# City of Arlington

**Independent Auditor's Report**
**and Financial Statements**

**For the Year Ended**
**December 31, 2025**

**City of Arlington**

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**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Council Members
City of Arlington, South Dakota

We 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 modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Arlington, South Dakota (City), as of December 31, 2025, and for the year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 29, 2026. The financial statements of Arlington Housing and Redevelopment Commission (a component unit of the City of Arlington) were not audited in accordance with Government Auditing Standards and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Arlington Housing and Redevelopment Commission (a component unit of the City of Arlington).

**Report on Internal Control Over Financial Reporting**

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

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

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

**Purpose of this Report**

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

Huron, South Dakota
April 29, 2026

**Schedule of Prior Audit Findings**

Internal Control-Related Findings:

Finding No. 2024-001 – Preparation of Financial Statements and Footnotes (First reported in 2018)

A reportable condition and material weakness in internal controls was noted due to the City requesting external auditors to prepare the financial statements and related noted for the year ended December 31, 2024. The City reviews, approves and accepts responsibility for the financial statements and related notes.

## Schedule of Current Audit Findings

No current audit findings.

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# Independent Auditor's Report

To the City Council
City of Arlington, South Dakota

## Report on the Audit of the Financial Statements

### Disclaimer of Opinion and Unmodified Opinions

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the City of Arlington, South Dakota (City), as of December 31, 2025, and for the year then ended, and the related notes to the financial statements. We were not engaged to audit the financial statements of the aggregate discretely presented component unit. These financial statements collectively comprise the City's basic financial statements as listed in the table of contents.

Disclaimer of Opinion on the Aggregate Discretely Presented Component Unit

Because of the significance of the matter described in the Basis for Disclaimer of Opinion and Unmodified Opinions section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component unit of the City of Arlington. Accordingly, we do not express opinions on those financial statements.

Unmodified Opinions on the Governmental Activities, Business-Type Activities, and Each Major Fund

In our opinion, the accompanying modified cash basis of accounting financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the City of Arlington as of December 31, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

### Basis for Disclaimer of Opinion and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (*Government Auditing Standards*), issued by the Comptroller General of the United States.

Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified audit opinions.

Matter Giving Rise to Disclaimer of Opinion on the Aggregate Discretely Presented Component Unit

The financial statements of the Arlington Housing and Redevelopment Commission have not been audited, and we were not engaged to audit the Arlington Housing and Redevelopment Commission's financial statements as part of the City's basic financial statements. The Arlington Housing and Redevelopment Commission's financial activities are included in the City's basic financial statements as part of the discretely presented component units and represent the assets, net position, and revenues/expenses of the City's aggregate discretely presented component unit.

**Emphasis of Matter**

As discussed in Note 1.c. of the financial statements, which describes the basis of accounting, the financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

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

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

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

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

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

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

**Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City's basic financial statements. The Budgetary Comparison Schedules, Schedule of Changes in Long-Term Debt, and Schedule of the City's Proportionate Share of the Net Pension Liability (Asset) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule, the Schedule of Changes in Long-Term Debt, and the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2026 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

ELO Prof LLC

Huron, South Dakota
April 29, 2026

# City of Arlington

Statement of Net Position – Modified Cash Basis

December 31, 2025

| | Primary Government | | | Unaudited |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Component Units |
| **Assets:** | | | | |
| Cash and cash equivalents | $ 1,266,436 | $ 3,053,856 | $ 4,320,292 | $ 148,423 |
| Total Assets | $ 1,266,436 | $ 3,053,856 | $ 4,320,292 | $ 148,423 |
| **Net Position:** | | | | |
| Restricted for debt service | $ -- | $ 51,612 | $ 51,612 | $ -- |
| Unrestricted | 1,266,436 | 3,002,244 | 4,268,680 | 148,423 |
| Total Net Position | $ 1,266,436 | $ 3,053,856 | $ 4,320,292 | $ 148,423 |

The accompanying Notes to Financial Statements are an integral part of this statement.

# City of Arlington

Statement of Activities – Modified Cash Basis

For the Year Ended December 31, 2025

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position – Primary Government: Governmental Activities | Net (Expense) Revenue and Changes in Net Position – Primary Government: Business-Type Activities | Net (Expense) Revenue and Changes in Net Position – Primary Government: Total | Unaudited Component Unit |
|---|---|---|---|---|---|---|---|---|
| Primary Government: | | | | | | | | |
| Governmental Activities: | | | | | | | | |
| General government | $ 196,408 | $ 54,127 | $ 15,437 | $ -- | $ (126,844) | $ -- | $ (126,844) | $ -- |
| Public safety | 114,637 | 20,690 | -- | -- | (93,947) | -- | (93,947) | -- |
| Public works | 637,451 | 136,252 | 63,785 | 4,794 | (432,620) | -- | (432,620) | -- |
| Health and welfare | 32,804 | 41,827 | -- | -- | 9,023 | -- | 9,023 | -- |
| Culture and recreation | 231,492 | 26,347 | -- | -- | (205,145) | -- | (205,145) | -- |
| Conservation and development | 11,500 | -- | -- | -- | (11,500) | -- | (11,500) | -- |
| Total Governmental Activities | 1,224,292 | 279,243 | 79,222 | 4,794 | (861,033) | -- | (861,033) | -- |
| Business-type Activities: | | | | | | | | |
| Water | 384,135 | 268,977 | -- | -- | -- | (115,158) | (115,158) | |
| Electric | 1,254,094 | 1,421,399 | -- | -- | -- | 167,305 | 167,305 | |
| Sewer | 117,665 | 227,923 | -- | -- | -- | 110,258 | 110,258 | |
| Total Business-Type Activities | 1,755,894 | 1,918,299 | -- | -- | -- | 162,405 | 162,405 | -- |
| Total Primary Government | $ 2,980,186 | $ 2,197,542 | $ 79,222 | $ 4,794 | (861,033) | 162,405 | (698,628) | -- |
| Component Unit Activity: | | | | | | | | |
| Arlington Housing & Redevelopment Commission | $ 133,688 | $ 132,704 | $ -- | $ -- | -- | -- | -- | (984) |
| General Revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| Property tax | | | | | 339,901 | -- | 339,901 | -- |
| Sales tax | | | | | 699,087 | -- | 699,087 | -- |
| State shared revenues | | | | | 12,822 | -- | 12,822 | -- |
| Unrestricted investment earnings | | | | | 29,287 | 75,889 | 105,176 | 3,688 |
| Miscellaneous revenue | | | | | 9,636 | -- | 9,636 | -- |
| Transfers | | | | | 55,800 | (55,800) | -- | -- |
| Total General Revenues and Transfers | | | | | 1,146,533 | 20,089 | 1,166,622 | 3,688 |
| Change in Net Position | | | | | 285,500 | 182,494 | 467,994 | 2,704 |
| **Net Position - Beginning of Year** | | | | | 980,936 | 2,871,362 | 3,852,298 | 145,719 |
| **Net Position - End of Year** | | | | | $ 1,266,436 | $ 3,053,856 | $ 4,320,292 | $ 148,423 |

The accompanying Notes to Financial Statements are an integral part of this statement.

**City of Arlington**
Balance Sheet – Modified Cash Basis – Governmental Funds
December 31, 2025

| | General Fund | 2nd Cent Fund | Bed, Board, Booze Fund | Total Governmental Funds |
|---|---|---|---|---|
| **Assets:** | | | | |
| Cash and cash equivalents | $ 416,180 | $ 817,520 | $ 32,736 | $ 1,266,436 |
| Total Assets | $ 416,180 | $ 817,520 | $ 32,736 | $ 1,266,436 |
| **Fund Balances:** | | | | |
| Committed by ordinance | $ -- | $ 817,520 | $ -- | $ 817,520 |
| Unassigned | 416,180 | -- | 32,736 | 448,916 |
| Total Fund Balances | $ 416,180 | $ 817,520 | $ 32,736 | $ 1,266,436 |

The accompanying Notes to Financial Statements are an integral part of this statement.

## City of Arlington

Statement of Revenues, Expenditures, and Changes in Fund Balances –
Modified Cash Basis – Governmental Funds
For the Year Ended December 31, 2025

| | General Fund | 2nd Cent Fund | Bed, Board, Booze Fund | Total Governmental Funds |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Taxes: | | | | |
| General property tax | $ 338,839 | $ -- | $ -- | $ 338,839 |
| General sales and use tax | 335,960 | 339,728 | 23,399 | 699,087 |
| Penalties and interest on delinquent taxes | 1,062 | -- | -- | 1,062 |
| Licenses and permits | 18,352 | -- | -- | 18,352 |
| Intergovernmental Revenue: | | | | |
| State grants | 15,437 | -- | -- | 15,437 |
| State shared revenue: | | | | |
| Bank franchise tax | 3,092 | -- | -- | 3,092 |
| Liquor tax reversion (25%) | 6,111 | -- | -- | 6,111 |
| Motor vehicle licenses | 16,909 | -- | -- | 16,909 |
| Local government highway and bridge fund | 26,975 | -- | -- | 26,975 |
| Other state shared | 3,619 | -- | -- | 3,619 |
| County shared revenue: | | | | |
| County road tax (25%) | 14,841 | -- | -- | 14,841 |
| County wheel tax | 4,762 | -- | -- | 4,762 |
| Other | 298 | -- | -- | 298 |
| Charges for Goods and Services: | | | | |
| General government | 2,980 | -- | -- | 2,980 |
| Public safety | 19,482 | -- | -- | 19,482 |
| Highway and streets | 1,012 | -- | -- | 1,012 |
| Sanitation | 106,584 | -- | -- | 106,584 |
| Culture and recreation | 26,347 | -- | -- | 26,347 |
| Ambulance | 41,827 | -- | -- | 41,827 |
| Cemetery | 8,385 | -- | -- | 8,385 |
| Airport | 20,271 | -- | -- | 20,271 |
| Fines and Forfeits: | | | | |
| Court fines | 498 | -- | -- | 498 |
| Animal control fines | 150 | -- | -- | 150 |
| Other | 560 | -- | -- | 560 |
| Miscellaneous Revenue: | | | | |
| Investment earnings | 10,834 | 17,871 | 582 | 29,287 |
| Rentals | 5,203 | -- | -- | 5,203 |
| Special assessments | 4,794 | -- | -- | 4,794 |
| Liquor operating agreement income | 27,592 | -- | -- | 27,592 |
| Other | 9,636 | -- | -- | 9,636 |
| Total Revenue | $ 1,072,412 | $ 357,599 | $ 23,981 | $ 1,453,992 |

The accompanying Notes to Financial Statements are an integral part of this statement.

**City of Arlington**
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Modified Cash Basis – Governmental Funds
For the Year Ended December 31, 2025 (Continued)

| | General Fund | 2nd Cent Fund | Bed, Board, Booze Fund | Total Governmental Funds |
|---|---|---|---|---|
| **Expenditures:** | | | | |
| General Government: | | | | |
| Legislative | $ 32,568 | $ -- | $ -- | $ 32,568 |
| Elections | 678 | -- | -- | 678 |
| Financial administration | 145,266 | -- | -- | 145,266 |
| Other | 17,896 | -- | -- | 17,896 |
| Public Safety: | | | | |
| Police | 66,560 | -- | -- | 66,560 |
| Fire | 48,077 | -- | -- | 48,077 |
| Public Works: | | | | |
| Highways and streets | 491,894 | -- | -- | 491,894 |
| Sanitation | 96,282 | -- | -- | 96,282 |
| Airport | 11,316 | -- | -- | 11,316 |
| Cemeteries | 37,959 | -- | -- | 37,959 |
| Health and Welfare: | | | | |
| Health | 3,602 | -- | -- | 3,602 |
| Ambulance | 29,202 | -- | -- | 29,202 |
| Culture and Recreation: | | | | |
| Recreation | 126,619 | -- | -- | 126,619 |
| Parks | 86,950 | -- | -- | 86,950 |
| Libraries | 17,923 | -- | -- | 17,923 |
| Conservation and Development | 11,500 | -- | -- | 11,500 |
| Total Expenditures | 1,224,292 | -- | -- | 1,224,292 |
| Excess of Revenues Over Expenditures | (151,880) | 357,599 | 23,981 | 229,700 |
| **Other Financing Sources (Uses):** | | | | |
| Transfers in | 56,300 | -- | -- | 56,300 |
| Transfers out | -- | -- | (500) | (500) |
| Total Other Financing Sources (Uses) | 56,300 | -- | (500) | 55,800 |
| Net Change in Fund Balance | (95,580) | 357,599 | 23,481 | 285,500 |
| **Fund Balance - Beginning of Year** | 511,760 | 459,921 | 9,255 | 980,936 |
| **Fund Balance - End of Year** | $ 416,180 | $ 817,520 | $ 32,736 | $ 1,266,436 |

The accompanying Notes to Financial Statements are an integral part of this statement.

## City of Arlington

Statement of Net Position – Modified Cash Basis – Proprietary Funds

December 31, 2025

| | Enterprise Funds | | | |
|---|---|---|---|---|
| | Water Fund | Electric Fund | Sewer Fund | Totals |
| **Assets:** | | | | |
| Cash and cash equivalents | $ 86,036 | $ 2,044,892 | $ 922,928 | $ 3,053,856 |
| Total Assets | $ 86,036 | $ 2,044,892 | $ 922,928 | $ 3,053,856 |
| **Net Position:** | | | | |
| Restricted for debt service | $ 16,116 | $ -- | $ 35,496 | $ 51,612 |
| Unrestricted | 69,920 | 2,044,892 | 887,432 | 3,002,244 |
| Total Net Position | $ 86,036 | $ 2,044,892 | $ 922,928 | $ 3,053,856 |

The accompanying Notes to Financial Statements are an integral part of this statement.

## City of Arlington

Statement of Revenues, Expenses, and Changes in Net Position – Modified Cash Basis – Proprietary Funds
For the Year Ended December 31, 2025

| | Enterprise Funds | | | |
|---|---|---|---|---|
| | Water Fund | Electric Fund | Sewer Fund | Totals |
| **Operating Revenues:** | | | | |
| Charges for goods and services | $ 268,977 | $ 1,421,399 | $ 200,713 | $ 1,891,089 |
| Surcharge as security for debt | -- | -- | 27,210 | 27,210 |
| Total Operating Revenues | 268,977 | 1,421,399 | 227,923 | 1,918,299 |
| **Operating Expenses:** | | | | |
| Personal services | 49,570 | 74,037 | 31,676 | 155,283 |
| Other current expense | 167,082 | 150,202 | 36,445 | 353,729 |
| Materials | -- | 654,655 | -- | 654,655 |
| Total Operating Expenses | 216,652 | 878,894 | 68,121 | 1,163,667 |
| Operating Income | 52,325 | 542,505 | 159,802 | 754,632 |
| **Nonoperating Revenue (Expense)** | | | | |
| Investment earnings | 1,905 | 50,893 | 23,091 | 75,889 |
| Capital assets | (151,367) | (189,688) | -- | (341,055) |
| Debt service (principal) | (8,495) | (130,000) | (15,570) | (154,065) |
| Debt service (interest) | (7,621) | (55,512) | (33,974) | (97,107) |
| Total Nonoperating Revenue (Expense) | (165,578) | (324,307) | (26,453) | (516,338) |
| Income (Loss) Before Transfers | (113,253) | 218,198 | 133,349 | 238,294 |
| Transfer in | 109,924 | -- | -- | 109,924 |
| Transfer (out) | (810) | (164,914) | -- | (165,724) |
| Change in Net Position | (4,139) | 53,284 | 133,349 | 182,494 |
| **Net Position - Beginning of Year** | 90,175 | 1,991,608 | 789,579 | 2,871,362 |
| **Net Position - End of Year** | $ 86,036 | $ 2,044,892 | $ 922,928 | $ 3,053,856 |

The accompanying Notes to Financial Statements are an integral part of this statement.

## City of Arlington

Statement of Cash Flows – Modified Cash Basis – Proprietary Funds
For the Year Ended December 31, 2025

| | Enterprise Funds | | | |
|---|---|---|---|---|
| | Water Fund | Electric Fund | Sewer Fund | Totals |
| **Cash Flows from Operating Activities:** | | | | |
| Receipt from customers | $ 268,977 | $ 1,421,399 | $ 227,923 | $ 1,918,299 |
| Payments to suppliers | (167,082) | (804,857) | (36,445) | (1,008,384) |
| Payments to employees | (49,570) | (74,037) | (31,676) | (155,283) |
| Net Cash Provided by Operating Activities | 52,325 | 542,505 | 159,802 | 754,632 |
| **Cash Flows from Noncapital Financing Activities:** | | | | |
| Grants | 109,924 | -- | -- | 109,924 |
| Transfer out | (810) | (164,914) | -- | (165,724) |
| Net Cash (Used) Provided by Noncapital Financing Activities | 109,114 | (164,914) | -- | (55,800) |
| **Cash Flows from Capital and Related Financing Activities:** | | | | |
| Purchase of capital assets | (151,367) | (189,688) | -- | (341,055) |
| Principal paid on capital debt | (8,495) | (130,000) | (15,570) | (154,065) |
| Interest paid on capital debt | (7,621) | (55,512) | (33,974) | (97,107) |
| Net Cash (Used) by Capital and Related Financing Activities | (167,483) | (375,200) | (49,544) | (592,227) |
| **Cash Flows from Investing Activities:** | | | | |
| Investment earnings | 1,905 | 50,893 | 23,091 | 75,889 |
| **Net Change in Cash and Cash Equivalents** | (4,139) | 53,284 | 133,349 | 182,494 |
| **Cash and Cash Equivalents - Beginning of Year** | 90,175 | 1,991,608 | 789,579 | 2,871,362 |
| **Cash and Cash Equivalents - End of Year** | $ 86,036 | $ 2,044,892 | $ 922,928 | $ 3,053,856 |
| **Reconciliation of Operating Income to Net Cash Provided by Operating Activities:** | | | | |
| Operating Income | $ 52,325 | $ 542,505 | $ 159,802 | $ 754,632 |
| Net Cash Provided by Operating Activities | $ 52,325 | $ 542,505 | $ 159,802 | $ 754,632 |

The accompanying Notes to Financial Statements are an integral part of this statement.

## 1. Summary of Significant Accounting Policies:

As discussed further in Note 1c, these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

a. Financial Reporting Entity:

The reporting entity of the City of Arlington, (City) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if is 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 (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

The Arlington Housing and Redevelopment Commission (Commission) is a discretely presented component unit and represents 100% of the balances and activity of the discretely presented component unit column of these financial statements. It is organized to provide housing and was established under SDCL 11-7-7. Financial information about Arlington Housing and Redevelopment Commission 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 Statements of Net Position and Statements of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**1. Summary of Significant Accounting Policies: (Continued)**

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

**Fund Financial Statements:**

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

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

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

**Governmental Funds:**

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

Special Revenue Funds – Special revenue funds are used to account for the proceeds of special 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.

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

**1. Summary of Significant Accounting Policies: (Continued)**

Bed, Board, and Booze Fund – A Fund established by the City to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose the promotion and advertising of the city (SDCL 10-52A-2). This fund may be established at the direction of the governing body through local ordinance. This is a major fund.

**Proprietary Funds:**

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

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

b. Laws or regulations require that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.

c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Water Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities (SDCL 9-47-1). The City declared this a major fund.

Sewer Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

Electric Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal electrical system and related facilities (SDCL 9-39-1 and 9-39-96). The City declared this a major fund.

**1. Summary of Significant Accounting Policies: (Continued)**

c. Measurement Focus and Basis of Accounting:

**Measurement Focus:**

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus The City’s basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned, and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

**Government-Wide Financial Statements:**

In the government-wide Statements of Net Position and Statements of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

**Fund Financial Statements:**

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used, applied within the limitations of the modified cash basis of accounting.

**Basis of Accounting:**

In the government-wide Statements of Net Position and Statements of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed, and assets and liabilities are recognized to the extent that cash has been received or disbursed.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**1. Summary of Significant Accounting Policies: (Continued)**

If the City applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

e. Capital Assets:

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

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The City has not elected to modify their cash basis presentation by recording capital assets arising from cash transactions and depreciating/amortizing those assets where appropriate so any capital assets owned by the City and the related depreciation/amortization are not reported on the financial statements of the City.

f. Long-Term Liabilities:

Long-term liabilities include, but are not limited to, Notes Payable, Leases, and Revenue Bonds.

As discussed in Note 1.c. above the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The City has not elected to modify their cash basis presentation by recording long-term debt or long-term liabilities arising from cash transactions, so any outstanding long-term debt or long-term liabilities are not reported on the financial statements of the City. The City does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of Activities, the principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt.

The City has presented as Supplementary Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

**1. Summary of Significant Accounting Policies: (Continued)**

g. Program Revenues:

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

a. 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.

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

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

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Position, revenues and expenses are classified as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

i. Cash and Cash Equivalents:

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statements of Cash Flows.

j. Equity Classifications:

Government-Wide Financial Statements:

Equity is classified as Net Position and is displayed in two components:

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

2. Unrestricted Net Position – All other net position that does not meet the definition of "Restricted Net Position."

**1. Summary of Significant Accounting Policies: (Continued)**

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between “Restricted,” “Committed,” “Assigned” and “Unassigned” components. Proprietary fund equity is classified the same as in the government-wide financial statements.

k. Application of Net Position:

It is the City’s policy to first use restricted Net Position, prior to the use of unrestricted Net Position, when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.

l. 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:

- 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 by the government through formal action of 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 nor committed. Fund Balance may be assigned by the governing body or Finance Officer.

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

The City would use restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government 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 Fund receives its revenue from the 2nd cent sales tax.

The City’s special revenue Bed, Board, and Booze Fund receives its revenue from the 2nd cent sales tax.

**2. Deposits and Investments Credit Risk, Concentrations of Credit Risk, and Interest Rate Risk:**

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

Deposits – The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the 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.

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

Credit 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.

Concentration of Credit Risk – The City places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk – The City does not have a formal investment policy that limits investment securities 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 investment. The City's policy is to credit all income from investments to the fund making the investment.

**3. Property Taxes:**

Property taxes are levied on or before October 1 of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

The City is permitted by several state statutes to levy varying amounts of taxes per $1,000 of taxable valuation on taxable real property in the City.

**4. Pension Plan:**

a. Plan Information:

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

b. Benefits Provided:

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

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

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

**4. Pension Plan: (Continued)**

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

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

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

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

c. Contributions:

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

| Year | Amount |
|---|---|
| 2025 | $ 15,317 |
| 2024 | 17,986 |
| 2023 | 19,343 |

**4. Pension Plan: (Continued)**

d. Pension Asset:

At June 30, 2025, SDRS is 100.1% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of the South Dakota Retirement System, for the City as of the measurement period ending June 30, 2025 and reported by the City as of December 31, 2025 are as follows:

| | |
|---|---|
| Proportionate share of net position restricted for pension benefits | $ 1,326,508 |
| Less proportionate share of total pension liability | 1,327,248 |
| Proportionate share of net pension (asset) | $ (740) |

The net pension asset was measured as of as of June 30, 2025 and the total pension asset used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2025 the City's proportion was 0.008691%, which is a decrease of 0.002914% from its proportion measured as of June 30, 2024.

e. Actuarial Assumptions:

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

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

Mortality Rates:

All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020

Active and Terminated Vested Members:
Teachers, Certified Regents, and Judicial: PubT-2010
Other Class A Members: PubG-2010
Public Safety Members: PubS-2010

**4. Pension Plan: (Continued)**

Retired Members:

Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65
Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above
Public Safety Retirees: PubS-2010, 102% of rates at all ages

Beneficiaries:

PubG-2010 contingent survivor mortality table

Disabled Members:

Public Safety: PubS-2010 disabled member mortality table
Others: PubG-2010 disabled member mortality table

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2025 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Public Equity | 56.3% | 3.8% |
| Investment Grade Debt | 22.8% | 2.3% |
| High Yield Debt | 7.0% | 2.9% |
| Real Estate | 12.0% | 4.0% |
| Cash | 1.9% | 0.8% |
| Total | 100.0% | |

**4. Pension Plan: (Continued)**

f. Discount Rate:

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

g. Sensitivity of Asset to Changes in the Discount Rate:

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

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|---|---|---|
| City's proportionate share of the net pension liability (asset) | $ 181,158 | $ (740) | $ (149,756) |

h. Pension Plan Fiduciary Net Position:

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

**5. Risk Management:**

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

a. Employee Health Insurance:

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes a $2,000,000 lifetime maximum payment per person.

**5. Risk Management: (Continued)**

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.

b. Liability Insurance:

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

c. Workers' Compensation:

The City joined the South Dakota Municipal League Workers' Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of workers' 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 workers' compensation claims. The City pays an annual premium, to provide workers' compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first $650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of $2,000,000 per incident.

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

d. Unemployment Benefits:

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

During the year ended December 31, 2025, no claims for unemployment benefits were paid. At December 31, 2025, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

**6. Employee Benefit Plan:**

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

## 7. 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 2021 the City of Arlington paid dues of $5,000 to BEDC for participation in the Partnership.

At December 31, 2024, BEDC had total audited equity of $5,744,882 and $30,803 in long-term liabilities. The BEDC can be reached through the City of Brookings at PO Box 270, Brookings, SD 57006 or by calling (605)697-8103.

## 8. Interfund Transfers:

Interfund transfers for the year ended December 31, 2025 were as follows:

| | In | Out |
|---|---|---|
| Governmental Funds: | | |
| General Fund | $ 56,300 | $ -- |
| Special Revenue Funds: | | |
| BBB Fund | -- | 500 |
| Enterprise Funds: | | |
| Water | 109,924 | 810 |
| Electric | -- | 164,914 |
| Total | $ 166,224 | $ 166,224 |

Transfers are used to move revenues from the fund with collection authorization to the fund with expenditure authorization and move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

## Supplementary Information

## City of Arlington

Budgetary Comparison Schedule – Modified Cash Basis – General Fund

For the Year Ended December 31, 2025

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Amounts | (Negative) |
| **Revenues:** | | | | |
| Taxes: | | | | |
| General property tax | $ 344,590 | $ 344,590 | $ 338,839 | $ (5,751) |
| General sales and use tax | 335,000 | 335,000 | 335,960 | 960 |
| Penalties and interest on delinquent taxes | 200 | 200 | 1,062 | 862 |
| Licenses and permits | 19,020 | 19,020 | 18,352 | (668) |
| Intergovernmental Revenue: | | | | |
| Federal grants | -- | -- | -- | -- |
| State grants | 1,850 | 1,850 | 15,437 | 13,587 |
| State shared revenue: | | | | |
| Bank franchise tax | 4,200 | 4,200 | 3,092 | (1,108) |
| Liquor tax reversion (25%) | 6,500 | 6,500 | 6,111 | (389) |
| Prorate license fees | -- | -- | -- | -- |
| Motor vehicle licenses | 18,000 | 18,000 | 16,909 | (1,091) |
| Local government highway and bridge fund | 12,000 | 12,000 | 26,975 | 14,975 |
| Other state shared | -- | -- | 3,619 | 3,619 |
| County shared revenue: | | | | |
| County road tax (25%) | 7,000 | 7,000 | 14,841 | 7,841 |
| Country road and bridge Tax (25%) | 9,000 | 9,000 | -- | (9,000) |
| County wheel tax | 3,500 | 3,500 | 4,762 | 1,262 |
| Other | -- | -- | 298 | 298 |
| Charges for Goods and Services: | | | | |
| General government | 2,000 | 2,000 | 2,980 | 980 |
| Public safety | 7,500 | 7,500 | 19,482 | 11,982 |
| Highway and streets | 1,100 | 1,100 | 1,012 | (88) |
| Sanitation | 82,500 | 82,500 | 106,584 | 24,084 |
| Culture and recreation | 16,500 | 16,500 | 26,347 | 9,847 |
| Ambulance | 65,000 | 65,000 | 41,827 | (23,173) |
| Cemetery | 4,300 | 4,300 | 8,385 | 4,085 |
| Airport | 20,400 | 20,400 | 20,271 | (129) |
| Fines and Forfeits: | | | | |
| Court fines | 150 | 150 | 498 | 348 |
| Animal control fines | -- | -- | 150 | 150 |
| Other | -- | -- | 560 | 560 |
| Miscellaneous Revenue: | | | | |
| Investment earnings | 8,200 | 8,200 | 10,834 | 2,634 |
| Rentals | 3,644 | 3,644 | 5,203 | 1,559 |
| Special assessments | 6,500 | 6,500 | 4,794 | (1,706) |
| Liquor operating agreement income | 13,100 | 13,100 | 27,592 | 14,492 |
| Other | 34,000 | 34,000 | 9,636 | (24,364) |
| Total Revenues | $ 1,025,754 | $ 1,025,754 | $ 1,072,412 | $ 46,658 |

See accompanying Note to Budgetary Comparison Schedules.

**City of Arlington**
Budgetary Comparison Schedule – Modified Cash Basis – General Fund
For the Year Ended December 31, 2025 (Continued)

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Amounts | (Negative) |
| **Expenditures:** | | | | |
| General Government: | | | | |
| Legislative | $ 28,945 | $ 32,595 | $ 32,568 | $ 27 |
| Contingency | 50,000 | 24,660 | -- | 24,660 |
| Elections | 900 | 900 | 678 | 222 |
| Financial administration | 142,210 | 148,200 | 145,266 | 2,934 |
| Other | 12,690 | 20,690 | 17,896 | 2,794 |
| Public Safety: | | | | |
| Police | 67,860 | 67,860 | 66,560 | 1,300 |
| Fire | 48,165 | 48,165 | 48,077 | 88 |
| Public Works: | | | | |
| Highways and streets | 729,450 | 747,750 | 491,894 | 255,856 |
| Sanitation | 97,120 | 106,320 | 96,282 | 10,038 |
| Airport | 15,850 | 15,850 | 11,316 | 4,534 |
| Cemeteries | 38,180 | 41,680 | 37,959 | 3,721 |
| Health and Welfare: | | | | |
| Health | 5,320 | 5,320 | 3,602 | 1,718 |
| Ambulance | 53,502 | 53,502 | 29,202 | 24,300 |
| Culture and Recreation: | | | | |
| Recreation | 111,274 | 127,274 | 126,619 | 655 |
| Parks | 89,400 | 89,400 | 86,950 | 2,450 |
| Libraries | 21,315 | 21,315 | 17,923 | 3,392 |
| Conservation and Development | 11,000 | 11,500 | 11,500 | -- |
| Total Expenditures | 1,523,181 | 1,562,981 | 1,224,292 | 338,689 |
| Excess of Revenues Over (Under) Expenditures | (497,427) | (537,227) | (151,880) | 385,347 |
| **Other Financing Sources** | | | | |
| Transfers in | 502,727 | 502,727 | 56,300 | (446,427) |
| Total Other Financing Sources | 502,727 | 502,727 | 56,300 | (446,427) |
| Net Change in Fund Balance | 5,300 | (34,500) | (95,580) | (61,080) |
| **Fund Balance - Beginning of Year** | 511,760 | 511,760 | 511,760 | -- |
| **Fund Balance - End of Year** | $ 517,060 | $ 477,260 | $ 416,180 | $ (61,080) |

See accompanying Note to Budgetary Comparison Schedules.

**City of Arlington**
Budgetary Comparison Schedule – Modified Cash Basis – 2nd Cent
For the Year Ended December 31, 2025

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Amounts | (Negative) |
| **Revenues:** | | | | |
| Taxes: | | | | |
| General sales and use taxes | $ 338,000 | $ 338,000 | $ 339,728 | $ 1,728 |
| Miscellaneous revenue: | | | | |
| Investment earnings | -- | -- | 17,871 | 17,871 |
| Total Revenues | 338,000 | 338,000 | 357,599 | 19,599 |
| **Expenditures:** | | | | |
| Highways and streets | 338,000 | 338,000 | -- | 338,000 |
| Net Change in Fund Balance | -- | -- | 357,599 | 357,599 |
| **Fund Balance - Beginning of Year** | 459,921 | 459,921 | 459,921 | -- |
| **Fund Balance - End of Year** | $ 459,921 | $ 459,921 | $ 817,520 | $ 357,599 |

See accompanying Note to Budgetary Comparison Schedules.

## City of Arlington

Budgetary Comparison Schedule – Modified Cash Basis – Bed, Board, Booze Fund
For the Year Ended December 31, 2025

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive |
| --- | --- | --- | --- | --- |
| | Original | Final | Amounts | (Negative) |
| **Revenues:** | | | | |
| Taxes: | | | | |
| General sales and use taxes | $ 10,000 | $ 10,000 | $ 23,399 | $ 13,399 |
| Miscellaneous revenue: | | | | |
| Investment earnings | 500 | 500 | 582 | 82 |
| Total Revenues | 10,500 | 10,500 | 23,981 | 13,481 |
| **Expenditures:** | | | | |
| Highways and streets | -- | -- | -- | -- |
| Excess of Revenues Over (Under) Expenditures | 10,500 | 10,500 | 23,981 | 13,481 |
| **Other Financing (Uses)** | | | | |
| Transfers out | 10,500 | 10,500 | (500) | (11,000) |
| Net Change in Fund Balance | 21,000 | 21,000 | 23,481 | 2,481 |
| **Fund Balance - Beginning of Year** | 9,255 | 9,255 | 9,255 | -- |
| **Fund Balance - End of Year** | $ 30,255 | $ 30,255 | $ 32,736 | $ 2,481 |

See accompanying Note to Budgetary Comparison Schedules.

**Budgets and Budgetary Accounting:**

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

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

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

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

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

5. Unexpended appropriations lapse at year end unless encumbered by resolution of the Governing Board.

6. 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.

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

8. Formal budgetary integration is employed as a management control device during the year for the General Fund and each major Special Revenue Fund.

## City of Arlington

Schedule of Changes in Long-Term Debt
For the Year Ended December 31, 2025

Debt payable at December 31, 2025 is comprised of the following:

| Indebtedness | Long-Term Debt 01/01/25 | Add New Debt | Less Debt Retired | Long-Term Debt 12/31/25 |
|---|---|---|---|---|
| Governmental Long-Term Debt: | | | | |
| 2022 CSB Baseball Field Building Loan | $ 139,487 | $ -- | $ 5,592 | $ 133,895 |
| Total Governmental Long-Term Debt | $ 139,487 | $ -- | $ 5,592 | $ 133,895 |
| Enterprise Long-Term Debt: | | | | |
| 1996 Kingbrook Water Line Lease | $ 63,826 | $ -- | $ 15,421 | $ 48,405 |
| 1997 Water Revenue Bond | 164,610 | -- | 8,495 | 156,115 |
| 2004 Sewer Revenue Bond | 488,560 | -- | 15,570 | 472,990 |
| 2016 Electrical Surcharge Revenue Bond | 1,825,000 | -- | 130,000 | 1,695,000 |
| 2023 Clean Water Project Water Revenue Bond | 421,478 | -- | -- | 421,478 |
| Total Enterprise Long-Term Debt | $ 2,963,474 | $ -- | $ 169,486 | $ 2,793,988 |
| Total Long-Term Debt: | $ 3,102,961 | $ -- | $ 175,078 | $ 2,927,883 |

The annual debt service requirements are as follows:

| | Principal | Interest |
|---|---|---|
| 2026 | $ 191,588 | $ 93,555 |
| 2027 | 196,345 | 87,505 |
| 2028 | 197,678 | 80,817 |
| 2029 | 190,937 | 74,487 |
| 2030 | 197,684 | 68,305 |
| Thereafter | 1,953,651 | 383,225 |
| | $ 2,927,883 | $ 787,894 |

## City of Arlington

Schedule of the City’s Proportionate Share of the Net Pension Asset

| Calendar Year | City's Proportion of the Net Pension Liability (Asset) | City's Proportionate Share of the Net Pension Liability (Asset) | City's Covered Payroll | City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset) |
|---|---|---|---|---|---|
| 2025 | 0.0086910% | $ (740) | $ 258,480 | 29.00% | 100.10% |
| 2024 | 0.0116050% | $ (470) | $ 325,590 | 0.14% | 100.00% |
| 2023 | 0.0123730% | $ (1,208) | $ 319,132 | 0.38% | 100.10% |
| 2022 | 0.0141790% | $ (1,340) | $ 338,650 | 0.40% | 100.10% |
| 2021 | 0.0139078% | $ (100,377) | $ 297,433 | 33.75% | 105.52% |
| 2020 | 0.0151142% | $ (604) | $ 305,233 | 0.20% | 100.04% |
| 2019 | 0.0154633% | $ (1,602) | $ 321,367 | 0.50% | 100.09% |
| 2018 | 0.0151385% | $ (361) | $ 321,467 | 0.11% | 100.02% |
| 2017 | 0.0151385% | $ (1,374) | $ 307,583 | 0.45% | 100.10% |
| 2016 | 0.0159088% | $ 53,738 | $ 302,500 | 17.76% | 96.89% |

*The amounts presented for each year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30.

## Changes from Prior Valuation

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

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

## Benefit Provision Changes

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

## Actuarial Method Changes

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

## Actuarial Assumption Changes

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

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

As of June 30, 2025, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2026 SDRS COLA is limited to a restricted maximum of 1.56%. The July 2026 SDRS COLA will equal inflation, between 0% and 1.56%. For this June 30, 2025 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.56%.

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