

CITY OF ARLINGTON
ARLINGTON, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE ONE YEAR ENDING DECEMBER 31, 2014
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA
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Madison, South Dakota 57042

CITY OF ARLINGTON
ARLINGTON, SOUTH DAKOTA

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FOR THE ONE YEAR ENDING DECEMBER 31, 2014

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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, 2014 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, 2014 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, 2014, 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) and the budgetary comparison schedule (page 34 to 35) 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 information 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 36) dated October 22, 2015 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



October 22, 2015

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, 2014. Please read it in conjunction with the City's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Revenue:	
Charges for goods and services	2,504,895
Operating grants	1,700
Capital grants	0
General receipts	760,835

Total	3,267,430

Expenses:	
Governmental	890,393
Business-type	2,091,969

Total	2,982,362

Increase in Net Position	285,068
Net Position:	
December 31, 2013	8,485,505

December 31, 2014	8,770,573
	=====
Governmental Fund	
General	972,343
2nd Cent	701,535
Capital Assets	2,284,467
Long-term Debt	(83,760)
Business-Type Funds:	
Water	1,159,556
Electric	2,635,271
Sewer	1,101,161

Total	8,770,573
	=====

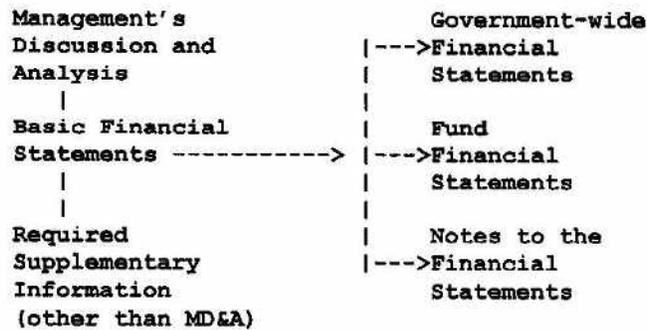
During the year ending December 31, 2014, the City:

- * Made street improvements of \$509,230.
- * Constructed new water lines for \$164,230.
- * Constructed new sewer lines for \$96,329.
- * Made underground electrical improvements for \$72,857.
- * Purchased electrical equipment for \$23,401.
- * Paid down four existing loans by \$43,916. See also page 32.
- * Transferred \$529,858 to the general fund from the 2nd cent fund and electric fund for capital projects and operations.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This financial report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement-34.

Here is an overview of the City's 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 33) and (3) required supplementary information (page 34 to 35). 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, enterprise, and fiduciary (if any) activities of the City.

The governmental fund financial statements tell how general governmental services were financed in the short-term, as well as what remains for future spending. Governmental funds operated by the City are the general fund and the 2nd cent sales tax 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 are for water, electric, and sewer operations.

The fiduciary fund financial statements provide information about the financial status of activities (like a Sec. 125 Cafeteria Plan) in which the City acts solely as a trustee or agent for the benefit of those groups to whom these funds belong. In 2014 the City did not have any 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 required supplementary information that presents a budgetary analysis for the general fund.

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) and the Budgetary Comparison Schedules (page 34 to 35) is 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 a summary of the major features of these financial statement.

	Government-wide	-----Fund Statements-----	
	Statements	Governmental	Enterprise
	-----	Funds	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 2014 the City had no fiduciary funds.

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

Year Ending December 31, 2014

(Material changes for governmental activities = changes greater than \$ 50,000)
 (Material changes for business-type activities = changes greater than \$125,000)

	Increase (Decrease)	Reason
Governmental Activities:		
Current assets	(242,000)	2nd cent cash used for capital projects.
Capital assets	264,000	Capital assets purchases less depreciation.
Charges for services	65,000	New special assessment and increased fire and ambulance revenue.
Sales taxes	(110,000)	Large electric power customer change.
Donations	(81,000)	Veterans Memorial donations ended in 2013.
Transfers	60,000	Additional transfers from electric fund for capital projects.
Business-type Activities:		
Current assets	(144,000)	Cash used for capital projects.
Capital assets	189,000	Capital assets purchases less depreciation.
Transfers	(60,000)	Additional transfers from electric fund.

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

The City's 2014 general fund budget of \$1,486,725 is an decrease of \$136,480 or 8.41% from 2013. The decrease was largely in the streets budget line items. There was one supplemental appropriation of \$114,800 spread over several budget line items. See page 34 for information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

At December 31, 2014, the City had invested \$5,605,337 in a broad range of capital assets, including land, buildings, improvements, equipment and intangible water rights. This amount represents a net increase (including additions and deductions) of \$453,986, or 8.81% from December 31, 2013.

Significant capital asset activity is reported above. See page 31 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 32 for more information.

CURRENTLY KNOWN FACTS

In December 2014 the City was notified that it received a \$200,000 Community Access grant to assist in the improvement of South Main Street from St. John's Catholic Church to Trinity Lutheran Church. Work on this street will be done in 2016.

In January 2015 Kingbrook Rural Water increased its bulk water charge by 20 cents per 1,000 gallons. The City passed this increased on to its customers.

In March 2015 contracts were awarded for paving at \$150,443, seal coating at \$33,530 and crack sealing at \$11,880.

In August 2015 the City transferred its revolving loan assets over to the Arlington Community Development Corporation, except for \$5,000 which was the City's original investment. See footnote #8.

In September 2015 the City gave preliminary approval to upgrade the City's electrical system at a cost of \$3.4 million using local funds and a new \$2 million electric revenue bond to fund the project.

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, 2014 AND DECEMBER 31, 2013

	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Assets:						
Current assets	1,701	1,943	2,901	3,045	4,602	4,988
Capital assets	2,284	2,020	3,321	3,132	5,605	5,152
Total	3,985	3,963	6,222	6,177	10,207	10,140
Liabilities:						
Current liabilities	48	71	201	227	249	298
Long-term debt outstanding	62	68	1,125	1,146	1,187	1,214
Total	110	139	1,326	1,373	1,436	1,512
Net position:						
Net invested in capital assets	2,217	1,931	2,175	1,963	4,392	3,894
Restricted			103	104	103	104
Unrestricted	1,658	1,893	2,618	2,737	4,276	4,630
Total	3,875	3,824	4,896	4,804	8,771	8,628

TABLE 2 - CHANGES IN NET POSITION (condensed and in thousands)
 FULL ACCRUAL - BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 FOR THE YEAR ENDING DECEMBER 31, 2014 AND DECEMBER 31, 2013

	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	232	167	2,275	2,349	2,507	2,516
Operating grants and contributions	2				2	0
Capital grants and contributions					0	0
General revenues:						
Property taxes	217	211			217	211
Sales taxes	443	553			443	553
State shared revenue	48	47			48	47
County shared revenue	4	4			4	4
Interest earnings	11	11	2	1	13	12
Rents and franchise fees	23	22			23	22
Donations	3	84			3	84
Miscellaneous	3	9			3	9
Total revenues	986	1,108	2,277	2,350	3,263	3,458
Expenses:						
General government	131	112			131	112
Public safety	126	125			126	125
Public works	435	446			435	446
Health and welfare	28	48			28	48
Culture and recreation	132	113			132	113
Economic development	35	15			35	15
Interest expense	3	4			3	4
Water			285	237	285	237
Electric			1,633	1,546	1,633	1,546
Sewer			174	170	174	170
Total expenses	890	863	2,092	1,953	2,982	2,816
Revenues over (under) expenses	96	245	185	397	281	642
Sale of surplus property	2	8			2	8
Compensation for damaged property	2				2	0
Transfers	93	33	(93)	(33)	0	0
Change in net position	193	286	92	364	285	650
Net position:						
December 31, 2012		3,538		4,440		7,978
December 31, 2013	3,824	3,824	4,804	4,804	8,628	8,628
Correct estimated value	(142)		0		(142)	
December 31, 2014	3,875		4,896		8,771	

CITY OF ARLINGTON

GOVERNMENT-WIDE - STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2014

	Primary Government			Component Unit (Not Audited)
	Governmental Activities	Business- Type Activities	Total	
ASSETS:				
Cash and cash equivalents	1,151,871	2,475,946	3,627,817	15,756
Certificates of deposit	26,225	55,000	81,225	
Taxes receivable - delinquent	5,879		5,879	
Due from governments	31,281		31,281	
Accounts receivable	14,738	254,158	268,896	5,000
Prepaid expenses	0	1,928	1,928	
Special assessments receivable	20,178	0	20,178	
Notes receivable	78,003	0	78,003	
Inventory of supplies	372,242	114,317	486,559	
Capital assets:				
Land	308,500	13,500	322,000	29,368
Other capital assets, net of accumulated depreciation	1,975,967	2,895,031	4,870,998	279,382
Intangible water rights, net of accumulated amortization		412,339	412,339	
Total assets	3,984,884	6,222,219	10,207,103	329,506
LIABILITIES:				
Current liabilities:				
Accounts payable	26,539	109,897	136,436	
Customer deposits		67,430	67,430	6,017
Noncurrent liabilities:				
Leave liability	15,850	2,863	18,713	
Due within one year	21,928	23,403	45,331	22,416
Due in more than one year	45,982	1,122,638	1,168,620	279,928
Total liabilities	110,299	1,326,231	1,436,530	308,361
NET POSITION:				
Net invested in capital assets	2,216,557	2,174,829	4,391,386	6,406
Restricted for:				
Debt service		103,224	103,224	
Unrestricted	1,658,028	2,617,935	4,275,963	14,739
Total net position	3,874,585	4,895,988	8,770,573	21,145

See accompanying notes.

CITY OF ARLINGTON

GOVERNMENT-WIDE - STATEMENT OF ACTIVITIES
FOR THE YEAR ENDING DECEMBER 31, 2014

Functions/Programs:	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			Component Unit (Not Audited)
	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	131,164	4,097			(127,067)		(127,067)	
Public safety	126,590	31,585			(95,005)		(95,005)	
Public works	434,638	124,796			(309,842)		(309,842)	
Health and welfare	28,142	50,233	1,700		23,791		23,791	
Culture and recreation	131,984	6,623			(125,361)		(125,361)	
Economic development	35,000				(35,000)		(35,000)	
Liquor operations	25	12,196			12,171		12,171	
Interest and fees (all)	2,850				(2,850)		(2,850)	
Total governmental activities	890,393	229,530	1,700	0	(659,163)	0	(659,163)	
Business-type activities:								
Water	284,637	183,863				(100,774)	(100,774)	
Electric	1,633,122	1,956,871				323,749	323,749	
Sewer	174,210	134,631				(39,579)	(39,579)	
Total business-type activities	2,091,969	2,275,365	0	0	0	183,396	183,396	
Total primary government	2,982,362	2,504,895	1,700	0	(659,163)	183,396	(475,767)	
Component unit activity:								
Arlington Housing & Redev Commission	46,045	51,974						5,929
General revenues:								
Taxes:								
Property taxes					217,197		217,197	
Sales taxes					443,440		443,440	
Amusement taxes					192		192	
State shared revenue					47,671		47,671	
County shared revenue					4,166		4,166	
Interest earnings					10,817	2,196	13,013	7
Rents and franchise fees					23,073		23,073	
Donations					2,609		2,609	
Miscellaneous revenue					5,493		5,493	
Sale of surplus property					1,534		1,534	
Compensation for damaged property					2,447		2,447	
Transfers in (out)					93,121	(93,121)	0	
Total general revenue and transfers					851,760	(90,925)	760,835	7
Change in net position					192,597	92,471	285,068	5,936
Net position:								
January 1, 2014					3,824,513	4,803,517	8,628,030	15,209
Correct estimated value					(142,525)		(142,525)	
January 1, 2014 adjusted					3,681,988	4,803,517	8,485,505	15,209
December 31, 2014					3,874,585	4,895,988	8,770,573	21,145

See accompanying notes.

CITY OF ARLINGTON

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2014

	General Fund	2nd Cent Fund	Total Governmental Funds
	-----	-----	-----
ASSETS:			
Cash and cash equivalents	459,670	692,201	1,151,871
Certificates of deposit	26,225		26,225
Property taxes receivable	5,879		5,879
Due from governments	21,947	9,334	31,281
Accounts receivable	14,738		14,738
Special assessments receivable	20,178		20,178
Notes receivable	78,003		78,003
Inventory of supplies	372,242		372,242
Total assets	998,882	701,535	1,700,417
DEFERRED OUTFLOWS OF RESOURCES			
None	-----	-----	0
Total deferred outflows of resources	0	0	0
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>998,882</u>	<u>701,535</u>	<u>1,700,417</u>
LIABILITIES:			
Accounts payable	26,539		26,539
Total liabilities	26,539	0	26,539
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	5,879		5,879
- special assessments	20,178		20,178
Total deferred inflows of resources	26,057	0	26,057
FUND BALANCES:			
Nonspendable	372,242		372,242
Restricted	109,674		109,674
Committed		701,535	701,535
Assigned	387,445		387,445
Unassigned	76,925		76,925
Total fund balance	946,286	701,535	1,647,821
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>998,882</u>	<u>701,535</u>	<u>1,700,417</u>

Reconciliation of the above balance sheet - governmental funds to the government-wide statement of net position

Total fund balance - governmental funds (above)	1,647,821
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 are:	3,786,297
Less: accumulated depreciation	(1,501,830)
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.	26,057
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:	
2006 Case 865 Motorgrader lease/purchase	(67,910)
Accrued leave payable	(15,850)
Total net position on government-wide statement of net position	<u>3,874,585</u>

See accompanying notes.

CITY OF ARLINGTON

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2014

	General Fund	2nd Cent Fund	Total Governmental Funds
	-----	-----	-----
Revenue:			
Revenue from local sources:			
Taxes:			
Ad valorem taxes	217,988		217,988
General sales and use taxes	221,720	221,720	443,440
Amusement taxes	192		192
Penalties and interest	991		991
Licenses and permits:	1,745		1,745
Intergovernmental revenue:			
State shared revenue:			
Grant - mosquito	1,700		1,700
Bank franchise tax	1,552		1,552
Liquor tax reversion	6,261		6,261
Motor vehicle licenses (5%)	15,507		15,507
Highway and bridge	24,351		24,351
County shared revenue:			
Road taxes	4,166		4,166
Charges for goods and services:			
General government	2,131		2,131
Public safety	31,585		31,585
Highway and streets	3,053		3,053
Sanitation	73,889		73,889
Health and welfare	50,233		50,233
Recreation	6,622		6,622
Cemetery	7,708		7,708
Fines and forfeits:	221		221
Miscellaneous revenue:			
Interest earned	8,750	2,069	10,819
Rental and franchise	23,073		23,073
Donations	2,609		2,609
Special assessments collected (principal)	19,967		19,967
Liquor operating agreements	12,196		12,196
Other	5,493		5,493
	-----	-----	-----
Total revenues	743,703	223,789	967,492
	-----	-----	-----
Expenditures:			
General government:			
Mayor and Council	14,423		14,423
Elections	20		20
Financial administration	87,849		87,849
Other	20,741		20,741
Public safety:			
Police	70,200		70,200
Fire	37,019		37,019
Public works:			
Highways and streets	183,423		183,423
Storm drainage	18,180		18,180
Airport	8,224		8,224
Sanitation	79,696		79,696
Cemetery	26,464		26,464
Health and welfare:			
West Nile prevention	7,066		7,066
Ambulance	54,154		54,154
Culture and recreation:			
Pool	73,654		73,654
Parks	30,241		30,241
Baseball	4,004		4,004
Library	14,633		14,633
Economic assistance	35,000		35,000
Liquor operations	25		25
Debt service: principal	21,249		21,249
interest and fees	2,850		2,850
Capital outlays	530,413		530,413
	-----	-----	-----
Total expenditures	1,319,528	0	1,319,528
	-----	-----	-----
Excess of revenues over (under) expenditures	(575,825)	223,789	(352,036)

CITY OF ARLINGTON

STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS (continued)
 FOR THE YEAR ENDING DECEMBER 31, 2014

	General Fund	2nd Cent Fund	Total Governmental Funds
	-----	-----	-----
Other financing sources (uses):			
Transfers in (out) (2nd cent to general)	433,858	(433,858)	0
Transfers in (out) (electric to general)	96,000		96,000
Sale of surplus property	1,534		1,534
Compensation for damaged property	2,447		2,447
	-----	-----	-----
Net change in fund balance	(41,986)	(210,069)	(252,055)
Fund balance:			
January 1, 2014	988,272	911,604	1,899,876
	-----	-----	-----
December 31, 2014	946,286	701,535	1,647,821
	=====	=====	=====

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) (252,055)

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.

2014 capitalized cost are	591,812
2014 depreciation is	(181,492)
2014 transfer of warning siren to electric fund	(2,879)

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 the governmental funds statement. (1,782)

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 the governmental funds statement. 20,179

Governmental funds do not reflect the change in "accrued leave",
 but the statement of activities reflects the change in
 "accrued leave" through expenditures. (2,435)

Current debt principal reduction (increase) is not reported
 in the government-wide statement of activities:
 2006 Case 865 Motorgrader lease/purchase principal payments 21,249

Change in net position on government-wide statement of activities 192,597

See accompanying notes.

CITY OF ARLINGTON

STATEMENT OF NET POSITION - ENTERPRISE FUNDS
AS OF DECEMBER 31, 2014

	Water Fund	Electric Fund	Sewer Fund	Total Enterprise Funds
ASSETS:				
Current assets:				
Cash and cash equivalents	44,155	2,021,019	410,772	2,475,946
Certificates of deposit	0	35,000	20,000	55,000
Accounts receivable	22,620	215,269	16,269	254,158
Prepaid expenses	1,928			1,928
Inventory of supplies	29,614	68,768	15,935	114,317
Total current assets	98,317	2,340,056	462,976	2,901,349
Noncurrent assets:				
Capital assets:				
Land		1,000	12,500	13,500
Buildings				0
Improvements	1,814,321	466,463	2,325,270	4,606,054
Equipment		318,683	17,000	335,683
Accumulated depreciation	(605,501)	(340,440)	(1,100,765)	(2,046,706)
Intangible water rights, net	412,339			412,339
Total noncurrent assets	1,621,159	445,706	1,254,005	3,320,870
Total assets	1,719,476	2,785,762	1,716,981	6,222,219
LIABILITIES:				
Current liabilities:				
Accounts payable	10,422	98,920	555	109,897
Customer deposits	16,650	50,780		67,430
Current portion of:				
Long-term debt	13,241		10,162	23,403
Total current liabilities	40,313	149,700	10,717	200,730
Noncurrent liabilities:				
Noncurrent portion of long-term debt	518,643		603,995	1,122,638
Leave liability	964	791	1,108	2,863
Total noncurrent liabilities	519,607	791	605,103	1,125,501
Total liabilities	559,920	150,491	615,820	1,326,231
NET POSITION				
Net invested in capital assets	1,089,275	445,706	639,848	2,174,829
Restricted:				
Water revenue bond	32,232			32,232
Sewer revenue bond			70,992	70,992
Unrestricted	38,049	2,189,565	390,321	2,617,935
Total net position	1,159,556	2,635,271	1,101,161	4,895,988

See accompanying notes.

CITY OF ARLINGTON

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - ENTERPRISE FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2014

	Water Fund	Electric Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----	-----
Operating revenue:				
Charges for goods and services	183,863	1,956,871	134,631	2,275,365
	-----	-----	-----	-----
Total operating revenue	183,863	1,956,871	134,631	2,275,365
	-----	-----	-----	-----
Operating expenses:				
Personal services	52,965	61,378	33,034	147,377
Other current services	61,949	430,734	22,608	515,291
Cost of goods sold	87,640	1,118,945		1,206,585
Amortization	19,105			19,105
Depreciation	36,446	22,065	93,011	151,522
	-----	-----	-----	-----
Total operating expenses	258,105	1,633,122	148,653	2,039,880
	-----	-----	-----	-----
Total operating income (loss)	(74,242)	323,749	(14,022)	235,485
	-----	-----	-----	-----
Nonoperating revenue (expense):				
Interest earnings	37	992	1,167	2,196
Interest expense and fees	(26,532)		(25,557)	(52,089)
	-----	-----	-----	-----
Total nonoperating revenue (expense)	(26,495)	992	(24,390)	(49,893)
	-----	-----	-----	-----
Income (loss) before transfers	(100,737)	324,741	(38,412)	185,592
	-----	-----	-----	-----
Trans in (out) (electric to water)	87,625	(87,625)		0
Trans in (out) (electric to general)		(96,000)		(96,000)
Trans in from general capital assets		2,879		2,879
	-----	-----	-----	-----
Change in net position	(13,112)	143,995	(38,412)	92,471
	-----	-----	-----	-----
Net position:				
January 1, 2014	1,172,668	2,491,276	1,139,573	4,803,517
	-----	-----	-----	-----
December 31, 2014	1,159,556	2,635,271	1,101,161	4,895,988
	=====	=====	=====	=====

See accompanying notes.

CITY OF ARLINGTON

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2014

	Water Fund	Electric Fund	Sewer Fund	Total Enterprise Funds
Cash flows from:				
Operating activities:				
Receipts from customers	170,937	1,983,126	130,907	2,284,970
Estimated rec. from other funds	12,099	29,037	4,839	45,975
Payments to employees	(52,897)	(60,586)	(32,918)	(146,401)
Payments to suppliers	(138,737)	(1,584,715)	(18,444)	(1,741,896)
Estimated pymts. to other funds	(3,253)	(1,432)	(3,992)	(8,677)
Net cash provided (used) by operating activities	(11,851)	365,430	80,392	433,971
Noncapital financing activities:				
Transfers in (out)	87,625	(183,625)		(96,000)
Capital financing activities:				
Cash paid for improvements	(164,230)	(72,857)	(96,329)	(333,416)
Cash paid for equipment		(23,401)		(23,401)
Principal paid on debt	(12,727)		(9,940)	(22,667)
Interest paid on debt	(26,532)		(25,557)	(52,089)
Investing activities:				
Interest earnings	37	992	1,167	2,196
Net increase (decrease) in cash	(127,678)	86,539	(50,267)	(91,406)
Cash:				
January 1, 2014	171,833	1,934,480	461,039	2,567,352
December 31, 2014	<u>44,155</u>	<u>2,021,019</u>	<u>410,772</u>	<u>2,475,946</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	(74,242)	323,749	(14,022)	235,485
Amortization	19,105			19,105
Depreciation	36,446	22,065	93,011	151,522
(Increase) decrease in:				
Receivables	(827)	52,612	1,115	52,900
Inventory	263	(967)	(41)	(745)
Increase (decrease) in:				
Accounts payable	7,336	(35,501)	213	(27,952)
Customer deposits		2,680		2,680
Leave liability	68	792	116	976
Net cash provided (used) by operating activities	(11,851)	365,430	80,392	433,971

Noncash investing, capital and
financing activities: None

See accompanying notes.

CITY OF ARLINGTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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, 2014 are:

Governing Board:	Finance Officer:
Amiel Redfish, Mayor	Sue Falconer
Terry Rowbotham, President	
Todd Bunker	
Garth Johnson	Attorney:
Curt Lundquist	Wilkinson & Wilkinson
Jared Steffensen	
Keith Wendland	

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 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.

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, 2014 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, 2014, 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, 2014 balance of capital assets for governmental activities include approximately 15% for which the costs were determined by estimates of the original costs. The total December 31, 2014 balance of capital assets for business-type activities includes approximately 10% 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 31.

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, 2014 there was no construction-in-progress.

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</u> <u>Classifications</u>	<u>Account</u> <u>or Fund</u>	<u>Authority</u> <u>or Action</u>	<u>Amount</u>
Nonspendable	Inventory		372,242
Restricted	Revolving loans	Grant compliance	109,674
Committed	2nd cent sales tax	Ordinance	701,535
Assigned	General:	Resolutions	
	Unemployment	9,734	
	Law enforcement	22,854	
	Fire	121,142	
	Street equipment	65,882	
	Solid waste equipment	710	
	Airport improvements	10,001	
	Ambulance	128,565	
	Library	28,557	
		-----	387,445
Unassigned	General		76,925

			1,647,821

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

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

Budget:

SDCL 9-21-9 prohibits the City from spending in excess of appropriated amounts by department within a fund. The following are overdrafts of departmental expenditures compared to appropriations:

General fund/General Government/Mayor and Council	\$ 1,448
/General Government/Other	4,766
/Public Safety/Fire	4,754
/Health and Welfare/Ambulance	11,129
/Culture and Recreation/Pool	24

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

SDCL 9-21-2 requires a city to adopt an ordinance to appropriate the sum of money necessary to meet all lawful expenses and liabilities of a city. The ordinance must appropriate amounts for each function and subfunction, by fund.

The City did not adopt an ordinance to appropriate amounts for the 2nd cent sales tax fund. In the future, the City expects to adopt an ordinance to appropriate the sum of money necessary to meet all lawful expenses and liabilities of the 2nd cent sales tax fund.

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, 2014 were as follows: Insured \$434,373, Collateralized ** \$3,319,204, for a total of \$3,753,577.

** 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, 2014 was \$3,709,042.

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, 2014, the City's deposits in financial institutions were not exposed to deposit 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 2014 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, 2014 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.

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 31)
 INTANGIBLE WATER RIGHTS

A summary of the changes in capital assets is presented in schedule one at the end of these notes. There is no construction-in-progress at December 31, 2014.

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 these water rights at \$19,104 per year to yield \$412,338 of remaining intangible water rights at December 31, 2014.

8. CHANGES IN LONG-TERM DEBT (see schedule two on page 32)
 REVOLVING LOAN
 FUTURE REVENUE TO SECURE DEBT

A summary of changes in long-term debt is presented in schedule two at the end of these notes. The City did not have any short-term debt or conduit debt during the year ending December 31, 2014.

Revolving Loan:

In 2009 the City entered into an agreement with USDA (Rural Development) to establish a revolving loan amount of up to \$99,000. The City set aside \$5,000 for its matching amount in the general fund. One loan of \$75,000 was made in 2010 and one loan of \$24,000 was made in 2011. At December 31, 2014 the revolving loan program had notes with a remaining balance of \$78,003 and cash of \$31,671 for a total of \$109,674.

Future Revenue to Secure Debt:

See also page 32	1997 Water Revenue Bonds for Water Improvements	2004 Sewer Revenue Bonds for Sewer Improvements
Maturing in:	2039	2046
Remaining balance:	\$230,550	\$614,157
Plledged net revenue: (after normal operating, repair and maintenance expenses, but before amor- tization and depreciation)	(18,691)	78,989
Total 2014 bond payments:	16,116	35,496

9. INTERFUND BALANCES AND TRANSFERS

At December 31, 2014, there are no interfund "due from" "due to" amounts.

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

	Governmental	Enterprise
For operations:		
General	529,858	
2nd cent	(433,858)	
General capital assets	(2,879)	
Water		87,625
Electric		(180,746)
	-----	-----
	93,121	(93,121)

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

11. 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 being repaid over 10 years at 8.0%.

The remainder of this water and sewer project cost is for land that is 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.

In prior years these recoverable cost amounts have been included in the financial statements. However, because there are no immediate plans to create residential lots, and because it is only "reasonable possible" that such lots will be created in the near future, the recoverable cost amounts are not shown in these financial statements and disclosed in this footnote only.

12. RETIREMENT PLAN

All employees, except for part-time employees, seasonal employees and elected officials, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. 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 by writing to SDRS, PO Box 1098, Pierre, SD 57501-1098 or calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the years ending December 31, 2014, 2013, and 2012 were \$14,561, \$11,359, and \$11,534 (employer's share) respectively, equal to the required contribution each year.

There are no deferred contributions.

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.

14. 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 2014 the City of Arlington paid dues of \$5,000 to BEDC for participation in the Partnership. At December 31, 2014, the BEDC had total unaudited equity of \$3,184,452 and no 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.

15. 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.

16. 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, 2014, the City managed its risks as follows:

Employee Health Insurance

The City joined the South Dakota Municipal League's 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 governmental 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.

Effective January 1, 2009, the coverage provides a deductible of \$500 per person up to \$1,000 per family. The plan also provides for coinsurance of 90/10 W/PPO Network (up to \$5,000 single, \$10,000 family) or 70/30 outside of PPO Network (up to \$7,500 single, \$15,000 family).

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 torts, theft, property damage, errors and omissions of public officials and law enforcement 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, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$250,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,750,000 per individual per incident.

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 retrospective rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The City may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs.

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 during 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 \$9,734 for the payment of future unemployment benefits.

During the year ending December 31, 2014, no claims were paid for unemployment benefits. At December 31, 2014, no claims have been filed for unemployment benefits and none are anticipated in 2015.

17. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The City does not operate a landfill.
The City is not involved in any significant litigation.
The City does not offer any Other Post Employment Benefits.
The City does not have any material related party transactions.

In December 2014 the City was notified that it received a \$200,000 Community Access grant to assist in the improvement of South Main Street from St. John's Catholic Church to Trinity Lutheran Church. Work on this street will be done in 2016.

In January 2015 Kingbrook Rural Water increased its bulk water charge by 20 cents per 1,000 gallons. The City passed this increased on to its customers.

In March 2015 contracts were awarded for paving at \$150,443, seal coating at \$33,530 and crack sealing at \$11,880.

In August 2015 the City transferred its revolving loan assets over to the Arlington Community Development Corporation, except for \$5,000 which was the City's original investment. See footnote #8.

In September 2015 the City gave preliminary approval to upgrade the City's electrical system at a cost of \$3.4 million using local funds and a new \$2 million electric revenue bond to fund the project.

CITY OF ARLINGTON

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE
 CHANGES IN CAPITAL ASSETS
 FOR THE YEAR ENDING DECEMBER 31, 2014

	Beginning 12-31-13	Book Adjustments	2014 Additions	2014 Deletions	Ending 12-31-14	Accumulated Depreciation 12-31-13	Book Adjustments	2014 Depreciation (Additions)	2014 Depreciation Deletions	Accumulated Depreciation 12-31-14	Remaining Cost 12-31-14
General capital assets:											
Land	298,500	10,000			308,500						308,500
Buildings	583,327	(150,000)			433,327	(222,222)	8,000	(9,461)		(223,683)	209,644
Improvements	992,016		509,230	26,235	1,527,481	(162,274)		(67,365)		(229,639)	1,297,842
Equipment	1,498,333	35,734	21,182	(38,260)	1,516,989	(994,364)	12,262	(104,666)	38,260	(1,048,508)	468,481
Construction-in-progress	26,235			(26,235)	0	0				0	0
Totals	3,398,411	(104,266)	530,412	(38,260)	3,786,297	(1,378,860)	20,262	(181,492)	38,260	(1,501,830)	2,284,467
						Allocation of Depreciation:					
						General government		6,233			
						Public safety		19,371			
						Public works		118,114			
						Health and welfare		18,322			
						Culture and recreation		19,452			
								<u>181,492</u>			
Business-type activity:											
Enterprise funds:											
Land	13,500				13,500	0				0	13,500
Buildings	0				0	0				0	0
Improvements	4,272,639		333,416		4,606,055	(1,720,108)		(138,786)		(1,858,894)	2,747,161
Equipment	300,767	11,515	23,401		335,683	(166,440)	(8,637)	(12,736)		(187,813)	147,870
Construction-in-progress	0				0	0				0	0
Intangible water rights	507,860	1			507,861	(76,418)	1	(19,105)		(95,522)	412,339
Totals	5,094,766	11,516	356,817	0	5,463,099	(1,962,966)	(8,636)	(170,627)	0	(2,142,229)	3,320,870

CITY OF ARLINGTON

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO
 CHANGES IN LONG-TERM DEBT
 FOR THE YEAR ENDING DECEMBER 31, 2014

	Beginning 12-31-13	Additions	(Deletions)	Governmental Funds Ending 12-31-14	Enterprise Funds Ending 12-31-14	Payments Due in 2015
GOVERNMENTAL						
2006 Case 865 Motorgrader lease/purchase:						
Cost: \$132,750						
Down payment: \$23,000						
Amount financed: \$109,750						
Maturing on January 11, 2018						
Interest at 3.15%						
Paid by the General Fund	89,159		(21,249)	67,910		21,928
Leave liability:						
Paid by General Fund	13,416	2,434		15,850		15,850
Totals	102,575	2,434	(21,249)	83,760		37,778
BUSINESS-TYPE						
1996 Kingbrook Water Line Lease:						
Original cost of \$507,861						
Down payment of \$0 cash						
Original lease amount of \$507,861						
Maturing in July 2036						
Imputed interest at 5.0%						
Monthly payments of \$1,928.58						
City also pays Kingbrook \$2.05/1,000 gallons for a minimum usage of 1,829,000 gallons each month						
At end of 40 year lease the City will not own the water lines.						
Paid by water fund	309,026		(7,692)		301,334	8,076
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%						
Paid by the Water Fund	235,585		(5,035)		230,550	5,165
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%						
Paid by the Sewer Fund	624,097		(9,940)		614,157	10,162
Leave liability:						
Paid by the Water Fund	896	142	(74)		964	964
Paid by the Electric Fund		791			791	791
Paid by the Sewer Fund	992	163	(46)		1,109	1,109
Totals	1,170,596	1,096	(22,787)		1,148,905	26,267

CITY OF ARLINGTON

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO (continued)
 CHANGES IN LONG-TERM DEBT
 FOR THE YEAR ENDING DECEMBER 31, 2014

SCHEDULE OF PAYMENTS FOR LONG-TERM DEBT
 AT DECEMBER 31, 2014

	Total Payment	Principal	Interest	Balance
	-----	-----	-----	-----
2006 Case 865 Motorgrader lease/purchase:				
2015	24,099	21,928	2,171	45,982
2016	24,099	22,629	1,470	23,353
2017	24,099	23,353	746	0
	-----	-----	-----	-----
Totals	72,297	67,910	4,387	
	-----	-----	-----	
1996 Kingbrook Water Line Lease:				
2015	23,143	8,076	15,067	293,258
2016	23,143	8,480	14,663	284,778
2017	23,143	8,904	14,239	275,874
2018	23,143	9,349	13,794	266,525
2019	23,143	9,817	13,326	256,708
2020-2024	115,715	56,956	58,759	199,752
2025-2029	115,715	72,691	43,024	127,061
2030-2034	115,715	92,775	22,940	34,286
2035-2036	36,643	34,286	2,357	0
	-----	-----	-----	-----
Totals	499,503	301,334	198,169	
	-----	-----	-----	
1997 Water Revenue Bond:				
2015	16,116	5,165	10,951	225,385
2016	16,116	5,410	10,706	219,975
2017	16,116	5,667	10,449	214,308
2018	16,116	5,936	10,180	208,372
2019	16,116	6,218	9,898	202,154
2020-2024	80,580	35,813	44,767	166,341
2025-2029	80,580	45,167	35,413	121,174
2030-2034	80,580	56,962	23,618	64,212
2035-2039	72,953	64,212	8,741	0
	-----	-----	-----	-----
Totals	395,273	230,550	164,723	
	-----	-----	-----	
2004 Sewer Revenue Bond:				
2015	35,496	10,162	25,334	603,995
2016	35,496	10,581	24,915	593,414
2017	35,496	11,018	24,478	582,396
2018	35,496	11,472	24,024	570,924
2019	35,496	11,945	23,551	558,979
2020-2024	177,480	67,537	109,943	491,442
2025-2029	177,480	82,665	94,815	408,777
2030-2034	177,480	101,180	76,300	307,597
2035-2039	177,480	123,843	53,637	183,754
2040-2044	177,480	151,581	25,899	32,173
2045	33,500	32,173	1,327	0
	-----	-----	-----	-----
Totals	1,098,380	614,157	484,223	
	-----	-----	-----	

CITY OF ARLINGTON

 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2014

GENERAL FUND	Budgeted Amounts			Actual	Variance Positive (Negative)	
	Original	Contingency Transfers	Supplementals			Final
Revenue:						
Revenue from local sources:						
Taxes:						
Ad valorem taxes	229,400			229,400	218,979	(10,421)
Sales and use tax	280,000			280,000	221,720	(58,280)
Amusement tax				0	192	192
Licenses and permits:				0	1,745	1,745
Intergovernmental revenue:						
State shared revenue:						
Grant - mosquito				0	1,700	1,700
Bank franchise tax				0	1,552	1,552
Liquor tax reversion				0	6,261	6,261
Motor vehicle licenses (5%)				0	15,507	15,507
Highway and bridge				0	24,351	24,351
County shared revenue				0	4,166	4,166
Charges for goods and services:						
General government				0	2,131	2,131
Public safety				0	31,585	31,585
Highways and streets				0	3,053	3,053
Solid waste collection				0	73,889	73,889
Health and welfare				0	50,233	50,233
Recreation				0	6,622	6,622
Cemetery				0	7,708	7,708
Fines and forfeits:				0	221	221
Miscellaneous revenue:						
Interest and dividends				0	8,750	8,750
Rentals and franchise				0	23,073	23,073
Donations				0	2,609	2,609
Special assessments collected				0	19,967	19,967
Liquor operating agreements				0	12,196	12,196
Other	230,500			230,500	5,493	(225,007)
Total revenues	739,900	0	0	739,900	743,703	3,803
Expenditures:						
General government:						
Mayor and Council	12,975			12,975	14,423	(1,448)
Contingency	120,000			120,000		120,000
Amount transferred		(3,700)		(3,700)		(3,700)
Elections	500			500	20	480
Financial administration	88,610	3,030		91,640	89,980	1,660
Other	13,150	25	2,800	15,975	20,741	(4,766)
Public safety:						
Police	77,420			77,420	70,200	7,220
Fire	32,265			32,265	37,019	(4,754)
Public works:						
Highways and streets	633,750		55,000	688,750	668,444	20,306
Storm drainage	27,540	210	17,000	44,750	44,750	0
Airport	6,730		1,550	8,280	8,224	56
Sanitation	78,240		3,450	81,690	79,696	1,994
Cemetery	22,335	435	9,900	32,670	32,486	184
Health and welfare:						
West Nile prevention	7,360			7,360	7,066	294
Ambulance	43,025			43,025	54,154	(11,129)
Culture and recreation:						
Recreation (pool)	71,730		5,100	76,830	76,854	(24)
Parks	36,220			36,220	34,710	1,510
Baseball	29,560			29,560	4,004	25,556
Library	20,490			20,490	17,633	2,857
Economic development:	15,000		20,000	35,000	35,000	0
Liquor operations	25			25	25	0
Debt service:	35,000			35,000	24,099	10,901
Total expenditures	1,371,925	0	114,800	1,486,725	1,319,528	167,197
Excess of revenues over (under) expenditures	(632,025)	0	(114,800)	(746,825)	(575,825)	171,000
Other financing sources (uses):						
Transfer in	612,025			612,025	529,858	(82,167)
Sale of surplus property				0	1,534	1,534
Compensation for damaged property				0	2,447	2,447
Net change in fund balance	(20,000)	0	(114,800)	(134,800)	(41,986)	92,814
Fund balance:						
January 1, 2014	988,272			988,272	988,272	0
December 31, 2014	968,272	0	(114,800)	853,472	946,286	92,814

CITY OF ARLINGTON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF BUDGETARY COMPARISON FOR THE
GENERAL FUND FOR THE YEAR ENDING DECEMBER 31, 2014

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 2014 there was one supplemental appropriation to increase the general fund's budget. See page 34.
- e. Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board. There were no encumbered appropriations at December 31, 2014.

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 fund.
- g. The budget for the general fund is 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.

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, 2014 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 October 22, 2015 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of current audit findings and responses as item 2014-01.

Management response to the finding identified in my audit is described in the accompanying schedule of current audit findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

I did note other matters involving compliance that I reported to the governing body and management of the City of Arlington in a separate Letter of Comments dated October 22, 2015.

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 certain deficiencies in internal control, described in the accompanying schedule of current audit findings and responses that I consider to be significant deficiencies. I consider the deficiency described in the accompanying schedule of current audit findings and responses as items 2014-01 and 2014-02 to be significant deficiencies.

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 October 22, 2015.

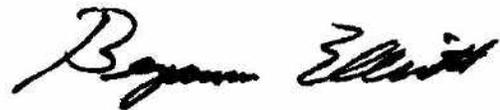
Purpose of this Report

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

October 22, 2015



SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit finding: None

Prior Other Audit Findings:

2008-01: Budget Overdrafts -- Repeated below

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

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Finding 2014-01: Budget
(compliance and internal control)

Criteria:

SDCL 9-21-2 requires a city to adopt an ordinance to appropriate the sum of money necessary to meet all lawful expenses and liabilities of a city. The ordinance must appropriate amounts for each function and subfunction, by fund.

SDCL 9-21 requires governmental expenditures to be authorized in an annual appropriation ordinance, or by a supplemental appropriation ordinance, by the governing body before the end of year. The City is prohibited from spending in excess of appropriated amounts at the subfunction level.

Condition:

The City did not adopt an ordinance to appropriate amounts for the 2nd cent sales tax fund.

In 2014 the City of Arlington had the following budget overdrafts:

General fund/General Government/Mayor and Council	\$ 1,448
/General Government/Other	4,766
/Public Safety/Fire	4,754
/Health and Welfare/Ambulance	11,129
/Culture and Recreation/Pool	24

Effect:

Also, joint and several liability may attach to any official who approves an expenditure in excess of the amount appropriated for any purpose or department.
SDCL 9-21-9 and 9-21-10

Expenditures in excess of a budget can lead to unnecessary expenditures.

Recommendations:

I recommend the City adopt a budget for the 2nd cent sales tax fund.

I recommend the City stay within its budget, using contingency transfers and supplemental appropriations to adjust particular budget line items when necessary.

Management Responses:

In the future, the City expects to adopt an ordinance to appropriate the sum of money necessary to meet all lawful expenses and liabilities of the 2nd cent sales tax fund.

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

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES (continued)

Finding 2014-02: 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.