,936	5,893	46,897
LIABILITIES:				
Current liabilities:				
Accounts payable	9,400	58,019	353	67,772
Customer deposits	28,107	56,213		84,320
Current portion of: Long-term debt	19,004	120,000	13,001	152,005
Total current liabilities	56,511	234,232	13,354	304,097
Noncurrent liabilities:				
Leave liability	2,018	978	2,368	5,364
Noncurrent portion of long-term debt	377,968	2,205,000	532,344	3,115,312
Total noncurrent liabilities	379,986	2,205,978	534,712	3,120,676
Total liabilities	436,497	2,440,210	548,066	3,424,773
DEFERRED INFLOW OF RESOURCES				
Pension related deferred inflows	6,315	30,321	5,534	42,170
Total inflow of resources	6,315	30,321	5,534	42,170
NET POSITION				
Net invested in capital assets	950,012	1,126,894	309,431	2,386,337
Restricted:				
Water revenue bond	32,232			32,232
Sewer revenue bond			70,992	70,992
SDRS pension purposes	801	3,847	402	5,050
Unrestricted	97,986	1,512,300	497,326	2,107,612
Total net position	1,081,031	2,643,041	878,151	4,602,223

See accompanying notes.

CITY OF ARLINGTON

STATEMENT OF REVENUES, EXPENSES, AND CHANGES,
IN NET POSITION - ENTERPRISE FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2020

	Water Fund	Electric Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----	-----
Operating revenue:				
Charges for goods and services	229,373	1,357,119	163,162	1,749,654
	-----	-----	-----	-----
Total operating revenue	229,373	1,357,119	163,162	1,749,654
	-----	-----	-----	-----
Operating expenses:				
Personal services	31,382	176,578	33,461	241,421
Other current services	15,438	78,765	41,737	135,940
Cost of goods sold	96,075	599,500	-	695,575
Amortization	19,104	-	-	19,104
Depreciation	38,678	163,218	68,295	270,191
Pension related	5,560	23,548	8,156	37,264
	-----	-----	-----	-----
Total operating expenses	206,237	1,041,609	151,649	1,399,495
	-----	-----	-----	-----
Total operating income (loss)	23,136	315,510	11,513	350,159
	-----	-----	-----	-----
Nonoperating revenue (expense):				
Interest earnings	46	796	1,666	2,508
Interest expense and fees	(22,870)	(65,845)	(23,010)	(111,725)
Loss on disposition of assets	-	-	-	0
	-----	-----	-----	-----
Total nonoperating revenue (expense)	(22,824)	(65,049)	(21,344)	(109,217)
	-----	-----	-----	-----
Income (loss) before transfers	312	250,461	(9,831)	240,942
	-----	-----	-----	-----
Transfer in (out)	5,000	(16,000)	(5,000)	(16,000)
	-----	-----	-----	-----
Change in net position	5,312	234,461	(14,831)	224,942
	-----	-----	-----	-----
Net position:				
January 1, 2020	1,075,719	2,408,580	892,982	4,377,281
	-----	-----	-----	-----
December 31, 2020	1,081,031	2,643,041	878,151	4,602,223
	=====	=====	=====	=====

See accompanying notes.

CITY OF ARLINGTON

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2020

	Water Fund	Electric Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----	-----
Cash flows from:				
Operating activities:				
Receipts from customers	215,016	1,327,548	157,373	1,699,937
Received from other funds	13,461	32,307	5,385	51,153
Payments to employees	(31,164)	(176,270)	(33,238)	(240,672)
Payments to suppliers	(106,527)	(713,168)	(40,053)	(859,748)
Payments to other funds	(2,679)	(286)	(4,696)	(7,661)
Net cash provided (used) by operating activities	88,107	470,131	84,771	643,009
Noncapital financing activities:				
Transfers (out)	5,000	(16,000)	(5,000)	(16,000)
Capital financing activities:				
Cash paid for improvements	(6,914)			(6,914)
Cash paid for equipment		(26,120)		(26,120)
Cash paid for construction-in-progress			(28,405)	(28,405)
Principal paid on debt	(45,856)	(120,000)	(12,486)	(178,342)
Interest and fees paid on debt	(22,870)	(65,845)	(23,010)	(111,725)
Investing activities:				
Interest earnings	46	796	1,666	2,508
Net increase (decrease) in cash	17,513	242,962	17,536	278,011
Cash:				
January 1, 2020	111,518	1,107,797	507,372	1,726,687
December 31, 2020	129,031	1,350,759	524,908	2,004,698
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	23,136	315,510	11,513	350,159
Amortization	19,104			19,104
Depreciation	38,678	163,218	68,295	270,191
Pension related	5,560	23,548	8,156	37,264
(Increase) decrease in:				
Accounts receivable	(1,865)	800	(404)	(1,469)
Inventory	1,035	(24,704)	(3)	(23,672)
Increase (decrease) in:				
Accounts payable	1,272	(10,485)	(3,009)	(12,222)
Customer deposits	969	1,936		2,905
Leave liability	218	308	223	749
Net cash provided (used) by operating activities	88,107	470,131	84,771	643,009
Noncash investing, capital and financing activities:				
None				
See accompanying notes.				

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Arlington conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Reporting Entity:

The funds and account groups included in this report are controlled by or dependent upon the City of Arlington's (City) Governing Board.

The City's officials at December 31, 2020 are:

Governing Board:	Finance Officer:
Curt Lundquist, Mayor	Sue Falconer
Terry Rowbotham, President	
Rob Achterberg	Attorney:
Cory Falconer	Wilkinson & Schumacher
Garth Johnson	
Terry Mutziger	
Jesse Steffensen	

The City's financial reporting entity is composed of the following:

Financial Reporting Entity:
Primary Government: - The City of Arlington
Component Unit: - Arlington Housing and Redevelopment Commission

To determine the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

The reporting entity of the City of Arlington consists of (1) 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, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity; (2) those organizations for which the primary government is financially accountable; and (3) 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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the City (the primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City unless that organization can, without the approval of the City: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

Based upon the application of these criteria, the Arlington Housing and Redevelopment Commission (AHRC) is a component unit of the City of Arlington. AHRC represents 100% of the balances and activity of the discretely presented component unit column of these financial statements.

AHRC is organized to provide housing. AHRC is a Housing and Redevelopment Commission, established under SDCL 11-7-7. Financial information about AHRC is available at Arlington City Hall.

The City's library is jointly governed with the Arlington School District. The library has a board of 3 persons from the City, 3 persons from the School and the 2 librarians. All costs are split 35% to the City and 65% to the School. The City's cost are blended into its general fund. The library does not keep any separate funds for fines or other matters.

b. Basis of Presentation:

Government-wide Financial Statements:

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. 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 good and services.

The Statement of Net Position reports all financial and capital resources, in a net position form (assets minus liabilities equal net position). Net position is displayed in three components, as applicable: net invested in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and for each segment of City's business-type activities. Direct expenses are associated with a specific program or function and are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the program 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 and interest, are presented as general revenues.

Fund Financial Statements:

The fund financial statements include specific information about individual funds used by the reporting entity. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts that constitutes its assets, liabilities, net position, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, enterprise, and fiduciary (if any). An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the City or if it meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues, or expenditures/expenses) for all funds of that category (that is, total governmental or total enterprise), and
- b. The same element that meets the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.
- c. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's official believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

The City has elected to classify all of its funds as major funds.

Funds of the City are described below within their respective fund type:

Governmental Funds

General Fund is a fund established by South Dakota Codified Law (SDCL) 4-11-6 to met all the general operational costs of the City except those required to be accounted for in another fund. The general fund is always a major fund.

Special Revenue Funds - special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes. The City has the following special revenue fund:

2nd Cent Sales Tax Fund - A fund established by City to account for an additional 1% sales tax. The City has restricted the use of this fund to street improvements. The 2nd cent sales tax fund is a major fund.

Enterprise Funds

Enterprise Funds are used to account for activity for which a fee is charged to external users for goods or services. The City has these enterprise funds:

Water fund - A fund established by SDCL 9-47-1 to provide water to customers within the City of Arlington. The water fund is a major fund.

Electric fund - A fund established by SDCL 9-39-1 and 9-39-26 to provide electrical service to customers within the City of Arlington. The electric fund is a major fund.

Sewer fund - A fund established by SDCL 9-48-2 to provide sewer services to customers within the City of Arlington. The sewer fund is a major fund.

Fiduciary Funds

Fiduciary Funds are never considered to be major funds. The City has no fiduciary funds.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "what" 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:

Both governmental and business-type activities are presented using the "economic resources" measurement focus, applied on the accrual basis of accounting.

The "economic resources" measurement focus includes all assets and liabilities (whether current or noncurrent, financial, or nonfinancial) on the balance sheet. Operating statements use the flow of all economic resources to present operating income, changes in net position, and cash flows during the accounting period. This measurement focus uses the term "net position" to describe its equity at the end of the accounting period.

Fund Financial Statements:

All governmental funds are presented using the "current financial resources" measurement focus and the modified accrual basis of accounting.

The "current financial resources" measurement focus includes only current financial assets and liabilities on the balance sheet. Operating statements present sources and uses of available spendable financial resources during the accounting period. This measurement focus uses the term "fund balance" to describe its equity at the end of the accounting period. It is a measure of available spendable financial resources.

Enterprise and fiduciary funds are presented using the "economic resources" measurement focus (described above) and the accrual basis of accounting.

Basis of Accounting

Government-wide Financial Statements:

In the government-wide financial statements, the accrual basis of accounting is used for both governmental and business-type activities in the Statement of Net Position and Statement of Activities. Under the accrual basis of accounting, revenues and related assets generally 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:

In the fund financial statements, all governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally 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, which for the City is 30 days. The revenues which are accrued at December 31, 2020 are state shared revenue and other accounts receivable.

Under the modified accrual basis of accounting, receivables may be measurable but "not available". Not available means not collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflow of resources are those where the asset recognition criteria has been met but for which the revenue recognition criteria has not been met because the receivable is not available.

Expenditures generally are 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. However, the City of Arlington budgets for, and makes payment of, debt obligations due on January 1st as of December 31st, the end of the City's fiscal year.

All enterprise funds and fiduciary funds are accounted for using the accrual basis of accounting, the same as in the government-wide financial statements. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified as follows:

In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net residual amounts due between governmental and business-type activities, which are presented as "Internal Balances" (if any).

Fund Financial Statements:

In the fund financial statements, noncurrent portions of long-term interfund receivables are reported as Nonspendable Fund Balance to the extent that the proceeds from the collection of those receivables are not Restricted, Committed, or Assigned. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources" and are reported in the appropriate fund balance category.

e. Interfund Transactions:

Transactions that constitute reimbursements to a fund for disbursements made from it, and that are properly applicable to another fund, are recorded as a disbursement in the reimbursing fund and as reductions of disbursements in the fund that is reimbursed. All other interfund transactions are reported as transfers.

f. Cash and Cash Equivalents:

In the enterprise funds' statement of cash flows, the City considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents. Those portions of the enterprise funds' cash resources that are included in the City's internal cash management pool are considered to be cash and cash equivalents, regardless of the form in which they are held, because use of the pool provides each enterprise fund with access to its cash resources essentially on demand.

For the year ending December 31, 2020, all enterprise fund deposits and investments are considered to be cash and cash equivalent for purposes of the statement of cash flow except certificates of deposit totaling \$35,000 held for the electric fund and \$20,000 held for the sewer fund because their maturity when purchased was longer than three months and they are not part of a pool.

g. Capital Assets and Infrastructure assets:

Capital assets include land, buildings, improvements, and equipment, and all other tangible or intangible assets that are used in operations, which 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 significantly greater number of years than most capital assets. Infrastructure assets, if any, are classified as "Improvements Other than Buildings."

Government-wide Financial Statements:

In the government-wide financial statements, capital assets are accounted for on the accrual basis of accounting. Capital asset purchases are capitalized and not expensed. Instead, capital purchases are expensed over the life of the asset as depreciation or amortization.

Capital assets are valued at historical cost, or estimated historical cost, if actual historical cost is not available. 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. After an item has been capitalized, subsequent improvements or betterments that are significant, and which extend the useful life of the item, are also capitalized.

The total December 31, 2020 balance of capital assets for governmental activities include approximately 10% for which the costs were determined by estimates of the original costs. The total December 31, 2020 balance of capital assets for business-type activities includes approximately 5% for which the costs were determined by estimates of the original costs. Estimated original costs were established by basing the estimates on a comparison to historical costs of similar items.

Interest cost incurred during construction of general capital assets are not capitalized with other capital asset cost. Interest cost incurred during construction of enterprise capital assets are capitalized with other capital asset cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide statement of activities and the enterprise fund statement of revenue, expenses and changes in fund net position. Accumulated depreciation is reported on the government-wide statement of net position and on the enterprise fund's statement of net position. See also page 35.

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

	Capitalization Threshold	Depreciation Method	Estimated Life in Years
	-----	-----	-----
Land	All	N/A	N/A
Buildings/structures	All	Straight-line	33-50
Improvements	5,000	Straight-line	20-75
Equipment	5,000	Straight-line	5-10

Land is an inexhaustible capital asset and is not depreciated.

At December 31, 2020 there was construction-in-progress of \$36,815 for engineering related to reconstruction of 3rd Street and \$28,405 related to improvements to the wastewater treatment facility.

Fund Financial Statements:

In the fund financial statements, governmental funds account for capital asset purchases as expenditures of the appropriate governmental fund because these funds have a "current financial resources" measurement focus. Enterprise funds account for capital asset purchases on the accrual basis of accounting, the same as in the government-wide statements.

h. Long-term Liabilities:

Government-wide Financial Statements:

In the government-wide financial statement, all long-term liabilities to be repaid from governmental or business-type resources are reported as liabilities. Long-term liabilities primarily consist of loans payable, a capital lease/purchase and accrued leave payable.

Fund Financial Statements:

In the fund financial statements, governmental debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. Enterprise fund long-term debt is reported as a liability, the same as in the government-wide statements.

i. Program Revenues and General Revenues and Deferred Inflows and Deferred Outflows of Resources:

Program Revenue

In the government-wide Statement of Activities, reported 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 contribution - 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 contribution - These arise from mandatory and voluntary non-exchange transactions with other government, organization, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

General Revenue

General revenues include all revenues not specifically earmarked for a specific program. General revenues include all taxes, interest earnings, unrestricted receipts from federal, state, or county governments, and miscellaneous revenues not related to a program. These revenues are not restricted and can be used for the regular operation of the City.

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 (if any). 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 (if any). 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.

j. Enterprise Fund Revenue and Expense Classifications:

In the government-wide and fund financial statements, enterprise revenues and expenses are classified 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.

k. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as "Net Position" and is displayed in three components:

1. Net Invested 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 payable, capitalized leases payable, 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 its use either by (a) external groups such as creditor, grantor, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position - Other net position that does not meet the criteria of 1 or 2 above.

Fund Financial Statements:

Governmental fund equity is classified as "Fund Balance", and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Enterprise fund equity is classified as "Net Position", the same as in the government-wide financial statements. Fiduciary fund equity (except for agency funds, which have no fund equity) is reported as "Net Position" held in trust for a purpose.

1. 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:

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

- * 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.
- * Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed (or modified or rescinded) by the government through formal action at the highest level of decision making authority and does not lapse at year-end.
- * 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 Council or Finance Officer.
- * Unassigned - includes positive fund balance within the general fund which has not been classified within the above categories and negative fund balances in other governmental funds.

The City of Arlington fund balance classifications are made up of:

<u>Fund Balance Classifications</u>	<u>Account or Fund</u>	<u>Authority or Action</u>	<u>Amount</u>
Nonspendable	Inventory		305,490
Restricted	None		0
Committed	2nd cent sales tax	Ordinance	590,932
Assigned	General:	Resolutions	
	Unemployment	9,820	
	Law enforcement	22,988	
	Fire	79,067	
	Street equipment	48,743	
	Solid waste equipment	737	
	Airport improvements	10,001	
	Ambulance	47,292	
	Library	35,792	
		-----	254,440
Unassigned	General		47,013

			1,197,875

The City uses "restricted" and "committed" amounts first when 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 would first use "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.

The City's special revenue 2nd cent sales tax fund receives its revenue from the 2nd cent sales tax.

m. 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 which can be charged to either restricted or unrestricted net position.

n. Allowance for Doubtful Accounts:

Because write-off of uncollected taxes and/or utility billings is minimal, is it not considered necessary to establish an estimated allowance for doubtful accounts.

o. Accounting Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts could differ from these estimates. Following are the estimates made by management during the year:

- * Allowance for doubtful accounts - estimated uncollectables
- * Inventory - estimated fair market value
- * Depreciation - estimated service lives
- * Cash Flows - interfund utility usage
- * SDRS Pension - actuarial assumptions

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

Budget:

The City is prohibited by statute from spending in excess of appropriated amounts by department within a fund. The general fund/Mayor and Council went over its budget by \$9,197; the general fund/public safety/fire went over its budget by \$66,587; the general fund/public works/airport went over its budget by \$6,497; the general fund/health and welfare/ambulance went over its budget by \$37,226; the general fund/culture and recreation/parks went over its budget by \$1,800; and the general fund/debt service went over its budget by \$42,000.

Because inventory adjustments of \$83,383 for fire and \$16,900 for ambulance added to these department expenditures and debt of \$42,000 was related to a prior year accounts payable, the above overdrafts are not considered a significant overdraft of a departmental expenditure compared to appropriations.

In the future, the City expects to make contingency transfers or adopt supplemental appropriations to cover expenditures that will exceed their original appropriation.

Recoverable Costs:

A water and sewer project costing \$86,840 was assessed in 1993. Of this amount \$19,965 was charged to existing residential lots and was repaid over 10 years at 8.0%.

The remainder of this water and sewer project cost was for land that was agricultural and not subject to assessment until residential lots are platted and created from that property. When residential lots are created, these cost will be recoverable under SDCL 9-47-16 and 9-48-15. The allocation of recoverable cost is \$28,991 to the water fund and \$37,884 to the sewer fund. As of December 31, 2020 all or some of this land has been platted, but no assessments have been made to recover the City's original cost of putting in water and sewer lines.

3. DEPOSITS AND RELATED RISKS

The City follows the practice of aggregating deposits of its various funds for cash management efficiency and returns, except for restricted cash held by 3rd parties and certificates of deposits purchased for an individual fund.

The City's 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. Qualified 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 FDIC and 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.

Deposits are reported at cost, plus interest, if the account is the add-on type.

Actual bank balances at December 31, 2020 were as follows: Insured \$441,504, Collateralized ** \$2,502,827, for a total of \$2,944,331.

** Uninsured, collateral jointly held by state's/municipality's agent in the name of the state and the pledging financial institution.

The carrying amount of these deposits, including certificates of deposit and \$50 of petty cash, at December 31, 2020 was \$2,883,939.

Certificates of deposit, with a term to maturity of greater than 90 days when purchased, are insured or collateralized and are considered deposits.

Custodial Deposit Risk - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. At December 31, 2020, the City's deposits in financial institutions were not exposed to custodial credit risk.

Concentration of Credit Risk - the City places no limit on the amount that may be invested in any one institution. All of the City's deposits are in Citizens State Bank.

4. INVESTMENTS AND RELATED RISKS

In general, SDCL 4-5-6 permits City money to be invested only 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 that investments shall 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.

During 2020 the City had no investment.

Investment Risk - State law limits eligible investments for the City as discussed above. The City has no investment policy that would further limit its investment choices.

Custodial Investment Risk - The risk that, in the event of failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The City had no investments during the year ending December 31, 2020 and was not exposed to custodial investment risk.

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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 deposit or investment. The City's policy is to credit all income from deposits and investments to the fund making the deposit or investment.

5. RECEIVABLES AND PAYABLES:

The financial statements do not aggregated receivables or payables. The City expects all receivables to be collected within one year. Allowances for estimated uncollectible accounts are not material to these financial statements. However, in 2020 the City did write-off \$25,923 of ambulance and utility receivables that went back several years.

6. INVENTORY OF SUPPLIES AND SMALL TOOLS

Government-wide Statements: (consumption method)

In the government-wide financial statements inventory of supplies and small tools are recorded as assets when purchased and charged to expense when they are consumed. Inventory of supplies and small tools are recorded at cost. Donated items are valued at estimated market value at the date of receipt. Items are accounted for by specific identification.

Fund Financial Statements: (consumption method)

In the fund financial statements inventory of supplies and small tools are recorded as assets when purchased and charged to expenditure/expense when they are consumed. Reported governmental 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.

Inventory of supplies and small tools are recorded at cost. Donated items are valued at estimated market value at the date of receipt. Items are accounted for by specific identification.

7. CHANGES IN CAPITAL ASSETS (see schedule one on page 35)
INTANGIBLE WATER RIGHTS

A summary of the changes in capital assets is presented in schedule one at the end of these notes. There is construction-in-progress at December 31, 2020 of \$36,815 for engineering related to reconstruction of 3rd Street and \$28,405 related to improvements to the wastewater treatment facility.

At the end of 2009 the City of Arlington early applied GASB Statement No. 51 by booking the initial present value of 480 monthly payments of \$1,928.58 made for "contribution in aid of construction" to Kingbrook Rural Water System for intangible water rights related to the use of a Kingbrook water line. The initial present value at 5.00% of these payments is \$507,860. After 480 monthly payments Kingbrook will continue to own the water line and the City's right to Kingbrook water will end. In 2010 the City began amortizing its water rights at \$19,104 per year to yield \$297,711 of remaining intangible water rights at December 31, 2020.

8. CHANGES IN LONG-TERM DEBT (see schedule two on page 36)
FUTURE REVENUE TO SECURE DEBT

A summary of changes in long-term liabilities is presented as supplementary information on page 36. For the year ending December 31, 2020, the City has no: (a) unused lines-of-credit, (b) short-term debt, (c) debt extinguishments, defeasances, refundings or troubled debt restructuring, (d) special assessment debt, (e) conduit debt, (f) derivatives or hedging of variable rate debt, (g) debt related to claims and judgements, or (h) other than the collateral specified, terms in debt agreements related to significant (1) events of default with finance-related consequences, (2) termination events with finance-related consequences or (3) subjective acceleration clauses.

Future Revenue to Secure Debt:

See also page 37	1997 Water Revenue Bonds for Water Improvements	2004 Sewer Revenue Bonds for Sewer Improvements
Maturing in:	2039	2045
Remaining balance:	\$195,081	\$545,344
Pledged net revenue: (after normal operating, repair and maintenance expenses, but before amor- tization, depreciation and pension activity)	86,478	87,964
Total 2020 bond payments:	16,116	35,496

9. ELECTRICAL SURCHARGE REVENUE BOND, SERIES 2016A

In 2016 the City issued a Electrical Surcharge Revenue Bond for \$2,800,000. It received a premium of \$4,635 and had issue cost of \$54,800 for net proceeds of \$2,749,835. The bonds are subject to redemption at the election of the City on or after June 1, 2023. The bonds are secured by an electric surcharge only. They are not secured by, nor are they payable from, the revenues derived from the operation of the electric fund (utility) or any other properties of the City

other than the electric surcharge revenue. See page 37 for more information. The bonds were issued to improve the City's primary electric infrastructure including a conversion of the City's primary operating voltage from 4.160 kV to 12.470 kV in order to correct voltage drop violations and improve losses. Work included replacing all existing 4.16 kV padmounted distribution transformers with new dual voltage 12.47/4.16 kV padmounted transformers, and replacing an existing 5 kV rated primary cable with 15 kV rated primary cable.

A new dual transformer substation will was also constructed adjacent to the City's existing North substation to carry the system at its new voltage level and replace aging and failing substation equipment. The new substation centralized the systems primary transformation capability and eliminated the need for the City's existing West substation. The 1 mile 69 kV transmission feed was also reconstructed due to age.

10. RESTRICTED NET POSITION

The following table shows the net position restricted for specific purposes as shown on the statement of net position:

Purpose:	Restricted By:	Government-Wide	Business-Type
Debt	Covenants	0	103,224
Pension	GASB-68	4,667	5,050
		-----	-----
		4,667	108,274

11. INTERFUND BALANCES AND TRANSFERS

At December 31, 2020, there are no interfund "due from" "due to" amounts.

Net transfers "in" and "(out)" between funds are:

	Governmental	Enterprise
For operations and capital improvements:		
General	85,613	
2nd cent	(69,613)	
Water		5,000
Electric		(16,000)
Sewer		(5,000)
	-----	-----
	16,000	(16,000)

12. PENSION PLAN

Summary of Significant Accounting Policies:

For purpose of measuring the net pension (assets), liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deductions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. City contributions and net position (asset)/liability are recognized on an accrual basis of accounting.

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer hybrid defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South and its political subdivisions. The SDRS provides retirement, disability, and survivor 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 South Dakota Codified Law 3-12. SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to SDRS, PO Box 1098, Pierre, SD 57501-1098 or calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund 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 retirements that do not meet the above criteria may be payable at a reduced level.

Members that were hired on or 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. 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 long-term inflation assumption of 2.25%.
- > If the fair value of assets is equal to or greater 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 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 on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions:

Per SDCL 3-12, contributions 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 years ending December 31, 2020, 2019 and 2018 were \$17,110, \$19,440 and \$19,361, respectively (employer's share) equal to the required contribution each year.

Pension (Assets)/Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflow of Resources to Pensions:

At June 30, 2020 SDRS is 100.04% funded and accordingly has net pension (asset). The proportionate shares of the components of the net pension (asset) of South Dakota Retirement System, for the City as of this measurement period ending June 30, 2020 and reported by the City as of December 31, 2020 are as follows:

Proportionate share of total pension liability	\$ 1,709,686
Less: Proportionate share of net position restricted for pension benefits	(1,710,289)

Proportionate share of net pension (asset)/liability	\$ (603)
	=====

At December 31, 2020 the City reported a (asset)/liability of \$(603) for its proportionate share of the net pension (asset)/liability. The net pension (asset) was measured as of June 30, 2020 and the total pension liability used to calculate the net pension (asset) 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, 2020, the City's proportion was .000139078 which is a decrease of .000012064 over its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the City recognized net pension expense of \$77,780.

At December 31, 2020 the City reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 2,311	\$ 473
Change in assumptions	19,456	78,466
Net difference between projected and actual earnings on pension plan investments	56,140	0
Changes in proportion and difference between client contribution and proportionate share of contributions	1,891	
City contributions subsequent to the measurement date	8,255	
	-----	-----
Totals	\$ 88,053	\$ 78,939
	(8,255)	=====
	(78,939)	

To be amortized over 4 years	\$ (859)	
	=====	

The \$8,255 reported as deferred outflow of resources related to the pension, results from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2021.

The other amounts reported as deferred outflows of resources and deferred inflow of resources related to the pension will be recognized in pension expense (reduction of expense) as follows:

Year Ending December 31, 2021	\$ 5,795
December 31, 2022	4,468
December 31, 2023	(706)
December 31, 2024	(8,698)

	\$ (859)

Actuarial Assumptions:

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary Increases	6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense
Future COLAs	1.41%

Mortality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006 and 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, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

Discount Rate:

The discount rate used to measure the total pension liability was 6.50%. 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 will be made at rates equal to the member rate. Based on those 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.

Sensitivity of (Asset)/Liability to Changes in the Discount Rate:

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

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
City's proportionate share of the net pension (asset)/liability	\$234,317	\$(603)	\$(192,765)

Investments

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which my utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (ie: 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 weighting 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, 2020 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	5.1%
Fixed Income	30.0%	1.5%
Real Estate	10.0%	6.2%
Cash	2.0%	1.0%

	100.0%	
	=====	

Pension Plan Fiduciary Net Position:

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

13. EMPLOYEE BENEFIT PLAN

The city offers eligible employees a "Flexible Benefits Plan" (also known as "Flex One" or a "cafeteria plan") under IRC Sec.125. The Plan allows eligible employees to use money provided by the City through employee salary redirection, to choose (and pay for) one or more benefits offered through the Plan. The Plan is administered by an independent third party.

14. PROPERTY TAX

Taxes are levied on or before October 1, attach as an enforceable lien on property, become due and payable on the following January 1, and are payable in two installment on or before the following April 30 and October 31. The county bills and collects the City's taxes and remits them to the City.

Property taxes are recognized to the extent they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is intended to be used to finance the current year's appropriations, but which will not be collected during the current fiscal year or within the "availability period" of 30 days has been deferred in the fund financial statements. Property tax revenues intended to finance the current year's appropriations, and therefore susceptible to accrual, has been reported as revenue in the government-wide financial statements, even though collection will occur in a future year.

Delinquent property taxes, from prior year tax levies, are included in "net position" in the government-wide statement of activities but are deferred in the fund financial statements. Property taxes collected within the 30 day availability period are immaterial to these financial statements. See reconciliations on page 11 and 13.

15. JOINT POWERS AGREEMENT

In 2006 the City joined the Regional Economic Development Partnership coordinated by the Brookings Economic Development Corporation (BEDC). The purpose of the Partnership is to (1) establish a regional economic development plan, (2) cooperation in such areas as joint bidding, fire and police protection, animal control, code enforcement, and mosquito abatement, and (3) availability of "Technical Assistance" from City of Brookings staff. In 2020 the City of Arlington paid dues of \$5,000 to BEDC for participation in the Partnership.

At December 31, 2020 BEDC had total UNAUDITED equity of \$3,652,644 and \$56,250 in long-term debt. The BEDC can be reached through the City of Brookings at P.O. Box 270, Brookings, SD 57006 or by calling 605.697.8103.

16. RELATED PARTY

The Arlington Community Development Corporation (ACDC) is considered a related party because ACDC is financial dependent on loan guarantees from the City. At December 31, 2020 ACDC had UNAUDITED equity/net assets of \$1,217,172 and long-term debt of \$1,460,634. It had total income of \$162,638 total expenses of \$87,385 and net income of \$75,253.

The City guaranteed an ACDC \$496,071 industrial park loan.

17. RISK MANAGEMENT

The City is exposed to various risks of loss related to injuries to employees; torts; theft of or damage to property; errors and omissions of public officials; and natural disasters. During the year ending December 31, 2020, the City managed its risks as follows:

Employee Health Insurance

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members.

The City does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The City purchases liability insurance coverage for property, liability, inland marine, crime, automobile, and professional liability from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The City joined the South Dakota Municipal League Workers' Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities.

The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims.

The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The City has assigned fund balance in the general fund of \$9,820 for the payment of future unemployment benefits.

During the year ending December 31, 2020, no claims were paid for unemployment benefits. At December 31, 2020, no claims have been filed for unemployment benefits and none are anticipated in 2021.

18. LITIGATION

The City can be a party to litigation. No determination can be made at this time regarding the potential outcome of possible matters. However, as discussed in the risk management note above, the City has liability coverage for itself and its employees. Therefore, any litigation is not expected to have a potential material effect on the City's financial statements.

19. TAX ABATEMENTS

As of December 31, 2020 the City did not provide any tax abatement incentives through its Tax Increment Financing District Projects or through other agreements that are considered tax abatements in accordance with the provisions of GASB Statement No. 77.

20. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The City does not operate a landfill.

The City does not offer any Other Post Employment Benefits.

The City does not have any material related party transactions.

In 2021, the City expects to upgrade 4 blocks of South 3rd Street for approximately \$600,000 using City money.

CITY OF ARLINGTON

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE
 CHANGES IN CAPITAL ASSETS
 FOR THE YEAR ENDING DECEMBER 31, 2020

	Beginning 12-31-19	Book Adjustments	2020 Additions	2020 Deletions	Ending 12-31-20	Accumulated Depreciation 12-31-19	Book Adjustments	2020 Depreciation (Additions)	2020 Depreciation Deletions	Accumulated Depreciation 12-31-20	Remaining Cost 12-31-20
General capital assets:											
Land	313,460				313,460						313,460
Buildings	433,327				433,327	(270,787)		(9,054)		(279,841)	153,486
Improvements	3,446,309		86,304		3,532,613	(825,825)		(167,621)		(993,446)	2,539,167
Equipment	1,916,683	17,900	153,505	(23,100)	2,064,988	(1,296,907)		(114,381)	14,700	(1,396,588)	668,400
Construction-in-progress	0		36,815		36,815	0				0	36,815
Totals	6,109,779	17,900	276,624	(23,100)	6,381,203	(2,393,519)	0	(291,056)	14,700	(2,669,875)	3,711,328
Allocation of Depreciation:											
								3,629			
								20,321			
								220,812			
								33,435			
								12,859			
								291,056			
Business-type activity:											
Enterprise funds:											
Land	13,500				13,500	0				0	13,500
Buildings	195,593				195,593	(17,781)		(5,927)		(23,708)	171,885
Improvements	7,143,141		6,915		7,150,056	(2,520,337)		(161,052)		(2,681,389)	4,468,667
Equipment	1,280,738		26,120		1,306,858	(530,158)	(2)	(103,212)		(633,372)	673,486
Construction-in-progress	0		28,405		28,405	0				0	28,405
Intangible water rights	507,861				507,861	(191,045)		(19,105)		(210,150)	297,711
Totals	9,140,833	0	61,440	0	9,202,273	(3,259,321)	(2)	(289,296)	0	(3,548,619)	5,653,654

CITY OF ARLINGTON
 NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO
 CHANGES IN LONG-TERM DEBT
 FOR THE YEAR ENDING DECEMBER 31, 2020

	Beginning 12-31-19	Additions	(Deletions)	Governmental Funds Ending 12-31-20	Enterprise Funds Ending 12-31-20	Payments Due in 2021
GOVERNMENTAL - DIRECT BORROWING						
2018 A770 T4 Bobcat All-wheel Steer Loader bank loan:						
Cost: \$59,252.58						
Trade-in: \$15,500.00						
Amount financed: \$43,752.58						
Four annual payments of \$12,125.49						
Maturing August 9, 2022						
Interest at 4.25%						
Secured by equipment						
Paid by the General Fund	33,477		(10,703)	22,774		11,158
2019 Arlington Community Development Corp. street loan:						
Original Loan Amount of \$186,195.35						
Maturing on or before June 6, 2020						
Interest at 1.00%						
Short term loan to assist with street project						
Unsecured						
Paid by the General Fund	67,475		(67,475)	0		0
2019 Fire-rescue truck lease/purchase:						
Original amount of \$65,210						
Maturing in October 2022						
Interest at 4.48%						
Lease/purchase of a fire-rescue truck						
Secured by equipment						
Paid by the General Fund	65,210		(20,778)	44,432		21,722
2020 Ditch Witch bank loan:						
Cost: \$63,664.85						
Amount financed: \$50,000.00						
Four annual payments of \$13,806.68						
Maturing November 3, 2024						
Interest at 4.099%						
Secured by equipment						
Paid by the General Fund	0	50,050		50,050		11,776
GOVERNMENTAL - OTHER DEBT						
2019 Fire truck accounts payable	42,000		(42,000)	0		0
Leave liability:						
Paid by General Fund	25,326	20,928	(25,326)	20,928		20,928
Totals	233,488	70,978	(166,282)	138,184		65,584

CITY OF ARLINGTON

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO (continued)
 CHANGES IN LONG-TERM DEBT
 FOR THE YEAR ENDING DECEMBER 31, 2020

	Beginning 12-31-19	Additions	(Deletions)	Governmental Funds Ending 12-31-20	Enterprise Funds Ending 12-31-20	Payments Due in 2021
BUSINESS-TYPE - DIRECT BORROWING						
1996 Kingbrook Water Line Lease:						
Original lease amount of \$299,664						
Maturing in July 2034						
Interest at 5.50%						
Monthly payments of \$1,545.58						
At end of 40 year lease the City will not own the water lines.						
Paid by water fund	185,745		(30,098)		155,647	9,986
1996 Kingbrook Water Line Lease:						
Original lease amount of \$507,861						
Maturing in 2039						
Interest at 5.25%						
Monthly payments of \$383						
At end of 40 year lease the City will not own the water lines.						
Paid by water fund	55,620		(9,376)		46,244	2,168
1997 Water Revenue Bond:						
Original Loan Amount of \$285,700						
Maturing on or before 1-11-2039						
Callable on any installment pymt date						
Interest at 4.75%						
Secured by water facility						
Paid by the Water Fund	201,463		(6,382)		195,081	6,850
2004 Sewer Revenue Bond:						
Original Loan Amount of \$686,250						
Maturing on or before April, 2045						
Callable on any installment pymt date						
Interest at 4.125%						
Payable solely from revenue derived from operation of the improvements						
Secured by a statutory mortgage lien upon the City's sewer and water utility						
Paid by the Sewer Fund	557,830		(12,486)		545,344	13,001
2016 Electrical Surcharge Revenue Bond:						
Original Bond Amount of \$2,800,000						
Maturing on June 1, 2036						
Callable on or after June 1, 2023						
Interest at 0.90% to 3.50%						
Payable solely from surcharge revenue derived from operation of the City's electric utility						
Paid by the Electric Fund	2,445,000		(120,000)		2,325,000	120,000
BUSINESS-TYPE - OTHER DEBT						
Leave liability:						
Paid by the Water Fund	1,801	2,019	(1,801)		2,019	2,019
Paid by the Electric Fund	670	978	(670)		978	978
Paid by the Sewer Fund	2,145	2,368	(2,145)		2,368	2,368
Totals	3,450,274	5,365	(182,958)		3,272,681	157,370

CITY OF ARLINGTON
 NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO (continued)
 CHANGES IN LONG-TERM DEBT
 FOR THE YEAR ENDING DECEMBER 31, 2020

SCHEDULE OF PAYMENTS FOR LONG-TERM DEBT
 AT DECEMBER 31, 2020

	Total Payment	Principal	Interest	Balance
2018 A770 T4 Bobcat All-wheel Steer Loader bank loan:				
2021	12,125	11,158	967	11,616
2022	12,121	11,616	505	0
Totals	<u>24,246</u>	<u>22,774</u>	<u>1,472</u>	
2019 Fire-rescue truck lease/purchase:				
2021	23,741	21,722	2,019	22,710
2022	23,741	22,710	1,031	0
Totals	<u>47,482</u>	<u>44,432</u>	<u>3,050</u>	
2020 Ditch Witch bank loan:				
2021	13,807	11,776	2,031	38,274
2022	13,806	12,254	1,552	26,020
2023	13,807	12,751	1,056	13,269
2024	13,806	13,269	537	0
Totals	<u>55,226</u>	<u>50,050</u>	<u>5,176</u>	
1996 Kingbrook Water Line Lease:				
2021	18,547	9,986	8,561	145,661
2022	18,547	10,536	8,011	135,125
2023	18,547	11,115	7,432	124,010
2024	18,547	11,726	6,821	112,284
2025	18,547	12,371	6,176	99,913
2026-2030	92,735	72,843	19,892	27,070
2031-2032	29,108	27,070	2,038	0
Totals	<u>214,578</u>	<u>155,647</u>	<u>58,931</u>	
1996 Kingbrook Water Line Lease:				
2021	4,596	2,168	2,428	44,076
2022	4,596	2,282	2,314	41,794
2023	4,596	2,402	2,194	39,392
2024	4,596	2,528	2,068	36,864
2025	4,596	2,661	1,935	34,203
2026-2030	22,980	15,551	7,429	18,652
2031-2035	21,548	18,652	2,896	0
Totals	<u>67,508</u>	<u>46,244</u>	<u>21,264</u>	
1997 Water Revenue Bond:				
2021	16,116	6,850	9,266	188,231
2022	16,116	7,175	8,941	181,056
2023	16,116	7,516	8,600	173,540
2024	16,116	7,873	8,243	165,667
2025	16,116	8,247	7,869	157,420
2026-2030	80,580	47,495	33,085	109,925
2031-2035	80,580	59,899	20,681	50,026
2036-2039	55,490	50,026	5,464	0
Totals	<u>297,230</u>	<u>195,081</u>	<u>102,149</u>	
2004 Sewer Revenue Bond:				
2021	35,496	13,001	22,495	532,343
2022	35,496	13,537	21,959	518,806
2023	35,496	14,095	21,401	504,711
2024	35,496	14,677	20,819	490,034
2025	35,496	15,282	20,214	474,752
2026-2030	177,480	86,402	91,078	388,350
2031-2035	177,480	105,755	71,725	282,595
2036-2040	177,480	129,442	48,038	153,153
2041-2045	172,198	153,153	19,045	0
Totals	<u>882,118</u>	<u>545,344</u>	<u>336,774</u>	
2016 Electrical Surcharge Revenue Bond:				
2021	183,475	120,000	63,475	2,205,000
2022	186,482	125,000	61,482	2,080,000
2023	184,264	125,000	59,264	1,955,000
2024	186,742	130,000	56,742	1,825,000
2025	184,013	130,000	54,013	1,695,000
2026-2030	920,815	705,000	215,815	990,000
2031-2035	910,364	810,000	100,364	180,000
2036	183,150	180,000	3,150	0
Totals	<u>2,939,305</u>	<u>2,325,000</u>	<u>614,305</u>	

CITY OF ARLINGTON
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2020

GENERAL FUND	Budgeted Amounts				Actual	Variance Positive (Negative)
	Original	Contingency Transfers	Supplementals	Final		
Revenue:						
Revenue from local sources:						
Taxes:						
Ad valorem taxes	278,000			278,000	266,948	(11,052)
Sales and use tax	285,000			285,000	358,992	73,992
Other taxes	2,400			2,400	192	(2,208)
Licenses and permits:				0	8,429	8,429
Intergovernmental revenue:						
Federal shared revenue: grant				0	67,196	67,196
State shared revenue:						
Grants				0	27,269	27,269
Bank franchise tax				0	2,226	2,226
Commercial prorate				0	1,829	1,829
Liquor tax reversion				0	6,607	6,607
Motor vehicle licenses (5%)				0	16,667	16,667
Highway and bridge				0	24,448	24,448
County shared revenue				0	4,362	4,362
Charges for goods and services:						
General government				0	1,165	1,165
Public safety				0	40,624	40,624
Highways and streets				0	1,836	1,836
Solid waste collection				0	78,803	78,803
Health and welfare				0	69,797	69,797
Recreation				0	6,717	6,717
Cemetery				0	7,049	7,049
Fines and forfeits:				0	478	478
Miscellaneous revenue:						
Interest and dividends				0	4,717	4,717
Rentals and franchise				0	20,948	20,948
Special assessments collected				0	5,042	5,042
Donations				0	1,650	1,650
Liquor operating agreements				0	16,636	16,636
Other	281,300			281,300	8,006	(273,294)
Total revenues	846,700	0	0	846,700	1,048,633	201,933
Expenditures:						
General government:						
Mayor and Council	19,435			19,435	28,632	(9,197)
Contingency	60,000			60,000		60,000
Amount transferred		(10,335)		(10,335)		(10,335)
Elections	770		50	820	811	9
Financial administration	119,655	1,845		121,500	105,179	16,321
Other	11,820		8,000	19,820	8,600	11,220
Public safety:						
Police	70,200			70,200	62,205	7,995
Fire	30,050		34,259	64,309	130,896	(66,587)
Public works:						
Highways and streets	428,487			428,487	394,138	34,349
Storm drainage	27,905			27,905	11,468	16,437
Airport	8,570		3,250	11,820	18,317	(6,497)
Solid waste	78,240	270		78,510	73,715	4,795
Cemetery	36,235	280	400	36,915	36,829	86
Health and welfare:						
West Nile prevention	5,710			5,710	5,058	652
Ambulance	48,455	2,450	44,000	94,905	132,131	(37,226)
Culture and recreation:						
Recreation (pool)	82,255	875	8,900	92,030	92,008	22
Parks	25,300		8,500	33,800	35,600	(1,800)
Baseball	11,250			11,250	1,085	10,165
Library	20,950			20,950	15,948	5,002
BATA services	1,000			1,000	1,000	0
Economic development:	15,000			15,000	15,000	0
Debt service:	79,813		23,741	103,554	145,554	(42,000)
Total expenditures	1,181,100	(4,615)	131,100	1,307,585	1,314,174	(6,589)
Excess of revenues over (under) expenditures	(334,400)	4,615	(131,100)	(460,885)	(265,541)	195,344
Other financing sources (uses):						
Transfer in	334,400			334,400	85,613	(248,787)
Transfer (out)		(4,615)		(4,615)		4,615
Sale of surplus property				0	2,328	2,328
Proceeds from bank loan				0	50,000	50,000
Net change in fund balance	0	0	(131,100)	(131,100)	(127,600)	3,500
Fund balance:						
January 1, 2020	734,543			734,543	734,543	0
December 31, 2020	734,543	0	(131,100)	603,443	606,943	3,500

CITY OF ARLINGTON

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2020

2ND CENT FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplementals	Final		
Revenue:					
Revenue from local sources:					
Taxes:					
General sales and use taxes:	285,000		285,000	358,992	73,992
Miscellaneous revenue:					
Interest and dividends			0	1,183	1,183
Total revenues	285,000	0	285,000	360,175	75,175
Expenditures:					
Capital projects	285,000		285,000	0	285,000
Total expenditures	285,000	0	285,000	0	285,000
Excess of revenues over (under) expenditures	0	0	0	360,175	360,175
Other financing sources (uses):					
Transfer out			0	(69,613)	(69,613)
Net change in fund balance	0	0	0	290,562	290,562
Fund balance:					
January 1, 2020	300,370		300,370	300,370	0
December 31, 2020	300,370	0	300,370	590,932	290,562

CITY OF ARLINGTON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGET

SCHEDULE OF BUDGETARY COMPARISON FOR THE
GENERAL AND 2ND CENT FUNDS FOR THE YEAR ENDING DECEMBER 31, 2020

1. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the required supplementary information:

- a. 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.
- b. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. 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.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental appropriations. During 2020 there was one supplemental appropriation to increase the general fund's budget. See page 39.
- e. Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board. There were no encumbered appropriations at December 31, 2020.

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.

- f. Formal budgetary integration is employed as a management control device for the general and 2nd cent funds.
- g. Budgets for the general and 2nd cent funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

2. GAAP and Budgetary Accounting Basis Difference:

The financial statements prepared in conformity with U.S.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 road grader would be reported as a capital expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances. However, in the budgetary RSI schedule, the purchase of a road grader would be reported as an expenditure in the public works function of general fund, along with all other current public works expenditures.

CITY OF ARLINGTON
FOR THE SEVEN YEARS ENDING DECEMBER 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE
SOUTH DAKOTA RETIREMENT SYSTEM'S NET PENSION (ASSET)/LIABILITY

SDRS Measurement Date Year Ended (1)	City's Pension Allocation Percentage	City's Proportionate Share of Net Pension (Asset) Liability	City's Covered Employee Payroll for its 6-30 Year End	City's Proportionate Share of the Net Pension (Asset) Liability as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2020	0.0139078%	(604)	305,233	(0.20%)	100.04%
June 30, 2019	0.0151142%	(1,602)	321,367	(0.50%)	100.09%
June 30, 2018	0.0154633%	(361)	321,467	(0.11%)	100.02%
June 30, 2017	0.0151385%	(1,374)	307,583	(0.45%)	100.10%
June 30, 2016	0.0159088%	53,738	302,500	17.76%	96.89%
June 30, 2015	0.0148417%	(62,948)	270,967	(23.23%)	104.10%
June 30, 2014	0.0110560%	(79,654)	193,333	(41.20%)	107.30%

(1) The amounts presented for each fiscal year were determined as of the collective net pension (asset)/liability (asset) is 6-30 of the City's current calendar year.

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

CITY OF ARLINGTON
FOR THE SEVEN YEARS ENDING DECEMBER 31, 2020

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S CONTRIBUTIONS
TO THE SOUTH DAKOTA RETIREMENT SYSTEM

City's Year Ended	Contractually Required Contribution	Contributions Related to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Employee Payroll for its Calendar Year End	Contributions as a Percentage of Covered Employee Payroll
December 31, 2020	17,110	17,110	0	285,167	6.00%
December 31, 2019	19,440	19,440	0	324,000	6.00%
December 31, 2018	19,361	19,361	0	322,683	6.00%
December 31, 2017	19,147	19,147	0	319,117	6.00%
December 31, 2016	19,244	19,244	0	320,733	6.00%
December 31, 2015	18,041	18,041	0	300,683	6.00%
December 31, 2014	14,561	14,561	0	242,683	6.00%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION (ASSET)/LIABILITY
AND SCHEDULE OF PENSION CONTRIBUTIONS FOR THE YEAR ENDING DECEMBER 31, 2020

Changes of Prior Valuation:

The June 30, 2020 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2019 Actuarial Valuation. One change in actuarial assumptions and two plan provision changes are reflected and described below.

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

Benefit Provision Changes:

Legislation enacted in 2020 established a Qualified Benefit Preservation Arrangement (QBPA) under Section 415(m) of the Internal Revenue Code (IRC). The QBPA is effective July 1, 2020 and pays a portion of SDRS benefits that are restricted by IRC Section 415(b). The total benefits paid from SDRS and the QBPA will be limited to the applicable 415(b) annual limit, unreduced for early commencement if Members retire prior to age 62 and actuarially increased for late retirement up to age 70 if Members retire after age 65. The Actuarial Valuation considers benefits payable from both SDRS and the QBPA.

Legislation enacted in 2020 also brought the assets and the liabilities of the South Dakota Department of Labor and Regulation Plan into SDRS effective July 1, 2020. With the exception of the accounting results presented in Section 6 of this report, all exhibits include the assets, liabilities, and member counts of the former Department of Labor and Regulation Plan Members.

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 0.5% 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 FCFR equal to or exceeding 100%. The condition existed as of June 30, 2019 and exists again this year as of June 30, 2020. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.88% as of June 30, 2019 and is 1.41% as of June 30, 2020.

The changes in actuarial assumptions due to the 1.41% restricted maximum COLA decreased the Actuarial Accrued Liability by \$595 million, or 4.6% of the Actuarial Accrued Liability based on the 1.88% restricted maximum COLA.

Actuarial assumptions are reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

Actuarial Method Changes:

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

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

Governing Board
City of Arlington
Arlington, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited, 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, the financial statements of governmental activities, business-type activities, and each major fund, of the City of Arlington (City), Kingsbury County, South Dakota, as of December 31, 2020 and for the one year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated September 16, 2021 which was unmodified except for a disclaimer of opinion on the discretely presented component unit, which I was not engaged to audit.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether City of Arlington's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed no instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

I did note matters involving compliance, including a possible violation of contractual provisions related to recoverable cost mentioned in note 2 above, which I reported to the governing body and management of the City of Arlington in a separate Letter of Comments dated September 16, 2021.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered City of Arlington's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of City of Arlington's internal control.

A *deficiency in internal control* exist 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of City of Arlington's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency*, is a deficiency, or 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.

My 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

I did identify a deficiency in internal control, described in the accompanying schedule of current audit findings and responses, that I consider to be significant deficiency. I consider the deficiency described in the accompanying schedule of current audit findings and responses as item 2020-01 to be a significant deficiency.

Management responses to the findings identified in my audit are described in the accompanying schedule of current audit findings and responses. I did not audit the management responses and, accordingly, I express no opinion on them.

I did note other matters involving internal control that I reported to the governing body and management of the City of Arlington in a separate Letter of Comments dated September 16, 2021.

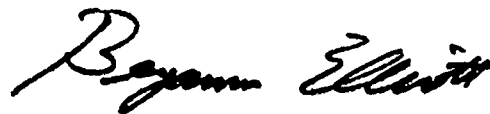
Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on the effectiveness of the City's compliance or internal control over financial reporting. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting. Accordingly this communication is not suitable for any other purpose.

As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota

September 16, 2021



CITY OF ARLINGTON
SCHEDULE OF FINDINGS
DECEMBER 31, 2020

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit finding: None Reported

Prior Other Audit Findings:

2008-02: Preparation of Financial Statements -- Repeated below

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Finding 2020-01: Preparation of Financial Statements
(internal control)

Criteria:

A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition:

The City has elected not to have an internal control system designed to provide for the preparation of the financial statement being audited. As the auditor, I was requested to draft these financial statements and accompanying notes to the financial statements.

Effect:

This control deficiency could result in a misstatement of the financial statements that would not be prevented or detected.

Recommendation:

This situation is not unusual for an entity of this City's size. It is the responsibility of management, and those charged with governance, to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response:

Due to cost constraints, the City will continue to have the auditor draft the financial statements and accompanying notes to the financial statements.