

City of Siloam Springs

Independent Auditor's Reports and Financial Statements

For the Year Ended December 31, 2017



CITY OF
Siloam Springs

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City of Siloam Springs, Arkansas

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Financial Section

Independent Auditor's Report

The Honorable Mayor, City Administrator
and Members of the Board of Directors
City of Siloam Springs, Arkansas
Siloam Springs, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Siloam Springs, Arkansas as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks 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 entity'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 entity's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Siloam Springs, Arkansas as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund statements, schedules of bonds outstanding and the schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund statement information and schedule of expenditures of federal awards are 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. Such 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Honorable Mayor, City Administrator
and Members of the Board of Directors
City of Siloam Springs, Arkansas
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The schedule of bonds outstanding has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BKD, LLP

Rogers, Arkansas
July 17, 2018

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

December 31, 2017

As management of the City of Siloam Springs (the "City"), we offer readers of the City's financial statements this narrative review and analysis of the City's financial activities for the fiscal year ended December 31, 2017. This analysis focuses on the 2017 and 2016 fiscal year activities and should be considered in conjunction with the information contained in the Financial Statements that follow.

Overview of the Financial Statements

In addition to Management's Discussion and Analysis ("MD&A"), the report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and supplementary information. The first statements presented are highly condensed and provide a government-wide perspective of the City's finances. In the government-wide perspective, all City operations are categorized and reported as either governmental or business-type activities.

Governmental activities include basic services such as police, fire, court, streets, parks and recreation, library, cemetery, building inspections, community development, animal services and general government administration. Business-type activities include utilities (electric, water, wastewater, and solid waste) and the airport. These government-wide statements are designed to provide a broad overview of the City's finances in a corporate-like manner.

The government-wide financial statements can be found on pages 10 and 11 of this report.

Basic Financial Statements

- The Statement of Net Position focuses on resources available for future operations. This statement presents a snap-shot view of the assets and deferred outflows of resources the City owns, the liabilities and deferred inflows of resources it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. A significant difference from fund financial statements is that governmental activities reflect capital assets and long-term liabilities. Also, governmental activities are reported on the accrual basis of accounting.
- The Statement of Activities focuses on gross and net costs of City programs and the extent to which such programs rely upon general tax and other revenues including internal transfers from the enterprise funds. This statement summarizes and simplifies the user's analysis to determine the extent to which such programs are self-supporting and/or subsidized by general and other revenues.
- Fund financial statements focus separately on major governmental funds and proprietary funds. Governmental fund statements follow the more traditional presentation of government financial statements. The City's major governmental funds are presented in their own column and the remaining non-major governmental fund – Debt Service is presented in its own column on the statements. A budgetary comparison is presented for the general fund and street fund in the required supplementary information. Statements for the City's proprietary funds follow the governmental funds and include net position, revenues, expenses, changes in net position, and cash flows.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

City of Siloam Springs, Arkansas
Management's Discussion and Analysis
December 31, 2017

City as a Whole

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer term view of the City's finances. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's net position at a point in time and the changes in net position over a period of time. The City's net position, the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, is one way to measure the City's financial position. Over time, increases or decreases in the City's net position are an indicator of whether its financial position is improving or deteriorating.

A condensed version of the Statements of Net Position at December 31, 2017 and 2016 is as follows:

Net Position
(Amounts in Millions)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Cash and investments	\$ 16.5	\$ 7.8	\$ 19.1	\$ 20.8	\$ 35.6	\$ 28.6
Other assets	2.6	2.4	7.5	7.8	10.1	10.2
Capital assets (net)	<u>52.1</u>	<u>52.4</u>	<u>72.5</u>	<u>74.1</u>	<u>124.6</u>	<u>126.5</u>
Total assets	<u>71.2</u>	<u>62.6</u>	<u>99.1</u>	<u>102.7</u>	<u>170.3</u>	<u>165.3</u>
Deferred outflows of resources	<u>2.9</u>	<u>2.9</u>	<u>-</u>	<u>-</u>	<u>2.9</u>	<u>2.9</u>
Current liabilities	1.1	2.5	3.0	5.1	4.1	7.6
Long-term liabilities	<u>12.4</u>	<u>11.2</u>	<u>9.0</u>	<u>8.7</u>	<u>21.4</u>	<u>19.9</u>
Total liabilities	<u>13.5</u>	<u>13.7</u>	<u>12.0</u>	<u>13.8</u>	<u>25.5</u>	<u>27.5</u>
Deferred inflows of resources	<u>0.3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.3</u>	<u>-</u>
Net investment in capital assets	49.2	48.8	64.2	63.8	113.4	112.6
Restricted	4.3	2.9	8.7	7.6	13.0	10.5
Unrestricted	<u>6.8</u>	<u>0.1</u>	<u>14.2</u>	<u>17.5</u>	<u>21.0</u>	<u>17.6</u>
Total net position	<u>\$ 60.3</u>	<u>\$ 51.8</u>	<u>\$ 87.1</u>	<u>\$ 88.9</u>	<u>\$ 147.4</u>	<u>\$ 140.7</u>

The City's combined net position increased from \$140.7 million to \$147.4 million, a 4.8% increase in 2017. Unrestricted net position for governmental activities, which is the portion of net position that can be used to finance day to day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased \$6.7 million, from a balance of \$.1 million to \$6.8 million. The drivers for this increase are the transfers from utility funds, an increase in sales tax collections and an increase in grant revenue.

City of Siloam Springs, Arkansas
Management's Discussion and Analysis
December 31, 2017

Net position of the business-type activities reflects a \$1.8 million or 2.0% decrease (\$87.1 million compared to \$88.9 million). This decrease is mainly due to transfers to the general fund.

A condensed version of the Statements of Activities for the periods ending December 31 is as follows:

Changes in Net Position
(Amounts in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
<i>Program revenues</i>						
Charges for services	\$ 3.9	\$ 3.4	\$ 35.2	\$ 33.6	\$ 39.1	\$ 37.0
Grants and contributions	1.5	0.4	-	-	1.5	0.4
<i>General revenues</i>						
Taxes	10.2	8.2	2.4	3.6	12.6	11.8
Investment	0.1	0.1	-	-	0.1	0.1
Intergovernmental	2.1	2.0	-	-	2.1	2.0
Other	0.7	0.5	-	-	0.7	0.5
Total revenues	<u>18.5</u>	<u>14.6</u>	<u>37.6</u>	<u>37.2</u>	<u>56.1</u>	<u>51.8</u>
Expenses						
General government	4.5	4.3	-	-	4.5	4.3
Public safety and judiciary	10.0	9.5	-	-	10.0	9.5
Transportation	3.1	3.4	-	-	3.1	3.4
Cultural, parks, and recreation	2.2	1.9	-	-	2.2	1.9
Community development	1.7	0.7	-	-	1.7	0.7
Interest on long-term debt	0.1	0.1	-	-	0.1	0.1
Utilities	-	-	27.0	25.4	27.0	25.4
Airport	-	-	0.8	0.8	0.8	0.8
Total expenses	<u>21.6</u>	<u>19.9</u>	<u>27.8</u>	<u>26.2</u>	<u>49.4</u>	<u>46.1</u>
Increase (decrease) in net position before transfers	(3.1)	(5.3)	9.8	11.0	6.7	5.7
Transfers	11.6	7.7	(11.6)	(7.7)	-	-
Increase (decrease) in net position	<u>8.5</u>	<u>2.4</u>	<u>(1.8)</u>	<u>3.3</u>	<u>6.7</u>	<u>5.7</u>
Net position - beginning of year	<u>51.8</u>	<u>49.4</u>	<u>88.9</u>	<u>85.6</u>	<u>140.7</u>	<u>135.0</u>
Net position - end of year	<u>\$ 60.3</u>	<u>\$ 51.8</u>	<u>\$ 87.1</u>	<u>\$ 88.9</u>	<u>\$ 147.4</u>	<u>\$ 140.7</u>

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

December 31, 2017

The City's total revenue of \$56.1 million in 2017 reflects a \$4.3 million, or 8.30%, increase over total revenue of \$51.8 million in 2016. This increase in total revenue in 2017 is primarily due to increased utility sales, an economic development grant and increased city and county sales tax from retail sales. The total operating expense, or cost of all programs and services provided by the City, increased 7.16% (to \$49.4 million, from a total cost of \$46.1 million). This increase in total cost was a combination of higher power costs and grant expenditures in the general fund. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenue for the City's governmental activities in 2017 came in at \$18.5 million which is approximately a \$3.9 million dollar increase from 2016. There were several drivers for this increase including grant income and sales taxes. Grant income was approximately \$1.1 million higher than 2016 and sales taxes increased by \$2 million. In the context of total revenue versus total expense, the City's governmental activities ran a \$3.1 million dollar deficit before transfers from the business-type activities funds of \$11.6 million.

Governmental activities total expenses increased \$1.7 million in 2017 from 2016, an 8.54% increase. The expense included \$1 million in grant expenses. A citywide wage increase of 4% contributed to a \$0.5 million increase in personnel costs and an increase in pension expense of \$0.2 million.

Business-type Activities

Revenues of the City's business-type activities or enterprise funds increased by \$0.4 million or 1.08% (\$37.6 million in 2017 compared to \$37.2 million in 2016). This increase can be attributed to an increase in electric sales offset by sales tax revenue being recorded in the general fund in 2017.

Business-type activities revenue represents 67% of total City revenues in 2017. Electric revenues and other income are equal to 66% of the business-type operating revenue and 41% of the total City revenue. As noted above, the cost or expenses of all business-type activities in 2017 compared to 2016 were up \$1.7 million with the primary driver being the increased activity within utilities. Power cost for electric service increased \$1.5 million over 2016.

Budgetary Highlights

Over the course of the year, the City Board of Directors revised the budget once. The City develops their budget on a modified accrual basis. The City's general fund budget annually reflects a deficit which is covered or balanced with transfers from the enterprise funds. Transfers to the general fund from the enterprise funds in 2017 to balance the general fund budget were equal to \$11.6 million.

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

December 31, 2017

Capital Assets and Debt Administration

Capital Assets

At December 31, 2017, the City had \$124.6 million invested in capital assets net of depreciation. These assets include police and fire equipment, park and recreation facilities, buildings and utility infrastructure, street infrastructure and land. This balance represents a net decrease of \$1.9 million or 1.50% (\$124.6 million compared to \$126.5 million). Significant capital asset projects and capital asset additions during the year by fund net of accumulated depreciation and adjustments included:

- General Fund – \$332,000 for a replacement fire truck
\$236,000 for building renovations to the old library
\$212,000 for the City Lake bike trail
- Street Fund – \$453,000 for the Kenwood Widening project

More detailed information on the City's capital assets is presented in *Note 4* to the financial statements.

Debt Outstanding

At year-end 2017, the City had \$11.2 million in bonds, notes and capital lease obligations outstanding. The City paid down approximately \$2.6 million in principal on debt outstanding in 2017.

More detailed information on the City's long-term liabilities is presented in *Note 5* to the financial statements. See the other supplementary information to the financial statements for amortization schedules and detail debt outstanding data.

Economic Factors and Management Strategies

The City saw a significant uptick in the economy from a residential and commercial development and industrial activity perspective. Siloam Springs building permit activity reflected an 31.7% increase in 2017 over the previous three year period average. The City issued 184 building permits in 2017 compared to 198 issued in 2016, 121 issued in 2015 and 100 issued in 2014.

The City sales tax revenue stream increased in 2017 with a year-over-year increase of 5.2% after reflecting an increase of 8.5% in 2016. The City share of County sales tax revenue increased in 2017 with an increase of 10.7% after reflecting an increase in 2016 of 2.9%. This revenue stream is primarily allocated to funding governmental activities operations and, therefore, a critical line item that is closely monitored by City leaders. The City and County sales tax revenue streams were budgeted for a 3.7% increase in 2018 and through four months of 2018 these projections appear to be higher than actual receipts. However, the City continues to experience expansion in our industrial customer market base and commercial retail markets in 2018.

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

December 31, 2017

In 2017, the City continued to execute strategies and plans that have resulted in positive achievements in the areas of City infrastructure condition, planning and preparing for economic development, and strengthening revenue streams and operating efficiencies to improve financial condition and fiscal sustainability. These achievements include:

- Completed work on Basin 5
- Completed work on Cheri Whitlock Overpass utility relocations
- Completed renovations to the old library for the Parks and Rec department
- Completed work on the water reuse project for the wastewater facility
- Completed the Sager Creek bank stabilization project
- Began work on the new library park design
- Began work on the Kenwood Widening project
- Began work on the City Lake trail system

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact Phillip Patterson, the City Administrator at 400 N. Broadway, Siloam Springs, Arkansas 72761.

Basic Financial Statements

City of Siloam Springs, Arkansas
Statement of Net Position
December 31, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 9,243,020	\$ 8,200,692	\$ 17,443,712
Certificates of deposit	3,175,730	2,202,711	5,378,441
Accounts receivable, net of allowance for uncollectibles	3,047,042	4,582,657	7,629,699
Inventories	62,542	2,021,702	2,084,244
Prepays	147,120	74,365	221,485
Restricted assets			
Restricted cash and certificates of deposit	4,124,091	8,688,847	12,812,938
Accounts receivable	41,647	-	41,647
Internal balances	(771,038)	771,038	-
Capital assets - non-depreciable	9,501,052	1,644,250	11,145,302
Capital assets - depreciable, net	42,610,103	70,895,612	113,505,715
Total assets	<u>71,181,309</u>	<u>99,081,874</u>	<u>170,263,183</u>
Deferred Outflows of Resources			
Deferred outflows - pensions	1,936,323	-	1,936,323
Deferred outflows - pension contributions	984,507	-	984,507
Total deferred outflows of resources	<u>2,920,830</u>	<u>-</u>	<u>2,920,830</u>
Liabilities			
Accounts payable	279,096	1,865,847	2,144,943
Accrued expenses	764,834	306,687	1,071,521
Accrued interest payable	23,155	47,975	71,130
Customer deposits	-	691,230	691,230
Due to other governments	57,522	-	57,522
Unearned revenues	14,756	-	14,756
Noncurrent liabilities			
Due within one year	1,807,839	2,366,382	4,174,221
Due in more than one year	10,598,126	6,661,220	17,259,346
Total liabilities	<u>13,545,328</u>	<u>11,939,341</u>	<u>25,484,669</u>
Deferred Inflows of Resources			
Deferred inflows - pensions	289,730	-	289,730
Total deferred inflows of resources	<u>289,730</u>	<u>-</u>	<u>289,730</u>
Net Position			
Net investment in capital assets	49,213,354	64,235,819	113,449,173
Restricted			
Expendable			
Capital projects	2,826,625	4,434,511	7,261,136
Debt service	516,485	4,254,336	4,770,821
Other	886,221	-	886,221
Unrestricted	6,824,396	14,217,867	21,042,263
Total net position	<u>\$ 60,267,081</u>	<u>\$ 87,142,533</u>	<u>\$ 147,409,614</u>

City of Siloam Springs, Arkansas
Statement of Activities
Year Ended December 31, 2017

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Government/Programs							
Primary Government							
Governmental activities:							
General government	\$ 4,552,621	\$ 1,710,709	\$ 198,033	\$ 1,004,600	\$ (1,639,279)	\$ -	\$ (1,639,279)
Public safety	10,026,530	1,739,136	250,757	-	(8,036,637)	-	(8,036,637)
Culture, parks, and recreation	2,155,583	233,459	11,641	-	(1,910,483)	-	(1,910,483)
Community development	1,714,554	159,470	2,278	-	(1,552,806)	-	(1,552,806)
Street department	3,095,171	16,562	-	-	(3,078,609)	-	(3,078,609)
Interest expense on long-term debt	92,790	-	-	-	(92,790)	-	(92,790)
Total governmental activities	<u>21,637,249</u>	<u>3,859,336</u>	<u>462,709</u>	<u>1,004,600</u>	<u>(16,310,604)</u>	<u>-</u>	<u>(16,310,604)</u>
Business-type Activities:							
Utilities	27,195,770	34,704,617	-	-	-	7,508,847	7,508,847
Airport	836,566	478,998	-	226,378	-	(131,190)	(131,190)
Total business-type activities	<u>28,032,336</u>	<u>35,183,615</u>	<u>-</u>	<u>226,378</u>	<u>-</u>	<u>7,377,657</u>	<u>7,377,657</u>
Total primary government	<u>\$ 49,669,585</u>	<u>\$ 39,042,951</u>	<u>\$ 462,709</u>	<u>\$ 1,230,978</u>	<u>(16,310,604)</u>	<u>7,377,657</u>	<u>(8,932,947)</u>
General Revenues:							
Property taxes					1,613,025	-	1,613,025
Sales and use taxes					8,588,473	2,393,526	10,981,999
Franchise and public service taxes					101,410	-	101,410
Intergovernmental					2,115,894	-	2,115,894
Investment income					20,611	48,892	69,503
Miscellaneous					166,401	-	166,401
Gain on sale of capital assets					527,999	-	527,999
Transfers - internal activity, net					11,605,838	(11,605,838)	-
Total general revenues and transfers					<u>24,739,651</u>	<u>(9,163,420)</u>	<u>15,576,231</u>
Change in Net Position					<u>8,429,047</u>	<u>(1,785,763)</u>	<u>6,643,284</u>
Net Position - Beginning of Year					<u>51,838,034</u>	<u>88,928,296</u>	<u>140,766,330</u>
Net Position - End of Year					<u>\$ 60,267,081</u>	<u>\$ 87,142,533</u>	<u>\$ 147,409,614</u>

City of Siloam Springs, Arkansas
Balance Sheet – Governmental Funds
December 31, 2017

	General Fund	Street Fund	Debt Service Fund (Nonmajor)	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 9,243,020	\$ -	\$ -	\$ 9,243,020
Certificates of deposit	3,175,730	-	-	3,175,730
Taxes receivable, net of allowance for doubtful accounts of \$38,032, \$12,998 and \$0	1,948,453	588,509	41,647	2,578,609
Ambulance fees receivable, net allowance for doubtful accounts of \$1,763,973	276,259	-	-	276,259
Inventories	62,542	-	-	62,542
Due from other funds	-	254	-	254
Other receivables	233,821	-	-	233,821
Prepaid items	134,954	12,166	-	147,120
Restricted assets				
Cash and cash equivalents	886,221	2,763,032	474,838	4,124,091
Total assets	<u>\$ 15,961,000</u>	<u>\$ 3,363,961</u>	<u>\$ 516,485</u>	<u>\$ 19,841,446</u>
Liabilities				
Accounts payable	\$ 225,193	\$ 53,903	\$ -	\$ 279,096
Due to other funds	771,292	-	-	771,292
Due to other governments	57,522	-	-	57,522
Accrued liabilities	733,141	31,693	-	764,834
Unearned revenues - grants	14,756	-	-	14,756
Total liabilities	<u>1,801,904</u>	<u>85,596</u>	<u>-</u>	<u>1,887,500</u>
Deferred Inflows of Resources				
Unavailable revenues - property taxes	1,286,113	439,574	-	1,725,687
Total deferred inflows of resources	<u>1,286,113</u>	<u>439,574</u>	<u>-</u>	<u>1,725,687</u>
Fund Balances				
Nonspendable	197,496	12,166	-	209,662
Restricted	886,221	2,826,625	516,485	4,229,331
Assigned	430,980	-	-	430,980
Unassigned	11,358,286	-	-	11,358,286
Total fund balance	<u>12,872,983</u>	<u>2,838,791</u>	<u>516,485</u>	<u>16,228,259</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 15,961,000</u>	<u>\$ 3,363,961</u>	<u>\$ 516,485</u>	<u>\$ 19,841,446</u>

Total fund balances - governmental funds \$ 16,228,259

**Amounts reported for governmental activities in the statement of net position
are different because:**

Capital assets used in governmental activities are not financial resources and are not reported in the funds. 52,111,155

Amounts reported as deferred inflows of resources are not recognized at the fund level on the modified accrual basis but are reported as revenues on the full accrual basis in the governmental activities in the statement of net position. 1,725,687

Deferred inflows and outflows related to pensions are not due and payable in the current period and, therefore, are not reported in the funds. 2,631,100

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Bonds payable	(1,650,000)
Unamortized bond premiums	(4,560)
Accrued interest on bonds and notes	(23,155)
Capital lease payable	(1,243,241)
Postemployment benefits liability	(1,050,480)
Accrued compensated absences	(966,154)
Net pension liability	<u>(7,491,530)</u>

Total net position - governmental activities \$ 60,267,081

City of Siloam Springs, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds
Year Ended December 31, 2017

	General Fund	Street Fund	Debt Service Fund (Nonmajor)	Total Governmental Funds
Revenues				
Property taxes	\$ 1,131,760	\$ 387,055	\$ -	\$ 1,518,815
Sales taxes	6,567,424	1,531,857	489,192	8,588,473
Licenses and permits	429,714	-	-	429,714
Intergovernmental	1,078,888	1,037,006	-	2,115,894
Charges for services	3,035,328	-	-	3,035,328
Fines and forfeitures	340,972	-	-	340,972
Grants and contributions	1,467,309	-	-	1,467,309
Investment income	17,014	2,024	1,573	20,611
Miscellaneous	194,534	130,453	-	324,987
Total revenues	<u>14,262,943</u>	<u>3,088,395</u>	<u>490,765</u>	<u>17,842,103</u>
Expenditures				
Current:				
General government				
Administration	2,189,471	-	-	2,189,471
Finance	1,140,187	-	-	1,140,187
Construction	487,657	-	-	487,657
Maintenance	299,659	-	-	299,659
Total general government	<u>4,116,974</u>	<u>-</u>	<u>-</u>	<u>4,116,974</u>
Public safety and judiciary				
Police	3,947,751	-	-	3,947,751
Fire	4,506,069	-	-	4,506,069
Municipal court	334,679	-	-	334,679
Total public safety and judiciary	<u>8,788,499</u>	<u>-</u>	<u>-</u>	<u>8,788,499</u>
Transportation				
Streets	-	1,310,121	-	1,310,121
Cultural, parks and recreation				
Library	461,366	-	-	461,366
Parks	1,301,538	-	-	1,301,538
Total cultural, parks and recreation	<u>1,762,904</u>	<u>-</u>	<u>-</u>	<u>1,762,904</u>
Community development				
Building inspections	1,467,949	-	-	1,467,949
Debt service				
Principal retirement	-	-	716,337	716,337
Interest and other charges	-	-	93,931	93,931
Total debt service	<u>-</u>	<u>-</u>	<u>810,268</u>	<u>810,268</u>
Capital outlay	2,506,787	850,060	-	3,356,847
Total expenditures	<u>18,643,113</u>	<u>2,160,181</u>	<u>810,268</u>	<u>21,613,562</u>

City of Siloam Springs, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds (Continued)
Year Ended December 31, 2017

	<u>General Fund</u>	<u>Street Fund</u>	<u>Debt Service Fund (Nonmajor)</u>	<u>Total Governmental Funds</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (4,380,170)</u>	<u>\$ 928,214</u>	<u>\$ (319,503)</u>	<u>\$ (3,771,459)</u>
Other Financing Sources (Uses)				
Sale of capital assets	527,999	-	-	527,999
Transfers in	11,787,377	-	436,971	12,224,348
Transfers out	<u>(622,835)</u>	<u>-</u>	<u>-</u>	<u>(622,835)</u>
Total other financing sources (uses)	<u>11,692,541</u>	<u>-</u>	<u>436,971</u>	<u>12,129,512</u>
Change in Fund Balances	7,312,371	928,214	117,468	8,358,053
Fund Balances, Beginning of Year	<u>5,560,612</u>	<u>1,910,577</u>	<u>399,017</u>	<u>7,870,206</u>
Fund Balances, End of Year	<u><u>\$ 12,872,983</u></u>	<u><u>\$ 2,838,791</u></u>	<u><u>\$ 516,485</u></u>	<u><u>\$ 16,228,259</u></u>

City of Siloam Springs, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds (Continued)
Year Ended December 31, 2017

Net change in net position – total governmental funds \$ 8,358,053

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital asset purchases	3,356,847
Net book value of capital assets transferred from internal service funds	213,117
Depreciation expense	(3,675,109)

Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities. This is the change in the amount of unavailable revenues reported in the governmental fund statements. 94,210

Deferred inflows/outflows related to the net pension liabilities not due and payable in the current period that are not reported in the funds. These amounts are amortized into pension expense in future periods. This is the amount by which the deferred inflows/outflows changed during the current year. (287,609)

Expenses that do not require the use of current financial resources, such as net pension liabilities, other postemployment benefits ("OPEB") liabilities, and long-term compensated absences are not reported as expenditures in the governmental fund financial statements in the current year, but are reported as expenses in the statement of activities.

Increase in net pension liabilities	(122,646)
Increase in OPEB liabilities	(52,867)
Increase in accrued long-term compensated absences	36,365

The issuance of long-term debt and capital leases provide current financial resources to governmental funds, but issuing debt and capital leases increases long-term liabilities in the statement of net position. The repayment of principal on long-term debt and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs and other similar items when debt is issued, whereas certain immaterial amounts deferred and amortized in the statement of activities were expensed in connection with the adoption of GASB 65.

Principal repayments	716,337
Amortization of bond issue premiums	1,141

Internal service funds are used by management to charge the costs of maintenance and engineering to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities. (208,792)

Change in net position of governmental activities \$ 8,429,047

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City of Siloam Springs, Arkansas
Statement of Net Position –
Proprietary Funds
December 31, 2017

Assets	Enterprise Funds			Governmental Activities
	Utilities	Airport (Nonmajor)	Totals	Internal Service Funds
Current Assets				
Cash	\$ 7,472,284	\$ 728,408	\$ 8,200,692	\$ -
Certificates of deposit	2,202,711	-	2,202,711	-
Receivables				
Accounts, net of allowance for uncollectible accounts	4,175,588	94,922	4,270,510	-
Taxes	312,147	-	312,147	-
Inventory	1,982,365	39,337	2,021,702	-
Due from other funds	771,038	-	771,038	-
Prepaid items	67,433	6,932	74,365	-
Total currents assets	16,983,566	869,599	17,853,165	-
Noncurrent Assets				
Restricted cash	6,946,635	-	6,946,635	-
Certificates of deposit	1,742,212	-	1,742,212	-
Capital assets, net of accumulated depreciation				
Land and improvements	859,216	350,055	1,209,271	-
Construction in progress	319,004	115,975	434,979	-
Distribution and collection systems	62,709,800	-	62,709,800	-
Buildings and equipment	5,123,990	3,061,822	8,185,812	-
Total noncurrent assets	77,700,857	3,527,852	81,228,709	-
Total assets	94,684,423	4,397,451	99,081,874	-

Liabilities	Enterprise Funds			Governmental Activities
	Utilities	Airport (Nonmajor)	Totals	Internal Service Funds
Current Liabilities				
Accounts payable	\$ 1,765,040	\$ 100,807	\$ 1,865,847	\$ -
Accrued expenses	298,965	7,722	306,687	-
Customer deposits	691,230	-	691,230	-
Current maturities of bonds payable	1,968,977	-	1,968,977	-
Compensated absences	389,449	7,956	397,405	-
Accrued interest payable	47,975	-	47,975	-
Total current liabilities	<u>5,161,636</u>	<u>116,485</u>	<u>5,278,121</u>	<u>-</u>
Noncurrent Liabilities				
Other postemployment benefits	311,820	14,334	326,154	-
Bonds payable, net	<u>6,335,066</u>	<u>-</u>	<u>6,335,066</u>	<u>-</u>
Total noncurrent liabilities	<u>6,646,886</u>	<u>14,334</u>	<u>6,661,220</u>	<u>-</u>
Total liabilities	<u>11,808,522</u>	<u>130,819</u>	<u>11,939,341</u>	<u>-</u>
Net Position				
Net investment in capital assets	60,707,967	3,527,852	64,235,819	-
Restricted				
Capital projects	4,434,511	-	4,434,511	-
Debt service	4,254,336	-	4,254,336	-
Unrestricted	<u>13,479,087</u>	<u>738,780</u>	<u>14,217,867</u>	<u>-</u>
Total net position	<u>\$ 82,875,901</u>	<u>\$ 4,266,632</u>	<u>\$ 87,142,533</u>	<u>\$ -</u>

City of Siloam Springs, Arkansas
Statement of Revenues, Expenses and Changes in
Net Position – Proprietary Funds
Year Ended December 31, 2017

	Enterprise Funds			Governmental
	Utilities	Airport (Nonmajor)	Totals	Internal Service Funds
Operating Revenues				
Charges for services				
Electric	\$ 22,179,184	\$ -	\$ 22,179,184	\$ -
Water	4,757,125	-	4,757,125	-
Wastewater	4,054,253	-	4,054,253	-
Sanitation	2,391,705	-	2,391,705	-
Fuel sales	-	409,928	409,928	-
Penalties	334,766	-	334,766	-
Miscellaneous	987,584	69,070	1,056,654	-
Total operating revenues	<u>34,704,617</u>	<u>478,998</u>	<u>35,183,615</u>	<u>-</u>
Operating Expenses				
Cost of goods sold				
Cost of power	14,134,606	-	14,134,606	-
Cost of fuel	-	279,337	279,337	-
Personal services	3,828,320	114,201	3,942,521	-
Contracted services	128,526	12,965	141,491	-
Maintenance and operating expenses	2,185,725	40,194	2,225,919	-
Other services and charges	2,147,069	48,132	2,195,201	-
Utilities	671,385	16,682	688,067	-
Depreciation and amortization	3,861,474	325,055	4,186,529	-
Total operating expenses	<u>26,957,105</u>	<u>836,566</u>	<u>27,793,671</u>	<u>-</u>
Operating Income (Loss)	<u>7,747,512</u>	<u>(357,568)</u>	<u>7,389,944</u>	<u>-</u>
Nonoperating Income (Expenses)				
Sales tax revenue	2,393,526	-	2,393,526	-
Interest income	48,892	-	48,892	-
Interest expense	(238,665)	-	(238,665)	-
Loss on disposal of capital assets	-	-	-	(213,117)
Net nonoperating revenues	<u>2,203,753</u>	<u>-</u>	<u>2,203,753</u>	<u>(213,117)</u>
Income (Loss) Before Transfers	<u>9,951,265</u>	<u>(357,568)</u>	<u>9,593,697</u>	<u>(213,117)</u>
Transfers In	-	-	-	8,693
Transfers Out	<u>(11,605,838)</u>	<u>-</u>	<u>(11,605,838)</u>	<u>(4,368)</u>
	<u>(11,605,838)</u>	<u>226,378</u>	<u>(11,379,460)</u>	<u>4,325</u>
Change in Net Position	(1,654,573)	(131,190)	(1,785,763)	(208,792)
Net Position, Beginning of Year	<u>84,530,474</u>	<u>4,397,822</u>	<u>88,928,296</u>	<u>208,792</u>
Net Position, End of Year	<u>\$ 82,875,901</u>	<u>\$ 4,266,632</u>	<u>\$ 87,142,533</u>	<u>\$ -</u>

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City of Siloam Springs, Arkansas
Statement of Cash Flows –
Proprietary Funds
Year Ended December 31, 2017

	Enterprise Funds			Governmental Activities
	Utilities	Airport (Nonmajor Fund)	Totals	Internal Service Funds
Operating Activities				
Cash received from customers	\$ 34,209,219	\$ 387,523	\$ 34,596,742	\$ -
Cash payments to suppliers for goods and services	(19,329,954)	(332,407)	(19,662,361)	-
Cash payments to employees for services	(3,701,090)	(108,216)	(3,809,306)	-
Other operating receipts	895,115	-	895,115	-
Net cash provided by (used in) operating activities	12,073,290	(53,100)	12,020,190	-
Noncapital Financing Activities				
Interfund transfers	(11,605,838)	-	(11,605,838)	(360)
Net cash used in noncapital financing activities	(11,605,838)	-	(11,605,838)	(360)
Capital and Related Financing Activities				
Sales tax revenue	2,391,192	-	2,391,192	-
Grants	-	226,378	226,378	-
Acquisition and construction of capital assets	(2,401,291)	(252,005)	(2,653,296)	-
Principal paid on debt	(1,918,337)	-	(1,918,337)	-
Interest and fees paid on debt	(256,101)	-	(256,101)	-
Net cash used in capital and related financing activities	(2,184,537)	(25,627)	(2,210,164)	-
Investing Activities				
Interest on cash and certificates of deposits	16,553	-	16,553	-
Purchase of certificates of deposit	(1,230,542)	-	(1,230,542)	-
Redemption of certificates of deposit	1,230,542	-	1,230,542	-
Net cash provided by investing activities	16,553	-	16,553	-
Decrease in Cash and Cash Equivalents	(1,700,532)	(78,727)	(1,779,259)	(360)
Cash and Cash Equivalents, Beginning of Year	16,119,451	807,135	16,926,586	360
Cash and Cash Equivalents, End of Year	\$ 14,418,919	\$ 728,408	\$ 15,147,327	\$ -

	Enterprise Funds			Governmental Activities
	Utilities	Airport (Nonmajor Fund)	Totals	Internal Service Funds
Presented on the "Statement of Net Position - Proprietary Funds" as follows:				
Cash	\$ 7,472,284	\$ 728,408	\$ 8,200,692	\$ -
Restricted cash - noncurrent	6,946,635	-	6,946,635	-
	<u>\$ 14,418,919</u>	<u>\$ 728,408</u>	<u>\$ 15,147,327</u>	<u>\$ -</u>
Reconciliation of Operating Income to to Net Cash Provided By (Used In) Operating Activities				
Operating income (loss)	\$ 7,747,512	\$ (357,568)	\$ 7,389,944	\$ -
Adjustment to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization expense	3,861,474	325,055	4,186,529	-
Changes in assets and liabilities				
Accounts receivable	357,242	(91,475)	265,767	-
Inventory	59,274	245	59,519	-
Prepaid expenses	(2,660)	125	(2,535)	-
Accounts payable and accrued liabilities	5,313	70,518	75,831	-
Customer deposits	45,135	-	45,135	-
Net cash provided by (used in) operating activities	<u>\$ 12,073,290</u>	<u>\$ (53,100)</u>	<u>\$ 12,020,190</u>	<u>\$ -</u>

City of Siloam Springs, Arkansas
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2017

	Pension Trust Fund	Private- purpose Trust Fund
	Firemen's Pension and Relief	Oak Hill Cemetery Trust
Assets		
Cash	\$ 146,610	\$ 111,104
Certificates of deposit	-	257,761
Investments		
Mutual funds	3,404,175	-
Property taxes receivable, net of allowance for doubtful accounts of \$4,196	<u>135,682</u>	<u>-</u>
Total assets	<u>3,686,467</u>	<u>368,865</u>
Deferred Inflows of Resources		
Unavailable revenue - property taxes	<u>128,643</u>	<u>-</u>
Net Position		
Net position restricted for pensions	3,557,824	-
Net position restricted for cemetery maintenance	<u>-</u>	<u>368,865</u>
Net position restricted for pensions and other purposes	<u><u>\$ 3,557,824</u></u>	<u><u>\$ 368,865</u></u>

City of Siloam Springs, Arkansas
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended December 31, 2017

	Pension Trust Fund	Private- purpose Trust Fund
	Firemen's Pension and Relief	Oak Hill Cemetery Trust
Additions		
Contributions		
Property taxes	\$ 113,166	\$ -
Future supplement	29,533	-
Intergovernmental	-	10,877
Total contributions	<u>142,699</u>	<u>10,877</u>
Investment income		
Interest and dividends	204,961	1,342
Net increase in fair value of investments	<u>313,007</u>	<u>-</u>
Net investment income	<u>517,968</u>	<u>1,342</u>
Total additions	<u>660,667</u>	<u>12,219</u>
Deductions		
Benefits	330,191	-
Benefits - supplements	29,533	-
Administrative expenses	<u>27,902</u>	<u>-</u>
Total deductions	<u>387,626</u>	<u>-</u>
Change in Fiduciary Net Position	273,041	12,219
Net Position - Beginning of Year	<u>3,284,783</u>	<u>356,646</u>
Net Position - End of Year	<u><u>\$ 3,557,824</u></u>	<u><u>\$ 368,865</u></u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

The City of Siloam Springs, Arkansas (the “City”), was incorporated in 1881 and is a municipal corporation operating under the authority of Arkansas state statute. The City operates under a city administrator form of government and provides the following services as authorized by its charter: public safety (police, fire and animal control), streets, electric, public works, general administrative services, airport, municipal court, cemetery, parks and recreation, library, and community development. Seven elected board members and the Mayor set policy of the City. The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America for state and local governments as defined by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting and reporting policies of the City:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the City of Siloam Springs, Arkansas. The City includes in its primary government all funds, account groups, departments, agencies, boards and commissions.

The City’s defined benefit plan, being fiduciary in nature, was not evaluated as a potential component unit but instead was reported as a fiduciary fund.

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements as follows:

Government-wide Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the City. Fiduciary activities are excluded from the government-wide statements because they cannot be used to support the City’s own programs. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Expenses that cannot be specifically identified to a particular function are charged to funds based on time spent for that function and are included in the functional categories. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or identifiable activity and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity.

City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2017

Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each governmental, proprietary and fiduciary fund are presented. The emphasis of fund financial statements is on major governmental and major enterprise funds, each displayed in a separate column. All other governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the *general fund and street fund* as its major governmental funds. The general fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for services and interest income. The street fund accounts for resources related to street operations, including new projects and maintenance activities.

The City reports one major *enterprise fund*. It accounts for the City's combined electric, water, sewer and sanitation system, whose operations are financed primarily through user charges.

The *internal service funds* were used to account for the financing of goods or services provided by one department to other departments within the City on a cost-reimbursement basis. The City's internal services funds were transferred to the general fund in 2017.

Additionally, the City reports the *pension trust fund* which accounts for assets held in trust for the Firemen's Relief and Pension Fund. Plan trustees must act in accordance with the specific purposes and terms of the retirement plan. The pension trust fund is accounted for in essentially the same manner as proprietary funds.

The *private purpose trust fund* accounts for activities that are not the City's programs but are programs sponsored by private organizations or other governments. Although the city serves as fiscal agent, the funds received and held under these programs are not available to support the City's activities and programs, but are received and held for the benefit of individuals, private organizations or other governments participating in the sponsored programs. The programs accounted for within this are expendable trust funds.

Measurement Focus and Basis of Accounting

Government-wide, Proprietary and Fiduciary Funds

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2017

In proprietary funds, operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the fund. All revenues and expenses not meeting this definition are reported as nonoperating items.

Nonexchange transactions, in which the City receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes, city and county sales tax, grants, entitlements and similar items, and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period in which the taxes are levied. City and county sales taxes, franchise fees, licenses and permits and fines and forfeitures are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Grants, entitlements, and donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as unearned revenues. Grants and similar aid to other organizations are recognized as expenses as soon as recipients have met all eligibility requirements. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The City considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, federal funds, local funds and investment earnings. Other revenues are considered to be measurable and available only when cash is received by the City. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences and obligations for worker's compensation and other post-employment benefits which are recognized as expenditures when payment is due. Pension expenditures are recognized when amounts are due to a plan.

City of Siloam Springs, Arkansas
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Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred inflows/outflows of resources and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes demand deposits, savings accounts and cash on hand. In order to facilitate cash management, the operating cash of certain funds is pooled into a common bank account. The City considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017, cash equivalents consisted primarily of money market accounts with brokers.

Investments and Investment Income

All investments are carried at fair value determined using quoted market prices except for investments in nonnegotiable certificates of deposit which are carried at amortized cost.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is assigned to funds with which the related investment asset is associated.

Accounts Receivable

Receivables consist primarily of property and other taxes and customer accounts receivable (billing for customer services charges including unbilled utility services).

Property taxes - Property taxes are levied each November 1 on the assessed value listed as of January 1 for all real and personal property. The property tax is considered due on the first Monday in February (the lien date) after the levy; however, the tax is not considered delinquent until October 16 of that year. As a result, the majority of the tax is not collected within the time frame necessary to finance the liabilities of the current period. Property taxes that remain delinquent for a period of three years are certified to the land commissioner where a lien is recorded and held on file. If property taxes remain delinquent for a period of seven years, the property will be subsequently sold by the land commissioner.

City of Siloam Springs, Arkansas
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In the governmental funds, property taxes are measurable when levied even though not available. As a result, at December 31, 2017, property taxes receivable of \$1,876,470 and related deferred inflows of resources of \$1,725,687 have been recorded in the governmental funds. In the government-wide statements, property taxes are considered earned at the time levied. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible. The appraised value of taxable property upon which the property tax is levied is determined by the county assessor. The assessor estimates full market value of the property and applies the statutory rate of 20% to arrive at assessed value.

Utilities and Ambulance – Utilities consist of credit extended to users in the normal course of business. The City uses the allowance method to account for uncollectible accounts receivable. In circumstances where management is aware of a specific user’s inability to meet financial obligations, a specific reserve is recorded to reduce the receivable to the amount expected to be collected. In addition, the City has established a general reserve based upon historical customer performance. Management also performs ongoing credit evaluation of its accounts and those which are considered uncollectible are reserved for through the allowance account. This includes management analyzing the aging of outstanding balances in which certain percentages will be reserved based upon the type of payee and the time period the account has been outstanding. The policy for determining when receivables are past due or delinquent is based on how recently payments have been received. Amounts are written off at the point when collection attempts have been exhausted. Management uses significant judgment in estimating uncollectible amounts, which is based on management considering factors such as current overall economic conditions, industry-specific economic conditions, historical customer performance and anticipated customer performance. While management believes the City’s processes effectively address its exposure to doubtful accounts, changes in economic, industry or specific customer conditions may require adjustment to the allowance recorded by the City.

Unbilled Revenue

The City bills customers for electric, water and sewer services after usage based upon meter readings made during the month. The City records a receivable for unbilled revenue at December 31 for estimated usage for which bills have not been sent.

Inventories

Inventories, consisting primarily of fuel, electrical materials, waterline and sewer materials, are valued at cost using the first in/first out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed.

City of Siloam Springs, Arkansas
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Prepaid Items

Prepaid items in governmental funds are accounted for under the consumption method.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the government-wide financial statements and the fund financial statements for proprietary funds. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at acquisition value at the date of donation.

Capital assets are defined as assets with an initial value or cost greater than or equal to \$5,000 and an estimated useful life of greater than two years.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight-line method over their estimated useful lives as follows:

	Years
Water distribution facilities	20-43
Sewer and solid waste collection and treatment facilities	20-50
Electric distribution facilities	5-40
Buildings	20-40
Building improvements	10-25
Furniture and equipment	3-10

Depreciation expense is charged directly to the department/function based on the department that utilizes the related asset.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the columns for governmental activities and business-type activities. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. Debt premiums, discounts and deferred gains on refundings are generally deferred and amortized using the effective interest rate method. Long-term debt is reported net of the bond issue premium or discount.

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In the fund financial statements, governmental fund types recognize debt discounts and premiums, as well as debt issuance costs, during the current period. The face amount of the debt issued, discounts given, and premiums received are reported as other financing sources (uses). Issuance costs, whether or not withheld from the actual proceeds received are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure/reduction of liability) until then. The government has five items that qualify for reporting in this category as of December 31, 2017. Each of the five items are related to pensions and include:

- The amount of contributions made to the pension plans after the measurement date
- The difference in investment experience between actual earnings and projected earnings on pension plan investments
- The difference between expected and actual experience related to the plans
- The amount related to any changes in assumptions or other inputs
- The amount related to changes in proportion and differences between contributions recognized and proportionate share of contributions

Deferred outflows related to contributions made after the measurement date will be used in the next year to reduce net pension liability. The remaining amounts will be amortized to pension expense over future periods as shown within *Note 9*.

In addition to liabilities, the statement of financial position and balance sheet – governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify as deferred inflows of resources as of December 31, 2017. Accordingly, the items reported in the statements are unavailable revenues in the governmental funds balance sheet and deferred inflows - pensions. Accordingly, this item is only reported in the governmental funds balance sheet. Governmental funds report unavailable revenue from property taxes and grant receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item, deferred inflows - pensions, consists of the difference between the expected and actual experience related to the pension plans. This amount is amortized to pension expense over future periods as shown within *Note 9*.

City of Siloam Springs, Arkansas
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Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Firemen's Relief and Pension Fund and the Local Police and Fire Retirement System (together, the Plans) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences

The City provides all eligible full-time employees sick leave and vacation benefits. Sick leave benefits are accrued as a liability using the vesting method. Employees become 100% vested (up to the maximum) after 20 years of continuous service. For employees with at least 5 years of service, but less than 20, one-third of the allowable balance is considered vested. The cost of sick leave and vacation is accrued when earned in the government-wide and proprietary fund financial statements and reported as accrued expenses. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. In governmental activities, amounts accrued are expected to be liquidated with available financial resources, generally by the general fund.

Fund Balance - Governmental Funds

The fund balances for the City's governmental funds may be displayed in up to five components:

Nonspendable - Nonspendable fund balances are not in a spendable form or are required to be maintained intact.

Restricted - Restricted fund balances may be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed - Committed fund balances may be used only for the specific purposes determined by resolution of the City Council. Commitments may be changed or lifted only by issuance of a resolution by the City Council. The City currently has no committed fund balance.

Assigned - Assigned fund balances are intended to be used by the City for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications.

City of Siloam Springs, Arkansas

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The City considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The City applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net Position

Net position of the City is classified in three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and are reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net position includes noncapital assets that must be used for a particular purpose as specified by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation, reduced by the outstanding balances of any related borrowings. At December 31, 2017, net position restricted by enabling legislation was \$4,229,331 for governmental activities and \$8,688,847 for business-type activities. Unrestricted net position is the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted.

When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first.

New GASB Pronouncements

The GASB has issued the following statements which the City has not yet adopted and which require adoption subsequent to December 31, 2017:

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75): GASB 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 75 requires governments to report a liability on the face of the financial statements, in accordance with the following:

- Employers that are responsible only for OPEB liabilities for their own employees and that provide OPEB through a defined benefit OPEB plan administrators through a trust that meets specified criteria will report a net OPEB liability (the difference between the total OPEB liability and the assets accumulated in trust to make the benefit payments)
- Employers that participate in a cost-sharing OPEB plan that is administered through a trust that meets specified criteria will report a liability equal to the employer's proportionate share for the collective OPEB liability for all employers participating in the plan
- Employers that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability for their own employees

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GASB 75 requires more extensive note disclosures and RSI about the OPEB liabilities. GASB 75 is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 83 – *Certain Asset Retirement Obligations* (GASB 83): GASB 83 addresses issues in accounting and financial reporting for certain asset retirement obligations (AROs), including establishing criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement is effective for periods beginning after June 15, 2018, with earlier application encouraged. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

GASB Statement No. 84 – *Fiduciary Activities* (GASB 84): GASB 84 provides for greater consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. This statement is effective for periods beginning after December 15, 2018, with earlier application encouraged. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

GASB Statement No. 85 – *Omnibus 2017* (GASB 85): GASB 85 addresses practice issues that have been identified during implementation and application of certain GASB standards and addresses a variety of topics, including issues related to blending component units, goodwill, fair value measurement and postemployment benefits. This statement is effective for periods beginning after June 15, 2017, with earlier application encouraged. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues* (GASB 86): GASB 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement is effective for periods beginning after June 15, 2017, with earlier application encouraged. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

GASB Statement No. 87 – *Leases* (GASB 87): GASB 87 addresses the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognizing inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activity. This statement is effective for periods beginning after December 15, 2019, with earlier application encouraged. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

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GASB Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* (GASB 88): GASB 88 improves the information disclosed in notes to the governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liability governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date of the contraction obligation is established. This Statement requires additional essential information related to debt be disclosed in notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. This statement is effective for periods beginning after June 15, 2018, with earlier application encouraged. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

The effect of these statements on the City has not been determined but could have a significant impact on the City's overall net position.

Subsequent Events

Subsequent events have been evaluated through June 29, 2018, which is the date the financial statements were available to be issued.

Note 2: Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires that deposits in financial institutions be collateralized with federal depository insurance and other acceptable collateral in specific amounts. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

At December 31, 2017, the City had bank balances of \$35,480,067. Of that balance approximately \$207,000 were uninsured and uncollateralized. The remaining balances were all insured (FDIC) or collateralized with securities held by the city or the City's agent in the city's name. The carrying value of these deposits as of December 31, 2017, was \$36,145,672.

City of Siloam Springs, Arkansas
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Investments

Arkansas statutes authorize the City to invest in direct obligations of the U. S. government; obligations on which the principal and interest are fully guaranteed, or are fully secured, insured, or covered by commitments or agreements to purchase by the U. S. government; obligations of agencies and instrumentalities created by act of the United States Congress and authorized thereby to issue securities or evidence of indebtedness, regardless of guarantee of repayment by the U.S. government; obligations of political subdivisions of the United States; certain obligations issued by the State Board of Education; short-term warrants of political subdivisions of the State of Arkansas and municipalities; the sale of federal funds with a maturity of not more than one business day; demand, savings or time deposits fully insured by a federal deposit insurance agency; repurchase agreements that are fully insured by obligations of the U. S. government, any U. S. state or any political subdivision thereof; securities of, or other interest in, any open-end type investment company or investment trust registered under the Investment Company Act of 1940, and which is considered a money market fund, provided that the portfolio is limited principally to U. S. government obligations and the investment company or trust takes delivery of collateral either directly or through an authorized custodian; and bank certificates of deposit. Arkansas statutes also authorize the City to invest no more than 20 percent of its capital base in corporate debt obligations; revenue bond issues of any U. S. state, municipality, or political subdivision; industrial development bonds for corporate obligors issued through any U. S. state or political subdivision; securities or interest in an open-end or closed-end management type investment company or trust registered under the Investment Company Act of 1940 with certain limitations; securities or interests issued, assumed, or guaranteed by certain international banks; and uninsured demand, savings, or time deposits or accounts or any depository institution chartered by the United States, any U. S. state, or the District of Columbia.

The pension trust funds are authorized to invest in U. S. government and agency securities, bank certificates of deposit, common stocks, investment grade corporate bonds and other appropriate securities.

Investments at December 31, 2017, consisted of the following:

Type	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Bond mutual funds	\$ 2,129,571	\$ -	\$ 706,575	\$ 545,624	\$ 877,372
		\$ -	\$ 706,575	\$ 545,624	\$ 877,372
Equity mutual funds	1,274,604				
	<u>\$ 3,404,175</u>				

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The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of December 31, 2017:

- Bond and equity mutual funds of \$2,129,571 and \$1,274,604, respectively, are valued using quoted market prices (Level 1 inputs).

Interest Rate Risk – The City’s investment policy does not specifically address interest rate risk. The Pension Fund investment policy does not specifically address interest rate risk.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The City’s investment policy does not specifically address credit risk.

The Pension Fund investment policy limits its investments in fixed income securities and preferred shares to a rating of “investment grade” by Moody’s Investors Service (Moody’s) and Standard & Poor’s (S&P).

Investment Type	Rating Agency	Rating
Bond mutual funds	S&P/Moody’s	A stable/A1

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. While the City’s investment policy does not directly address custodial credit risk, all investments held by the City or by an agent of the City in the City’s name are insured or collateralized or limited to Treasury Fund Money Markets.

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

City of Siloam Springs, Arkansas
Notes to Financial Statements
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Summary of Carrying Values

The carrying values of deposits and investments shown on the previous page are included in the financial statements as follows:

Carrying value	
Deposits	\$ 36,145,672
Cash on hand	4,894
Investments	<u>3,404,175</u>
	<u><u>\$ 39,554,741</u></u>
Balance sheet-governmental funds	
Cash and cash equivalents	\$ 9,243,020
Certificates of deposit	3,175,730
Restricted	
Cash and cash equivalents	4,124,091
Statement of fund net position - proprietary funds	
Cash	8,200,692
Certificates of deposit	2,202,711
Restricted	
Cash	6,946,635
Certificates of deposit	1,742,212
Statement of fiduciary net position	
Cash	257,714
Certificates of deposit	257,761
Investments	
Mutual funds	<u>3,404,175</u>
	<u><u>\$ 39,554,741</u></u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
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Note 3: Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general, street, and utilities funds and the nonmajor governmental and proprietary and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts:

	General Fund	Street Fund	Debt Service Fund	Total
Governmental				
Property taxes	\$ 1,398,481	\$ 477,989	\$ -	\$ 1,876,470
Sales taxes	595,047	124,859	41,647	761,553
Ambulance	2,040,232	-	-	2,040,232
Other	233,821	-	-	233,821
Gross receivables	<u>4,267,581</u>	<u>602,848</u>	<u>41,647</u>	<u>4,912,076</u>
Less allowance for uncollectibles	<u>(1,809,048)</u>	<u>(14,339)</u>	<u>-</u>	<u>(1,823,387)</u>
Net total receivables	<u><u>\$ 2,458,533</u></u>	<u><u>\$ 588,509</u></u>	<u><u>\$ 41,647</u></u>	<u><u>\$ 3,088,689</u></u>
		Utilities	Airport	Total
Proprietary				
Accounts		\$ 6,474,807	\$ 94,922	\$ 6,569,729
Sales taxes		312,147	-	312,147
Gross receivables		<u>6,786,954</u>	<u>94,922</u>	<u>6,881,876</u>
Less allowance for uncollectibles		<u>(2,299,219)</u>	<u>-</u>	<u>(2,299,219)</u>
Net total receivables		<u><u>\$ 4,487,735</u></u>	<u><u>\$ 94,922</u></u>	<u><u>\$ 4,582,657</u></u>
Fiduciary				
Property taxes				\$ 139,878
Less allowance for uncollectibles				<u>(4,196)</u>
Net total receivables				<u><u>\$ 135,682</u></u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2017

Note 4: Capital Assets

A summary of changes in capital assets for the year ended December 31, 2017, is presented below:

Governmental Activities	Balance, December 31, 2016	Additions and Transfers, Net	Retirements and Transfers, Net	Balance, December 31, 2017
Capital assets, non-depreciable				
Land	\$ 9,180,728	\$ 20,702	\$ -	\$ 9,201,430
Construction in progress	<u>2,215,272</u>	<u>1,354,657</u>	<u>(3,270,307)</u>	<u>299,622</u>
Total capital assets, non-depreciable	<u>11,396,000</u>	<u>1,375,359</u>	<u>(3,270,307)</u>	<u>9,501,052</u>
Capital assets, depreciable				
Buildings	25,362,688	1,451,582	-	26,814,270
Furniture, fixtures, & equipment	14,605,938	1,957,065	(178,146)	16,384,857
Infrastructure	<u>42,862,237</u>	<u>2,530,630</u>	<u>-</u>	<u>45,392,867</u>
Total capital assets, depreciable	<u>82,830,863</u>	<u>5,939,277</u>	<u>(178,146)</u>	<u>88,591,994</u>
Less accumulated depreciation				
Buildings	(8,311,124)	(919,019)	-	(9,230,143)
Furniture, fixtures, & equipment	(8,375,786)	(1,602,796)	178,146	(9,800,436)
Infrastructure	<u>(25,323,653)</u>	<u>(1,627,659)</u>	<u>-</u>	<u>(26,951,312)</u>
Total accumulated depreciation	<u>(42,010,563)</u>	<u>(4,149,474)</u>	<u>178,146</u>	<u>(45,981,891)</u>
Total governmental activities, net	<u>52,216,300</u>	<u>3,165,162</u>	<u>(3,270,307)</u>	<u>52,111,155</u>
Internal service funds				
Maintenance and engineering	687,482	-	(687,482)	-
Accumulated depreciation	<u>(474,365)</u>	<u>-</u>	<u>474,365</u>	<u>-</u>
Total internal service funds	<u>213,117</u>	<u>-</u>	<u>(213,117)</u>	<u>-</u>
Total governmental activities and internal service funds	<u>\$ 52,429,417</u>	<u>\$ 3,165,162</u>	<u>\$ (3,483,424)</u>	<u>\$ 52,111,155</u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2017

Business-type Activities	Balance, December 31, 2016	Additions and Transfers, Net	Retirements and Transfers, Net	Balance, December 31, 2017
Capital assets, non-depreciable				
Land	\$ 1,209,271	\$ -	\$ -	\$ 1,209,271
Construction in progress	<u>1,374,509</u>	<u>433,999</u>	<u>(1,373,529)</u>	<u>434,979</u>
Total capital assets, non-depreciable	<u>2,583,780</u>	<u>433,999</u>	<u>(1,373,529)</u>	<u>1,644,250</u>
Capital assets, depreciable				
Buildings	8,213,357	152,708	-	8,366,065
Furniture, fixtures, & equipment	11,227,336	883,259	-	12,110,595
Infrastructure	<u>108,372,755</u>	<u>2,556,859</u>	<u>-</u>	<u>110,929,614</u>
Total capital assets, depreciable	<u>127,813,448</u>	<u>3,592,826</u>	<u>-</u>	<u>131,406,274</u>
Less accumulated depreciation				
Buildings	(4,523,703)	(327,264)	-	(4,850,967)
Furniture, fixtures, & equipment	(6,840,066)	(599,815)	-	(7,439,881)
Infrastructure	<u>(44,960,364)</u>	<u>(3,259,450)</u>	<u>-</u>	<u>(48,219,814)</u>
Total accumulated depreciation	<u>(56,324,133)</u>	<u>(4,186,529)</u>	<u>-</u>	<u>(60,510,662)</u>
Total business-type activities, net	<u>\$ 74,073,095</u>	<u>\$ (159,704)</u>	<u>\$ (1,373,529)</u>	<u>\$ 72,539,862</u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2017

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 404,256
Public safety and judiciary	
Police	183,039
Fire	666,543
Other	11,221
Transportation	1,788,904
Cultural, parks and recreation	392,669
Community development	<u>228,477</u>
Total depreciation expense	<u>3,675,109</u>
Business-type activities	
Electric	1,062,524
Water utilities	1,231,870
Wastewater utilities	1,323,864
Sanitation	243,216
Airport	<u>325,055</u>
Total depreciation expense	<u>4,186,529</u>
Total depreciation expense-primary government	<u><u>\$ 7,861,638</u></u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2017

Note 5: Long-term Liabilities

Changes in long-term liabilities for the year ended December 31, 2017, were as follows:

Governmental Activities	Balance December 31, 2016	Increases	Decreases	Balance December 31, 2017	Amounts Due in One Year
Bonds payable					
Sales & Use Tax Refunding Bonds, Series 2003	\$ 289,900	\$ -	\$ (289,900)	\$ -	\$ -
Sales & Use Tax Refunding Bonds, Series 2012	1,725,000	-	(75,000)	1,650,000	455,000
Unamortized bond premium	5,701	-	(1,141)	4,560	-
	<u>2,020,601</u>	<u>-</u>	<u>(366,041)</u>	<u>1,654,560</u>	<u>455,000</u>
Bonds payable, net					
	2,020,601	-	(366,041)	1,654,560	455,000
Capital lease payable	1,594,678	-	(351,437)	1,243,241	386,685
Compensated absences	1,002,519	575,159	(611,524)	966,154	966,154
Other postemployment benefits liability	997,613	52,867	-	1,050,480	-
Net pension liability	7,368,884	122,646	-	7,491,530	-
Total governmental activities long-term liabilities	<u>\$ 12,984,295</u>	<u>\$ 750,672</u>	<u>\$ (1,329,002)</u>	<u>\$ 12,405,965</u>	<u>\$ 1,807,839</u>
Business-type Activities	Balance December 31, 2016	Increases	Decreases	Balance December 31, 2017	Amounts Due in One Year
Bonds payable					
Revolving Loan Fund	\$ 4,955,658	\$ -	\$ (1,240,028)	\$ 3,715,630	\$ 1,271,223
Revolving Loan Fund	2,774,079	-	(288,308)	2,485,771	297,754
Utility System Refunding Revenue Bonds, Series 2012	2,470,000	-	(390,000)	2,080,000	400,000
Unamortized bond premium	29,718	-	(7,076)	22,642	-
	<u>10,229,455</u>	<u>-</u>	<u>(1,925,412)</u>	<u>8,304,043</u>	<u>1,968,977</u>
Bonds payable, net					
	10,229,455	-	(1,925,412)	8,304,043	1,968,977
Compensated absences	367,963	263,700	(234,258)	397,405	397,405
Other postemployment benefits liability	306,929	19,225	-	326,154	-
Total business-type activities long-term liabilities	<u>\$ 10,904,347</u>	<u>\$ 282,925</u>	<u>\$ (2,159,670)</u>	<u>\$ 9,027,602</u>	<u>\$ 2,366,382</u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2017

Bonds outstanding at December 31, 2017, were as follows:

Governmental Activities

Sales and Use Tax Refunding Bonds, Series 2003 – Original issue amount of \$3,150,000 dated June 1, 2003; issued by the City of Siloam Springs, Arkansas, to refund the City’s outstanding Sales and Use Tax Refunding Bonds, Series 1993; secured by a pledge of the City’s share of countywide sales tax collections; interest rate of 4.00% with a final maturity date of February 1, 2017.

Sales and Use Tax Refunding Bonds, Series 2012 – Original issue amount of \$1,795,000 dated December 1, 2012; issued by the City of Siloam Springs, Arkansas, to refund the City’s outstanding Sales and Use Tax Refunding Bonds, Series 2004; secured by a pledge of the City’s share of countywide sales tax collections; interest rate of 2.00% with a final maturity date of February 1, 2021.

Business Type Activities

Revolving Loan Fund #00618-CWRLF-L – Administered by the Arkansas Soil and Water Conservation Commission; Original loan amount \$20,000,000, dated September 10, 2007; principal and interest is payable on the outstanding balance beginning April 2011; bonds pledged as collateral for loan held by the Arkansas Development Finance Authority, to provide funds to finance construction of the City’s new wastewater treatment plant; secured by 5/8 cent City sales tax; interest rate of 1.50% with final maturity date of October 15, 2020.

Revolving Loan Fund #00254-CWRLF-L – Administered by the Arkansas Soil and Water Conservation Commission; Original loan amount of \$5,500,000, dated October 16, 2003; principal and interest is payable on the outstanding balance beginning October 2005; bonds pledged as collateral for loan held by the Arkansas Development Finance Authority, to provide funds to finance extensions, betterments and improvements to the City’s sewer system; secured by utility system revenues; interest rate of 2.5% with final maturity dated April 15, 2025.

Utility System Refunding Revenue Bonds, Series 2012 – Original issue amount of \$3,905,000, dated December 1, 2012; issued by the City of Siloam Springs, Arkansas, to provide funds to refund the Utility System Refunding and Construction Revenue Bonds, Series 2003; secured by the utility system revenues; interest rate of 1.00% to 2.65% with final maturity dated October 1, 2022.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2017

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on revenue bonds outstanding at December 31, 2017.

Fiscal Year	Governmental Activities	
	Principal	Interest
2018	\$ 455,000	\$ 35,463
2019	465,000	26,363
2020	475,000	17,063
2021	255,000	6,375
	<u>\$ 1,650,000</u>	<u>\$ 85,264</u>

Fiscal Year	Business-type Activities		
	Principal	Interest	Fees
2018	\$ 1,968,977	\$ 155,357	\$ 60,064
2019	2,015,712	121,415	44,272
2020	1,873,790	86,669	28,058
2021	752,990	55,276	14,816
2022	773,736	37,424	11,509
2023 - 2026	896,196	30,572	13,587
	<u>\$ 8,281,401</u>	<u>\$ 486,713</u>	<u>\$ 172,306</u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2017

The following is a summary of pledged revenues for the City for the year ended December 31, 2017.

Debt	Revenue Pledged	Total Pledged Revenue	Portion of Pledged Revenue Stream	Percentage Portion of Pledged Revenue Stream	Remaining Principal, Interest and Fees	Period Revenue Will Not Be Available for Other Purposes
Governmental Activities:						
Sales and Use Tax Refunding Bonds - Series 2003	Sales and Use Taxes	\$ 489,192	\$ 289,900	59.3%	\$ -	Until 2017
Sales and Use Tax Refunding Bonds - Series 2012	Sales and Use Taxes	489,192	75,000	15.3%	1,735,263	Until 2021
					1,735,263	
Business-Type Activities:						
Revolving Loan Fund #00618-CWRLF-L	5/8 Cent City Sales Tax	2,393,526	1,240,028	51.8%	3,888,482	Until 2020
Revolving Loan Fund #00254-CWRLF-L	Revenues of the Enterprise Fund	37,147,035	288,308	0.8%	2,821,064	Until 2025
Utility System Refunding Revenue Bonds - Series 2012	Revenues of the Enterprise Fund	37,147,035	390,000	1.0%	2,230,878	Until 2022
					8,940,424	

Note 6: Capital Lease Obligations

During 2016, the government entered into a lease agreement as lessee for financing the acquisition of a new firetruck valued at \$1,689,053. The firetruck was placed into service during 2017 and has a five-year estimated useful life. During 2017, depreciation expense of \$337,811 was recorded in association with the firetruck. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the net present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2017, were as follows:

Year ending December 31	Governmental Activities
2018	\$ 403,358
2019	403,358
2020	403,358
2021	67,227
Total minimum lease payments	1,277,301
Less: amount representing interest	(34,060)
Present value of minimum lease payments	\$ 1,243,241

City of Siloam Springs, Arkansas
Notes to Financial Statements
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Note 7: Interfund Receivables and Payables

Interfund receivables and payables as of December 31, 2017, are as follows:

	Interfund Receivables	Interfund Payables
Governmental funds		
General fund	\$ -	\$ 771,292
Street fund	254	-
Total governmental funds	254	771,292
Proprietary funds to/from nonfiduciary funds		
Utilities	771,038	-
Total	\$ 771,292	\$ 771,292

The outstanding balances between funds result mainly from the time lag between the dates (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

Note 8: Interfund Transfers

Amount of interfund transfers between funds are summarized as follows:

	Transfers In	Transfers Out
Governmental funds		
General fund	\$ 11,787,377	\$ 622,835
Other nonmajor governmental funds	436,971	-
Proprietary funds		
Utilities	-	11,605,838
Internal service funds	8,693	4,368
Total	\$ 12,233,041	\$ 12,233,041

Transfers are used to move revenues from the fund where collected to the appropriate fund.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2017

Note 9: Pension Plans

The City of Siloam Springs, Arkansas participates in two defined benefit pension plans; which are comprised of one single employer defined benefit pension plan and one cost-sharing multiple-employer defined benefit pension plan, each of which are described and illustrated in detail below. Aggregate amounts for the two pension plans are as follows:

	<u>FRPF</u>	<u>LOPFI</u>	<u>Total</u>
Net pension liability	\$ 297,188	\$ 7,194,342	\$ 7,491,530
Deferred outflows of resources	-	1,936,323	1,936,323
Deferred outflows of resources - contributions	-	984,507	984,507
Deferred inflows of resources	204,995	84,735	289,730
Pension expense	23,309	1,489,499	1,512,808

Firefighters' Relief and Pension Fund ("FRPF")

Plan Description. The Firemen's Relief and Pension Fund ("FRPF") is a single-employer defined benefit pension plan administered by a Board of Trustees, established in accordance with legislation enacted by the Arkansas General Assembly. The Board of Trustees consists of two members of City Management and five members elected by the plan members. The elected members are required to be participants within the plan. Benefit provisions are established by State of Arkansas Act #14, as amended. Fund assets are administered by the Board of Trustees.

Benefits. The FRPF provides retirement benefits for firefighters who have completed 20 years of service regardless of age. The benefit is equal to 60% of the member's final salary, but not less than \$4,200. If service exceeds 20 years, the annual benefit is increased by \$240 for each year over 20, not to exceed \$1,200 per year and if service exceeds 25 years, the member will receive an additional 1.25% for each year over 25 years, however, the total benefit cannot exceed 100% of the member's final salary. Disability benefits are available to firefighters who become permanently disabled, unless the disability is the direct result of gainful employment performed outside of the fire department. The benefit for non-duty disability is the same as noted above, however, cannot be less than \$4,200 per year. For duty-related disability, the benefit cannot be less than 65% of the member's final salary. The FRPF also provides benefits for surviving spouses and dependent children in which a widow would receive the same amount the member would receive or would be eligible to receive. Dependent children would receive \$1,500 per year until age 19. No participants' benefits vest until normal retirement age. At normal retirement, participants may elect to continue working and enter the Deferred Retirement Option Plan (DROP) for up to 5 years. All firefighters hired after January 1, 1983, participate in the Arkansas Local Police and Fire Retirement System created by Act 364 of 1981 described later in this footnote. Therefore, the Firemen's Fund is effectively closed to new members. The FRPF does not issue a separate, publicly available financial report.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2017

Method Used to Value Investments. Investments are stated at fair value in the accompanying statement of fiduciary net position. The fair value of marketable investments, including U.S. government securities and corporate bonds and stocks, is determined by the latest bid price or by the closing exchange price at the statement of fiduciary net position date.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Net increase or decrease in fair value of investments reflected in the accompanying statement of changes in fiduciary net position represent gains or losses realized during the year plus or minus the change in the net unrealized gains or losses on investments. Net unrealized gains or losses on investments represent the change in the difference between the cost and market value of the investments at the beginning versus the end of the year.

Contributions. Contributions to the FRPF are set forth in Arkansas statute. The City's contribution to the FRPF consists of one half of a mill of real and personal property tax collections and an insurance premium tax turnback collected by the State Insurance Commissioner. Administrative costs are financed by the FRPF. Total 2017 contributions to the FRPF were \$142,699. The City's share of contributions was \$113,116 and consisted entirely of property taxes. On behalf payments (state insurance premium taxes) are recognized as revenues and expenditures in the appropriate fund.

The asset concentrations of over 5% are as follows:

Franklin Convertible	\$ 712,939
Jhancock Strategic Income	355,777
Loomis Sayles Senior Floating Rate	322,297
Principal Global Diverse Income Institutional	232,718
Principal Preferred Securities Fund Institutional Class	495,840
MFS Value Fund Class I	600,790
T. Rowe Price Institutional Large Cap Growth Fund	577,932

Update Procedures. The December 31, 2017 actuarial valuation was not available in time for use in the preparation of the City's financials. As an alternative, the City applied certain update procedures to the total pension liability to roll forward the total pension liability from December 31, 2016 to December 31, 2017. For the purposes of these procedures, all actuarial methods and assumptions described below were assumed to remain unchanged.

City of Siloam Springs, Arkansas
Notes to Financial Statements
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Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The State of Arkansas Fire and Police Pension Review Board is responsible for the coordination of the actuarial valuations performed on the FPRF. Actuarial valuations are performed annually and the last evaluation was as of December 31, 2016. The actuarial assumptions used in evaluating the fund were based on an experience study conducted from 2007 to 2012 and are as follows:

Salary increases	4.20% to 8.00%
Inflation	3.00%
Mortality table	1983 Group Annuity Table
Investment rate of return	5.00%, net of pension plan investment expense, including inflation

Membership Information

Membership of the FPRF consisted of the following at December 31, 2017:

Retirees and beneficiaries receiving benefits	21
Active plan members	-
	<hr/>
Total	21
	<hr/>

Net Pension Liability

The components of the net pension liability of the City were as follows:

Measurement Date	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability
December 31, 2017	\$ 3,855,012	\$ 3,557,824	\$ 297,188	92.29%

City of Siloam Springs, Arkansas
Notes to Financial Statements
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Long-term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return. The rates were built on a target allocation for all pension funds, and therefore the target for an individual fund may vary within the guidelines of Arkansas law and regulation. The long-term expected rates of return are shown in the table below:

Long-term Expected Real Rate of Return		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Fixed Income	80%	2.25%
Domestic Equity	10%	4.75%
Cash	10%	0.25%
Total	100%	

Discount Rate

In the December 31, 2016 actuarial valuation, a single discount rate of 5.0% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 5.0%. The projection of cash flows, based on the assumptions made, found that the pension plan's net position was available to make all projected 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.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City's net pension liability for the FRPF using the current rate as compared to what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Sensitivity of the Net Position Liability to the Single Discount Rate Assumption		
	1% Decrease 4.00%	Current Single Rate Assumption 5.00%	1% Increase 6.00%
City's net pension liability	\$ 459,747	\$ 297,188	\$ 159,871

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2017

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2017	\$ 3,968,062	\$ 3,284,783	\$ 683,279
Changes for the year:			
Interest	190,095	-	190,095
Differences between expected and actual experience	29,167		29,167
Contributions - employer	-	113,166	(113,166)
Contributions - other	-	29,533	(29,533)
Net investment income	-	517,968	(517,968)
Benefit payments, including refunds of employee contributions	(332,312)	(330,191)	(2,121)
Benefit payments - supplements	-	(29,533)	29,533
Administrative expense	-	(27,902)	27,902
Net changes	(113,050)	273,041	(386,091)
Balances at December 31, 2017	\$ 3,855,012	\$ 3,557,824	\$ 297,188

Money-weighted Rate of Return

The annual money-weighted rate of return on pension plan investments is calculated as the internal rate of return on pension plan investments net of pension plan investment expense and adjusted for the changing amounts actually invested. The money-weighted rate of return for 2017 was 15.28%.

Pension Expense and Deferred Inflows of Resources related to Pensions

For the year ended December 31, 2017, the City recognized pension expense from the FRPF Plan of \$23,309. At December 31, 2017, the City reported deferred outflows of resources related to pensions from the following source:

	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 204,995
Total	\$ 204,995

City of Siloam Springs, Arkansas
Notes to Financial Statements
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Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u> <u>December 31,</u>			
2018	\$	35,477	
2019		35,477	
2020		68,065	
2021		65,976	
Total	\$	204,995	

Local Police and Fire Retirement System (“LOPFI”)

Plan Description. The Arkansas Local Police and Fire Retirement System (“LOPFI”) is a statewide cost-sharing multiple-employer defined benefit pension plans administered by the LOPFI Board of Trustees. LOPFI provides retirement, disability and survivor benefits to police and fire employees of political subdivisions of the State of Arkansas. LOPFI was created by Act 364 of the 1981 General Assembly. Employees hired after January 1, 1983, whose political subdivision had a retirement system in effect at July 1, 1981 are eligible to participate in the plan. LOPFI issues a publicly available report which may be obtained by writing to LOPFI, P. O. Drawer 34164, Little Rock, Arkansas, 72203, or by calling 501.682.1745.

Benefits provided. LOPFI provides for a retirement benefit paid to its’ Members on a monthly basis. The monthly benefit is based on a formula provided by law for the Member’s lifetime. The Member has several options in calculating the benefit, which is normally the result of these factors: age at retirement, retirement multiplier, amount of credit services (years and months), and final average pay (FAP). Each option available to the Member provides for a different calculation based on these factors.

Contributions. Contributions to LOPFI are made by both the members and employers. Member contribution rates are established by the LOPFI Board of Trustees. The employer contributions are actuarially determined on an annual basis. The current employee contribution rate is 2.50% of covered payroll for police officers and 8.50% of covered payroll for firefighters. The City contributed 23.00% of covered employee’s salaries to the plan for police officers and 22.78% of covered employees’ salaries to the Plan for firefighters for the year ended December 31, 2017. Contributions made to the Plan by employees and the City for the year ended December 31, 2017 amounted to \$257,227 and \$984,507, respectively.

City of Siloam Springs, Arkansas
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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the City reported a liability of \$7,194,342 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the ratio of the City's actual contributions to the Plan during the measurement period to the total employer contributions to the Plan of the group for the measurement period. At December 31, 2016, the City's proportion was 1.2610%, which was a decrease of .0130% from the December 31, 2015 proportion of 1.2740%.

For the year ended December 31, 2017, the City recognized pension expense related to the LOPFI plan of \$1,456,993. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 250,630	\$ 1,692
Changes in assumptions or other inputs	383,409	-
Difference between projected and actual investment earnings on pension plan investments	1,142,408	-
Changes in proportion	159,876	83,043
Contributions subsequent to the measurement date	984,507	-
Total	\$ 2,920,830	\$ 84,735

The amount reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$984,507 will be recognized as a reduction of the net pension liability for the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Plan will be recognized in pension expense as follows:

	Year Ending December 31,
2018	\$ 605,811
2019	605,953
2020	555,728
2021	84,096
Total	\$ 1,851,588

City of Siloam Springs, Arkansas
Notes to Financial Statements
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Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.75 percent
Wage inflation	3.75 percent
Salary increases	4.25 to 18.75 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table Projected to 2017, set forward two years for men.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2008 to December 31, 2011. As a result of the 2011 actuarial experience study, the expectation of life after disability was adjusted in the December 31, 2016 actuarial evaluation to more closely reflect actual experience.

Long-term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return. The rates were built on a target allocation for all pension funds and therefore, the target for an individual fund may vary within the guidelines of Arkansas law and regulation. The long-term expected rates of return are shown in the table below:

Long-term Expected Real Rate of Return		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Fixed Income	30%	2.97%
International Fixed Income	6%	1.50%
Domestic Equity	33%	5.88%
Foreign Equity	7%	6.25%
Index	11%	6.73%
Alternative Investments	10%	6.13%
Cash	3%	-0.40%
Total	100%	

City of Siloam Springs, Arkansas
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Discount Rate

In the December 31, 2016 actuarial valuation, a single discount rate of 7.75% was used to measure the total pension liability based on the expected rate of return on pension plan investments of 7.75%. The projection of cash flows, based on the assumptions made, found that the pension plan's net position was available to make all projected 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.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	Sensitivity of the Net Pension Liability		
	1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
City's proportionate share of the net pension liability	\$ 11,265,562	\$ 7,194,342	\$ 3,859,331

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued LOPFI financial report which can be obtained from the LOPFI website, lofpi-prb.com.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. International City Management Association Retirement Corporation ("ICMARC") administers the Plan. All assets and income of the trust are for the exclusive benefit of eligible employees and their beneficiaries. The City does not have a fiduciary responsibility or administrative duties relating to the deferred compensation plan other than remitting employee and City matching contributions to the trustees. Accordingly, the City has not presented the assets and liabilities from the plan in these basic financial statements. Deferred compensation investments are held by outside trustees. Plan investments are chosen by the individual participant (employee) and include mutual funds whose focus is on stocks, bonds, treasury securities, money market-type investments or a combination of these.

City of Siloam Springs, Arkansas
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Employees with 12 months of employment are required to contribute 3% of pay and the City contributes a minimum of 6% of pay, excluding certain exempt employees for whom the City makes a contribution based on the employees' gross earnings, as defined by the agreement based on their respective position with the City. During 2017, the City's contributions totaled \$523,204.

Note 10: Other Postemployment Benefits (OPEB)

Plan Description: The City sponsors and administers an informal single-employer defined benefit healthcare plan. Retirees who are vested in their retirement plan and are eligible to receive a retirement benefit (and actually apply for and receive the retirement benefit) are entitled to purchase continued health benefits coverage for him or herself and their dependents until Medicare eligibility. The City's Board of Directors has the authority to establish and amend the requirements of this plan. The City does not issue stand-alone financial statements of the healthcare plan but all required information is presented in this report.

Funding Policy: The contribution requirements of plan members are established by City ordinance and may be amended as needed. Retiree coverage is the same as the coverage provided to active City employees. Retirees pay premiums ranging from \$108.20 per month to \$499.83 per month depending on the coverage elected. (This, of course, is besides the two that had City paid employee only medical coverage.) The City's policy maintains that retirees who retire after age 62 must pay 100% of the extra cost of premiums for dependent coverage and the City pays 100% of the contribution for the retiree. Employees who leave employment due to disability receive the same benefit for 2 years. Retirees with 20 years of service retiring before age 62 pay 60% of the entire premium cost. All retirees become ineligible for City insurance once they become eligible for Medicare. The cost of retiree healthcare benefits is financed on a pay-as-you-go basis and is recorded as an expense in the applicable fund as liabilities are incurred. There were 10 retirees covered under this plan at December 31, 2017. Dependent coverage was provided for six of the retirees. Total benefits paid by the City for retirees during the fiscal year were \$74,226.68. Retirees contributed \$24,731.33 of the total current year cost.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2017

Annual OPEB Cost and Net OPEB Obligation: The City’s annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation:

ARC	\$ 201,304
Interest on net OPEB obligation	58,389
Adjustment to ARC	<u>(47,316)</u>
Annual OPEB cost	212,377
Total annual employer contribution (pay-as-you-go)	<u>(140,285)</u>
Increase in net OPEB obligation	72,092
Net OPEB Obligation - beginning of year	<u>1,304,542</u>
Net OPEB Obligation - end of year	<u><u>\$ 1,376,634</u></u>

The components of the ARC calculation reflecting a 30 year amortization period is as follows:

Service cost	\$ 61,572
Amortization cost	<u>139,732</u>
ARC	<u><u>\$ 201,304</u></u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the respective three years is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	\$ 247,705	57%	\$ 1,232,452
12/31/2016	212,375	68%	1,304,542
12/31/2017	212,377	67%	1,376,634

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2017

Funded Status and Funding Progress: As of the most recent actuarial valuation date of December 31, 2016, the plan was not funded. The actuarial accrued liability for benefits was \$3,318,390 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,318,390. The ratio of the UAAL to the covered payroll (annual payroll of active employees covered by the Plan) of \$8,363,515 was 39.68%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included (a) 4.50% investment rate of return based on the City's rate of return on investments for 2016 and (b) an annual healthcare cost trend rate of 8.00% initially for 2016 reduced by decrements of one-half percent annually to an ultimate rate of 4.00% after eight years. Both rates included a 3.00% inflation assumption. The UAAL is being amortized on a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2016, was 30 years.

Note 11: Concentration of Credit Risk

The City purchases electricity from Grand River Dam Authority under a 35-year agreement executed during 2007. The agreement also has a 10-year extension option. This is the City's only contracted source of electric power. The City's service area is limited to the Northwest Arkansas geographic area within the City limits and the immediate surrounding area of the City of Siloam Springs, Arkansas.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2017

Note 12: Risk Management

The City has various insurance policies to cover its potential liability risk areas (*e.g.*, automobile, personal property, contents and outside structures and worker's compensation). Coverage is provided both commercially and through the Arkansas Municipal League (AML), which is an association of local governments. The AML provides the City with automobile and legal defense coverage and sets annual fixed premiums based on such factors as claims experience, employee class multipliers and population. For risks covered by the AML, the City pays no deductible; however, the City pays a \$3,000 fee to the AML for each legal matter it handles. There have been no significant reductions in coverage from 2016 to 2017; nor have settlement amounts exceeded insurance coverage for the current year or the three prior years.

Note 13: Contingencies

The City, its agencies and its employees are defendants in various legal proceedings, many of which occur normally in governmental operations. Such litigation includes, but is not limited to, claims assessed against the City for property damage and personal injury and other alleged torts and alleged violations of state and federal laws. Based on the current status of all of these legal proceedings, it is the opinion of the city attorney and management that the ultimate outcome will not have a material adverse impact on the City's financial position.

However, events could occur in the near term that would cause these estimates to change materially.

Note 14: Fund Balance

The City classified governmental fund balances as follows:

	General Fund	Street Fund	Debt Service Fund	Total
Fund balances				
Nonspendable				
Prepaid expenses	\$ 134,954	\$ 12,166	\$ -	\$ 147,120
Inventories	62,542	-	-	62,542
Spendable				
Restricted				
Capital outlay and debt service	886,221	2,826,625	516,485	4,229,331
Assigned				
Capital outlay	430,980	-	-	430,980
Unassigned				
General fund	11,358,286	-	-	11,358,286
Total fund balances	<u>\$ 12,872,983</u>	<u>\$ 2,838,791</u>	<u>\$ 516,485</u>	<u>\$ 16,228,259</u>

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Required Supplementary Information

City of Siloam Springs, Arkansas
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property taxes	\$ 1,050,000	\$ 1,050,000	\$ 1,131,760	\$ 81,760
Sales taxes	6,072,944	6,072,944	6,567,424	494,480
Licenses and permits	380,500	380,500	429,714	49,214
Intergovernmental	1,069,180	1,069,180	1,078,888	9,708
Charges for services	3,212,603	3,212,603	3,035,328	(177,275)
Fines and forfeitures	296,500	296,500	340,972	44,472
Grants and contributions	460,850	1,521,950	1,467,309	(54,641)
Investment income	6,577	6,577	17,014	10,437
Miscellaneous	83,100	83,100	194,534	111,434
Total revenues	<u>12,632,254</u>	<u>13,693,354</u>	<u>14,262,943</u>	<u>569,589</u>
Expenditures				
Current:				
General government				
Administration	1,287,001	2,296,101	2,189,471	(106,630)
Finance	1,144,467	1,144,467	1,140,187	(4,280)
Construction	520,162	520,162	487,657	(32,505)
Maintenance	346,732	346,732	299,659	(47,073)
Total general government	<u>3,298,362</u>	<u>4,307,462</u>	<u>4,116,974</u>	<u>(190,488)</u>
Public safety and judiciary				
Police	4,168,365	4,168,365	3,947,751	(220,614)
Fire	4,439,315	4,430,315	4,506,069	75,754
Municipal court	333,852	333,852	334,679	827
Total public safety and judiciary	<u>8,941,532</u>	<u>8,932,532</u>	<u>8,788,499</u>	<u>(144,033)</u>
Cultural, parks and recreation				
Library	482,679	482,679	461,366	(21,313)
Parks	1,354,244	1,354,244	1,301,538	(52,706)
Total cultural, parks and recreation	<u>1,836,923</u>	<u>1,836,923</u>	<u>1,762,904</u>	<u>(74,019)</u>
Community development				
Building inspections	1,497,501	1,497,501	1,467,949	(29,552)
Capital outlay	<u>2,918,722</u>	<u>3,491,867</u>	<u>2,506,787</u>	<u>(985,080)</u>
Total expenditures	<u>18,493,040</u>	<u>20,066,285</u>	<u>18,643,113</u>	<u>(1,423,172)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,860,786)</u>	<u>(6,372,931)</u>	<u>(4,380,170)</u>	<u>1,992,761</u>

	Original Budget	Final Budget	Actual	Variance with Final Budget
Other Financing Sources (Uses)				
Sale of capital assets	\$ 440,000	\$ 552,256	\$ 527,999	\$ (24,257)
Transfers in	6,000,000	6,000,000	11,787,377	5,787,377
Transfers out	<u>(665,612)</u>	<u>(665,612)</u>	<u>(622,835)</u>	<u>42,777</u>
Total other financing sources (uses)	<u>5,774,388</u>	<u>5,886,644</u>	<u>11,692,541</u>	<u>5,805,897</u>
Change in Fund Balances	(86,398)	(486,287)	7,312,371	7,798,658
Fund Balances, Beginning of Year	<u>5,560,612</u>	<u>5,560,612</u>	<u>5,560,612</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 5,474,214</u>	<u>\$ 5,074,325</u>	<u>\$ 12,872,983</u>	<u>\$ 7,798,658</u>

City of Siloam Springs, Arkansas
Budgetary Comparison Schedule –
Street Fund
Year Ended December 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property taxes	\$ 350,000	\$ 350,000	\$ 387,055	\$ 37,055
Sales taxes	1,469,699	1,469,699	1,531,857	62,158
Intergovernmental	1,028,200	1,028,200	1,037,006	8,806
Investment income	4,000	4,000	2,024	(1,976)
Miscellaneous	1,000	1,000	130,453	129,453
Total revenues	<u>2,852,899</u>	<u>2,852,899</u>	<u>3,088,395</u>	<u>235,496</u>
Expenditures				
Current:				
Transportation				
Streets	1,430,773	1,430,773	1,310,121	(120,652)
Capital outlay	<u>4,387,000</u>	<u>4,387,000</u>	<u>850,060</u>	<u>(3,536,940)</u>
Total expenditures	<u>5,817,773</u>	<u>5,817,773</u>	<u>2,160,181</u>	<u>(3,657,592)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,964,874)</u>	<u>(2,964,874)</u>	<u>928,214</u>	<u>3,893,088</u>
Other Financing Sources				
Transfers in	<u>262,700</u>	<u>262,700</u>	<u>-</u>	<u>(262,700)</u>
Total other financing sources	<u>262,700</u>	<u>262,700</u>	<u>-</u>	<u>(262,700)</u>
Change in Fund Balances	(2,702,174)	(2,702,174)	928,214	3,630,388
Fund Balances, Beginning of Year	<u>1,910,577</u>	<u>1,910,577</u>	<u>1,910,577</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ (791,597)</u>	<u>\$ (791,597)</u>	<u>\$ 2,838,791</u>	<u>\$ 3,630,388</u>

City of Siloam Springs, Arkansas

Required Supplementary Information

Defined Benefit Pension Plan

Schedule of Changes in the City's Net Pension Liability and Related Ratios - FRPF

Fiscal year ended December 31,	2017	2016	2015	2014
Total Pension Liability				
Interest	\$ 190,095	\$ 196,877	\$ 209,522	\$ 212,376
Difference between actual and expected experience	29,167	-	(129,297)	88,933
Benefit payments	<u>(332,312)</u>	<u>(332,716)</u>	<u>(333,537)</u>	<u>(383,251)</u>
Net Change in Total Pension Liability	(113,050)	(135,839)	(253,312)	(81,942)
Total Pension Liability - Beginning	<u>3,968,062</u>	<u>4,103,901</u>	<u>4,357,213</u>	<u>4,439,155</u>
Total Pension Liability - Ending (a)	<u>\$ 3,855,012</u>	<u>\$ 3,968,062</u>	<u>\$ 4,103,901</u>	<u>\$ 4,357,213</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 113,166	\$ 108,897	\$ 107,204	\$ 114,685
State insurance turnback - supplements	29,533	28,836	25,200	22,230
Net investment income	517,968	172,776	10,113	204,312
Benefit payments	(330,191)	(331,227)	(333,537)	(383,251)
Supplements	(29,533)	(28,836)	(25,200)	(22,230)
Administrative expense	<u>(27,902)</u>	<u>(22,028)</u>	<u>(2,912)</u>	<u>(2,359)</u>
Net Change in Plan Fiduciary Net Position	273,041	(71,582)	(219,132)	(66,613)
Plan Fiduciary Net Position - Beginning	<u>3,284,783</u>	<u>3,356,365</u>	<u>3,575,497</u>	<u>3,642,110</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,557,824</u>	<u>\$ 3,284,783</u>	<u>\$ 3,356,365</u>	<u>\$ 3,575,497</u>
City's Net Pension Liability (a) - (b)	\$ 297,188	\$ 683,279	\$ 747,536	\$ 781,716
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	92.29%	82.78%	81.78%	82.06%
Covered Payroll	\$ -	\$ -	\$ -	\$ -
City's Net Pension Liability as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A

Note: Information in this schedule has been determined as of the measurement date.

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provision of GASB 68, the City will only present available information.

City of Siloam Springs, Arkansas
Required Supplementary Information
Defined Benefit Pension Plan
Schedule of Contributions - FRPF

FY Ended December 31,	Actuarially Determined Contribution (ADC)	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2010	\$ 349,908	\$ 126,203	\$ 223,705	\$ -	N/A
2011	328,188	158,285	169,903	-	N/A
2012	342,732	137,154	205,578	-	N/A
2013	231,616	127,028	104,588	-	N/A
2014	179,714	113,539	65,029	-	N/A
2015	176,258	108,483	59,054	-	N/A
2016	168,551	109,109	59,442	-	N/A
2017	163,838	113,166	50,672	-	N/A

Key Assumptions for ADC:

Cost Method	Entry Age Normal
Amortization Method	Level Dollar, Open
Remaining Amortization	5 Years
Asset Valuation	Market Value
Investment Rate of Return	5.00%
Mortality	1983 Group Annuity Mortality

Note: Information in this schedule has been determined as of the City's most recent year-end.

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

City of Siloam Springs, Arkansas
Required Supplementary Information
Defined Benefit Pension Plan
Schedule of Investment Returns - FRPF

<u>FY Ended December 31,</u>	<u>Annual Return</u>
2014	5.83%
2015	0.29%
2016	5.34%
2017	15.28%

Note: A full 10-year schedule will be completed as information is available.

City of Siloam Springs, Arkansas
Required Supplementary Information
Defined Benefit Pension Plan

Schedule of the City's Proportionate Share of the Net Pension Liability - LOPFI

Fiscal year ended December 31,	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	1.2610%	1.2740% (1)	1.1949%
City's proportionate share of the net pension liability	\$ 7,194,342	\$ 6,685,605	\$ 4,325,604
City's covered payroll	3,795,488	3,718,254	3,485,289
City's proportionate share of the net pension liability as a percentage of its covered payroll	189.55%	179.80%	124.11%
Plan fiduciary net position as a percentage of the total pension liability	72.87%	72.92%	79.14%

Note: Information in this schedule has been determined as of the measurement date (December 31 of the year prior to the most recent fiscal year-end) of the City's new pension liability.

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full year 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

(1): Assumption changes for 2016 include a decrease in price inflation from 3.00 to 2.75 percent; a decrease in wage inflation from 4.00 to 3.75 percent; a decrease in salary increases from 4.50 to 19 percent to 4.25 to 18.75 percent; and a decrease in the investment rate of return from 8.00 to 7.75 percent.

City of Siloam Springs, Arkansas
Required Supplementary Information
Defined Benefit Pension Plan
Schedule of City Contributions - LOPFI

Fiscal year ended December 31,	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 984,507 (1)	\$ 830,071 (1)	\$ 790,948
Contributions in relation to the statutorily required contribution	<u>(984,507)</u>	<u>(830,071)</u>	<u>(790,948)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 4,304,318	\$ 3,795,488	\$ 3,718,254
Contributions as a percentage of covered payroll	22.87%	21.87%	21.27%

Note: Information in this schedule has been determined as of the City's most recent fiscal year-end.

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

(1): Assumption changes for 2016 include a decrease in price inflation from 3.00 to 2.75 percent; a decrease in wage inflation from 4.00 to 3.75 percent; a decrease in salary increases from 4.50 to 19 percent to 4.25 to 18.75 percent; and a decrease in the investment rate of return from 8.00 to 7.75 percent.

City of Siloam Springs, Arkansas
Required Supplementary Information
Other Postemployment Benefit Plan
Schedule of Funding Progress
Year Ended December 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ("AAL") Entry Age (b)	UAAL	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2012	\$ -	\$ 2,719,288	\$ 2,719,288	0.0%	\$ 7,239,535	37.56%
1/1/2014	-	3,191,043	3,191,043	0.0%	8,315,032	38.38%
1/1/2016	-	3,318,390	3,318,390	0.0%	8,363,515	39.68%

The required contribution was determined as part of the latest actuarial evaluation using the projected unit credit actuarial cost method. The actuarial assumptions used included (a) 4.50% rate of return on investments, (b) an annual healthcare cost trend rate of 8.00% initially reduced by decrements to an ultimate rate of 4.00% after eight years, and (c) mortality rates based on the RP-2014 Total Table with Projection MP 2015 and (d) salary increases of 3.00%. The unfunded actuarial accrued liability is being amortized using level dollar amount over 30 years on an open basis.

City of Siloam Springs, Arkansas
Notes to Required Supplementary Information
December 31, 2017

Budgets and Budgetary Accounting

The City's Board of Directors adopts an annual budget, which covers the General and Street Funds. All unencumbered appropriations lapse at year end, except for certain appropriations for capital outlay in the Street Fund. The budgets for the General and Street Funds are prepared on the modified accrual basis except for encumbrances, which are treated as budgeted expenditures. Budgetary level of control is exercised at the departmental level. The City Administrator is authorized to transfer budgeted amounts within departments; however, any revisions that alter total expenditures of the departments must be approved by the City's Board of Directors. During 2017, the City's Board of Directors approved changes to budgetary expenditures for the General and Street Funds as reflected in the Budgetary Comparison Schedules.

The Budgetary Comparison Schedules included in the required supplementary information presents a comparison of budgetary data to actual results of operations for the General and Street Funds, for which an annual operating budget is legally adopted. These funds utilize the same basis of accounting for both budgetary purposes and actual results. This results in a budget with charges exceeding resources. The actual results include the operating transfers in as a resource.

The City prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

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Combining Schedule

City of Siloam Springs, Arkansas
Combining Schedule of Revenues, Expenses and Changes in Net Position –
Enterprise Fund Departments
Year Ended December 31, 2017

	Enterprise Fund Departments				
	Electric	Water	Wastewater	Sanitation	Totals
Operating Revenues					
Charges for services	\$ 22,824,991	\$ 4,822,197	\$ 4,060,642	\$ 2,996,787	\$ 34,704,617
Operating Expenses					
Cost of goods sold					
Cost of power	14,134,606	-	-	-	14,134,606
Personal services	1,828,026	701,174	400,476	898,644	3,828,320
Contracted services	47,051	42,097	34,450	4,928	128,526
Maintenance and operating expenses	784,928	478,231	445,497	477,069	2,185,725
Other services and charges	381,183	194,704	263,225	1,307,957	2,147,069
Utilities	24,352	234,867	396,170	15,996	671,385
Depreciation	1,062,524	1,231,870	1,323,864	243,216	3,861,474
Total operating expenses	18,262,670	2,882,943	2,863,682	2,947,810	26,957,105
Operating Income	4,562,321	1,939,254	1,196,960	48,977	7,747,512
Nonoperating Income (Expenses)					
Sales tax revenue	-	-	2,393,526	-	2,393,526
Interest income	38,688	2,142	7,456	606	48,892
Interest expense	-	(34,280)	(192,721)	(11,664)	(238,665)
Net non-operating revenues (expenses)	38,688	(32,138)	2,208,261	(11,058)	2,203,753
Income Before Capital Contributions and Transfers	4,601,009	1,907,116	3,405,221	37,919	9,951,265
Transfers Out	(7,752,000)	(2,214,000)	(1,483,838)	(156,000)	(11,605,838)
Change in Net Position	\$ (3,150,991)	\$ (306,884)	\$ 1,921,383	\$ (118,081)	(1,654,573)
Net Position, Beginning of Year					84,530,474
Net Position, End of Year					\$ 82,875,901

Other Information

City of Siloam Springs, Arkansas
Schedules of Bonds Outstanding
December 31, 2017

Sales and Use Tax Refunding Bonds, Series 2012

Maturity Year	Interest Rate	Interest Payments	Serial Bond Maturities	Total Payments
2018	2.00%	\$ 35,463	\$ 455,000	\$ 490,463
2019	2.00%	26,363	465,000	491,363
2020	2.00%	17,063	475,000	492,063
2021	2.25%	6,375	255,000	261,375
		<u>\$ 85,264</u>	<u>\$ 1,650,000</u>	<u>\$ 1,735,264</u>

Paying Agent: BancorpSouth Bank
Stuttgart, Arkansas

Principal Payment Date: February 1

Interest Payment Dates: February 1
August 1

City of Siloam Springs, Arkansas
Schedules of Bonds Outstanding (Continued)
December 31, 2017

Revolving Loan Fund #00618-CWRLF-L

Maturity Year	Interest Rate	Interest Payments	1.00% Service Fee	Principal Payments	Total Payments
2018	1.50%	\$ 53,919	\$ 35,946	\$ 1,271,223	\$ 1,361,088
2019	1.50%	34,731	23,154	1,303,202	1,361,087
2020	1.50%	<u>15,061</u>	<u>10,041</u>	<u>1,141,205</u>	<u>1,166,307</u>
		<u>\$ 103,711</u>	<u>\$ 69,141</u>	<u>\$ 3,715,630</u>	<u>\$ 3,888,482</u>

Paying Agent: Arkansas Development Finance Authority
Little Rock, Arkansas

Principal Payment Date: April 15
October 15

Interest Payment Dates: April 15
October 15

City of Siloam Springs, Arkansas
Schedules of Bonds Outstanding (Continued)
December 31, 2017

Revolving Loan Fund #00254-CWRLF-L

Maturity Year	Interest Rate	Interest Payments	1.00% Service Fee	Principal Payments	Total Payments
2018	2.50%	\$ 54,269	\$ 24,119	\$ 297,754	\$ 376,142
2019	2.50%	47,514	21,118	307,510	376,142
2020	2.50%	40,539	18,018	317,585	376,142
2021	2.50%	33,336	14,816	327,990	376,142
2022	2.50%	25,897	11,509	338,736	376,142
2023	2.50%	18,213	8,094	349,835	376,142
2024	2.50%	10,277	4,568	361,297	376,142
2025	2.50%	2,082	924	185,064	188,070
		<u>\$ 232,127</u>	<u>\$ 103,166</u>	<u>\$ 2,485,771</u>	<u>\$ 2,821,064</u>

Paying Agent: Arkansas Development Finance Authority
Little Rock, Arkansas

Principal Payment Date: April 15
October 15

Interest Payment Dates: April 15
October 15

City of Siloam Springs, Arkansas
Schedules of Bonds Outstanding (Continued)
December 31, 2017

Utility System Refunding Revenue Bonds, Series 2012

Maturity Year	Interest Rate	Interest Payments	Serial Bond Maturities	Total Payments
2018	2.00%	\$ 47,170	\$ 400,000	\$ 447,170
2019	2.00%	39,170	405,000	444,170
2020	2.00%	31,070	415,000	446,070
2021	2.20%	21,940	425,000	446,940
2022	2.45%	11,528	435,000	446,528
		<u>\$ 150,878</u>	<u>\$ 2,080,000</u>	<u>\$ 2,230,878</u>

Paying Agent: BancorpSouth Bank
Stuttgart, Arkansas

Principal Payment Date: October 1

Interest Payment Dates: April 1
October 1

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Single Audit Section

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City of Siloam Springs, Arkansas
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Department of Housing and Urban Development Programs				
Arkansas Economic Development Commission				
Community Development Block Grant/State's Program and Non-Entitlement Grants	14.228	790-08940-13	\$ 1,004,600	\$ 1,004,600
Total Department of Housing and Urban Development Programs			<u>1,004,600</u>	<u>1,004,600</u>
Department of Transportation				
Arkansas Department of Aeronautics				
Airport Improvement Program	20.106	3-05-00058-012- 2013	-	109,621
Total Department of Transportation			<u>-</u>	<u>109,621</u>
Department of Justice				
U.S. Department of Justice/Arkansas State Police				
Uniforms and Tourniquets	16.738	14-183-14L	-	3,860
Total Department of Justice			<u>-</u>	<u>3,860</u>
Total Expenditures of Federal Awards			<u>\$ 1,004,600</u>	<u>\$ 1,118,081</u>

City of Siloam Springs, Arkansas
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2017

Notes to Schedule

1. This accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal awards activity of the City. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following either the cost principles contained in Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

The Honorable Mayor and Members of the Board of Directors
City of Siloam Springs, Arkansas
Siloam Springs, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Siloam Springs, Arkansas, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 17, 2018.

Internal Control Over Financial Reporting

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

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 may exist that have not been identified.

Compliance and Other Matter

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

Purpose of this Report

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

BKD, LLP

Rogers, Arkansas
July 17, 2018

Report on Compliance for Each Major Federal Program And Report on Internal Control Over Compliance

Independent Auditor's Report

The Honorable Mayor and Members of the Board of Directors
City of Siloam Springs, Arkansas
Siloam Springs, Arkansas

Report on Compliance for Major Federal Program

We have audited the City of Siloam Springs, Arkansas (the City's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2017. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Major Federal Program

In our opinion, the City of Siloam Springs, Arkansas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

BKD, LLP

Rogers, Arkansas
July 17, 2018

City of Siloam Springs, Arkansas
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section I - Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

Unmodified Qualified Adverse Disclaimed

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies) identified? Yes None Reported
Material weakness(es) identified? Yes No

3. Noncompliance considered material to the financial statements noted?

Yes No

Federal Awards

4. Internal control over compliance for major federal program:

Significant deficiency(ies) identified? Yes None Reported
Material weakness(es) identified? Yes No

5. Type of auditor's report issued on compliance for major federal program:

Unmodified Qualified Adverse Disclaimed

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

City of Siloam Springs, Arkansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2017

7. Identification of major federal program:

Cluster/Program	CFDA Number
Community Development Block Grant/State's Programs and Non-Entitlement Grants	14.228

8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.

9. The City qualified as a low-risk auditee? Yes No

Section II – Financial Statement Findings

Reference Number	Finding
	No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

Reference Number	Finding
	No matters are reportable.

City of Siloam Springs, Arkansas
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2017

Reference Number	Summary of Finding	Status
	No matters are reportable.	

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Other Required Report

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Independent Accountant's Report on Compliance With Arkansas State Requirements

The Honorable Mayor and Members of the Board of Directors
City of Siloam Springs, Arkansas
Siloam Springs, Arkansas

We have examined management's assertions that the City of Siloam Springs, Arkansas complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas statutes during the year ended December 31, 2017.

- (1) Arkansas Municipal Accounting Law of 1973, § 14-59-101 et seq.;
- (2) Arkansas District Courts and City Courts Accounting Law, § 16-10-201 et seq.;
- (3) Improvement contracts, §§ 22-9-202 – 22-9-204;
- (4) Budgets, purchases, and payments of claims, etc., § 14-58-201 et seq. and 14-58-301 et seq.;
- (5) Investment of public funds, § 19-1-501 et seq.; and
- (6) Deposit of public funds, §§ 19-8-101 – 19-8-107.

Management is responsible for its assertion. Our responsibility is to express an opinion on management's assertion about the City's compliance with the aforementioned requirements above based upon on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion about compliance with the specified requirements is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about whether management's assertion is fairly stated, in all material respects. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, management's assertion that the City of Siloam Springs, Arkansas complied with the aforementioned requirements during the year ended December 31, 2017, is fairly stated, in all material respects.

This report is intended solely for the information and use of the governing body, management, and the State of Arkansas and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Rogers, Arkansas
July 17, 2018

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