

City of Siloam Springs, Arkansas

Auditor's Reports and Financial Statements

For the Year Ended December 31, 2012

City of Siloam Springs, Arkansas
December 31, 2012

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Financial Section

Independent Auditor's Report on Financial Statements and Supplementary Information

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements 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.

Opinion

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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in *Note 15* to the financial statements, the 2011 financial statements have been restated to correct various misstatements. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary and pension information 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.

Supplementary 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 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
October 1, 2013

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

December 31, 2012

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, 2012. This analysis focuses on the 2012 and 2011 fiscal year activities and should be considered in conjunction with the information contained in the Independent Auditor's Reports and 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 be more corporate-like, in that all activities are consolidated into a total for the City.

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. Simplistically, this statement presents a snap-shot view of the assets the City owns, the liabilities 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.

City of Siloam Springs, Arkansas
Management's Discussion and Analysis
December 31, 2012

- 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 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 presents a longer term view of the City's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. 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 liabilities, 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 Statement of Net Position at December 31, 2012 and 2011 is as follows:

Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------------|------------------------------------|----------------|-------------------------------------|----------------|-----------------|-----------------|
| | 2012 | 2011* | 2012 | 2011* | 2012 | 2011* |
| Cash and investments | \$ 14.3 | \$ 13.4 | \$ 10.4 | \$ 19.3 | \$ 24.7 | \$ 32.7 |
| Other assets | 2.0 | 2.6 | 6.7 | 5.7 | 8.7 | 8.3 |
| Capital assets (net) | 35.5 | 37.0 | 77.5 | 76.3 | 113.0 | 113.3 |
| Total assets | <u>51.8</u> | <u>53.0</u> | <u>94.6</u> | <u>101.3</u> | <u>146.4</u> | <u>154.3</u> |
| Current liabilities | 1.4 | 3.3 | 4.5 | 5.0 | 5.9 | 8.3 |
| Long-term liabilities | 5.0 | 4.3 | 15.2 | 22.5 | 20.2 | 26.8 |
| Total liabilities | <u>6.4</u> | <u>7.6</u> | <u>19.7</u> | <u>27.5</u> | <u>26.1</u> | <u>35.1</u> |
| Net investment in capital assets | 30.3 | 28.9 | 60.0 | 51.6 | 90.3 | 80.5 |
| Restricted | 2.2 | 4.8 | 3.7 | 11.5 | 5.9 | 16.3 |
| Unrestricted | <u>12.9</u> | <u>11.7</u> | <u>11.2</u> | <u>10.7</u> | <u>24.1</u> | <u>22.4</u> |
| Total net position | <u>\$ 45.4</u> | <u>\$ 45.4</u> | <u>\$ 74.9</u> | <u>\$ 73.8</u> | <u>\$ 120.3</u> | <u>\$ 119.2</u> |

*As restated

The City's combined net position increased slightly from \$119.2 million to \$120.3 million, a 0.92% increase in 2012. Unrestricted net position for governmental activities, 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 \$1.2 million, from a balance of \$11.7 million to \$12.9 million. The driver for this increase is an increase in charges for services which includes increased ambulance service charges and collections. Sales came in \$1.4 million over budget.

City of Siloam Springs, Arkansas
Management's Discussion and Analysis
December 31, 2012

Net position of the business-type activities reflects a \$1.1 million or 1.49% increase (\$74.9 million compared to \$73.8 million). The driver for this increase is the repayment of long-term debt and the City's investment in utility infrastructure including the water plant upgrades/filter project, continuing wastewater treatment plant project and the electric transmission loop project.

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

Changes in Net Position

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|------------------------------------|-----------------|-------------------------------------|---------------|-------------------------------------|---------------|
| | 2012 | 2011* | 2012 | 2011* | 2012 | 2011* |
| Revenues | | | | | | |
| <i>Program revenues</i> | | | | | | |
| Charges for services | \$ 2.9 | \$ 1.8 | \$ 29.2 | \$ 29.0 | \$ 32.1 | \$ 30.8 |
| Grants and contributions | 0.1 | 0.1 | 0.3 | 0.2 | 0.4 | 0.3 |
| <i>General revenues</i> | | | | | | |
| Taxes | 6.5 | 6.6 | 2.9 | 2.9 | 9.4 | 9.5 |
| Investment | 0.1 | 0.2 | - | 0.2 | 0.1 | 0.4 |
| Intergovernmental | 1.2 | 1.2 | - | - | 1.2 | 1.2 |
| Other | 0.4 | 0.8 | - | - | 0.4 | 0.8 |
| Total revenues | <u>11.2</u> | <u>10.7</u> | <u>32.4</u> | <u>32.3</u> | <u>43.6</u> | <u>43.0</u> |
| Expenses | | | | | | |
| General government | 4.0 | 5.5 | - | - | 4.0 | 5.5 |
| Public safety and judiciary | 8.3 | 8.0 | - | - | 8.3 | 8.0 |
| Transportation | 2.5 | 2.6 | - | - | 2.5 | 2.6 |
| Cultural, parks, and recreation | 1.2 | 1.2 | - | - | 1.2 | 1.2 |
| Community development | 0.3 | 0.3 | - | - | 0.3 | 0.3 |
| Interest on long-term debt | 0.2 | 0.2 | - | - | 0.2 | 0.2 |
| Utilities | - | - | 25.0 | 23.2 | 25.0 | 23.2 |
| Airport | - | - | 1.1 | 1.1 | 1.1 | 1.1 |
| Total expenses | <u>16.5</u> | <u>17.8</u> | <u>26.1</u> | <u>24.3</u> | <u>42.6</u> | <u>42.1</u> |
| Increase (decrease) in net position before transfers | (5.3) | (7.1) | 6.3 | 8.0 | 1.0 | 0.9 |
| Transfers | <u>5.3</u> | <u>5.7</u> | <u>(5.3)</u> | <u>(5.7)</u> | <u>-</u> | <u>-</u> |
| Increase (decrease) in net position | <u>\$ -</u> | <u>\$ (1.4)</u> | <u>\$ 1.0</u> | <u>\$ 2.3</u> | <u>\$ 1.0</u> | <u>\$ 0.9</u> |

* As restated

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

December 31, 2012

The City's total revenue of \$43.6 million in 2012 reflects a \$0.6 million, or 1.4%, increase over total revenue of \$43.0 million in 2011. This increase in total revenue in 2012 is the result of an increase in usage for SWEPCO and other charges for services. In total, City revenue streams in a difficult economic environment have been fairly resilient. The total operating expense, or cost of all programs and services provided by the City, increased 1.19% (\$42.1 million, to a total cost of \$42.6 million). This increase in total cost from 2011 to 2012 was a combination of lower general government expense offset by increases in utilities due to increased depreciation expense and power costs. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenue for the City's governmental activities in 2012 came in at \$11.2 million which is approximately a \$655,000 dollar increase from 2011. This increase is the result of a combination of incremental increases and decreases across governmental activities revenue streams; including increases in sale of water to SWEPCO, one-time revenue source grants, and sales tax revenue and decreases in property tax, franchise tax revenue and construction reimbursements in the street department. In the context of total revenue versus total expense, the City's governmental activities ran a \$5.3 million dollar deficit before transfers from the business-type activities funds of \$5.3 million.

Governmental activities total expenses decreased \$1.3 million in 2012 from 2011, a 7.3% decrease. This decrease is largely related to an impairment loss recognized in the prior year on hospital assets.

Business-type Activities

Revenues of the City's business-type activities or enterprise funds increased by \$0.1 million or 0.30% (\$32.4 million in 2012 compared to \$32.3 million in 2011). This slight increase in business activity revenue can be attributed to various incremental increases and decreases across the business-type activities revenue streams.

Business-type activities revenue represents 74% of total City revenues in 2012. Electric revenues and other income are equal to 73% of the business-type operating revenue and 53% of the total City revenue. As noted above, the cost or expenses of all business-type activities in 2012 compared to 2011 were up \$1.8 million with the primary drivers being cost of power and depreciation.

Budgetary Highlights

Over the course of the year, the City Board of Directors revised the budget once. The City develops their budget on a cash 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 2012 to balance the general fund budget were equal to \$5.3 million.

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

December 31, 2012

Capital Assets and Debt Administration

Capital Assets

At December 31, 2012, the City had \$113 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 \$0.3 million or 0.26% (\$113 million compared to \$113.3 million). Significant capital asset projects and capital asset additions during the year by fund net of accumulated depreciation and adjustments included:

- Special Revenue Fund (Streets) – \$670,000 for University Street Bridges
- Proprietary Funds – \$3 million increase in infrastructure and WWTP

Debt Outstanding

At year-end 2012, the City had \$20.8 million in bonds and notes outstanding. The City paid down approximately \$10.8 million in principal on debt outstanding in 2012. This includes the additional \$6.2 million principal payment for the WWTP Bond that was made at the end of 2011 and held in escrow. In November, 2012, the City refunded the 2004 Sales and Use Tax Refunding Bonds and the 2003 Utility System Refunding and Construction Revenue Bonds for a projected gross savings of approximately \$719,000 over the life of the bonds. Additional debt incurred in 2012 includes the following:

- ANRC/Arkansas Development Finance Authority Revolving Loan Fund – \$1,419,216. Upon completion this will be a \$20,000,000 loan for a new WWTP, funded by sales tax.

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

Although the City continued to see the impact of a slow economy from a residential and commercial development and industrial activity perspective, Siloam Springs building permit activity reflected a 1.4% increase in 2012, over the previous four year period. The City issued 129 building permits in 2012 compared to 105 in issued in 2011, 104 issued in 2010 and 114 issued in 2009.

The City sales tax revenue stream increased slightly in 2012 with a year-over-year increase of 0.8% after reflecting a decline of 0.2% in 2011. The City share of County sales tax revenue stream also increased in 2012 with a year-over-year increase of 7.1% after reflecting a decrease in 2011 of 2%. 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 flat in 2013 and through eight months of 2013 these projections appear to be only slightly off target. The City is continuing to experience some contraction in our industrial customer market base as local industries continue to reduce production capacity in their local operations in 2013.

City of Siloam Springs, Arkansas
Management's Discussion and Analysis
December 31, 2012

In 2012, 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 2012 achievements include:

- Continued generation of cash surplus in 2012 to build up the City's unrestricted cash reserves. 2012 reflected a 8% increase over 2011
- Continued progress on construction of a new \$2 million dollar electric substation on Country Club Road.
- Continued work on the City's \$500,000 water plant expansion and filter upgrade project to be completed in 2013.
- 99% completion on construction of a new \$24 million dollar WWTP for the City.
- Continued partnership with the School District on the construction of the new Siloam Springs High School that opened for students in the fall of 2012.
- Completion of \$170,000 State grant funded access road and \$113,000 Federal grant funded security fence projects at the Siloam Springs Municipal Airport.

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 David Cameron, 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, 2012

| | Primary Government | | Total |
|--|----------------------------|-----------------------------|-----------------------|
| | Governmental Activities | Business-type Activities | |
| Assets | | | |
| Cash and cash equivalents | \$ 2,773,826 | \$ 4,553,621 | \$ 7,327,447 |
| Certificates of deposit | 8,407,391 | 2,137,614 | 10,545,005 |
| Accounts receivable, net of allowance for uncollectibles | 2,875,115 | 3,644,933 | 6,520,048 |
| Inventories | 24,852 | 1,827,965 | 1,852,817 |
| Prepays | 43,185 | 41,768 | 84,953 |
| Restricted assets | | | |
| Restricted cash and certificates of deposit | 3,155,216 | 3,728,222 | 6,883,438 |
| Accounts receivable | 30,400 | - | 30,400 |
| Due from fiduciary funds | - | 734 | 734 |
| Internal balances | (1,023,962) | 1,023,962 | - |
| Capital assets - non-depreciable | 7,646,367 | 4,036,715 | 11,683,082 |
| Capital assets - depreciable, net | 27,822,574 | 73,472,385 | 101,294,959 |
| Unamortized bond issuance costs | 24,550 | 138,842 | 163,392 |
| | <u>51,779,514</u> | <u>94,606,761</u> | <u>146,386,275</u> |
| Liabilities | | | |
| Accounts payable | 488,344 | 1,327,164 | 1,815,508 |
| Accrued expenses | 629,743 | 239,769 | 869,512 |
| Accrued interest payable | 27,550 | 96,080 | 123,630 |
| Customer deposits | - | 413,604 | 413,604 |
| Due to other governments | 10,382 | - | 10,382 |
| Noncurrent liabilities | | | |
| Due within one year | 249,500 | 2,428,204 | 2,677,704 |
| Due in more than one year | 4,952,906 | 15,240,424 | 20,193,330 |
| | <u>6,358,425</u> | <u>19,745,245</u> | <u>26,103,670</u> |
| Net Position | | | |
| Net investment in capital assets | 30,291,085 | 59,979,314 | 90,270,399 |
| Restricted | | | |
| Expendable | | | |
| Capital projects | 1,874,361 | 2,914,375 | 4,788,736 |
| Debt service | 314,621 | 813,847 | 1,128,468 |
| Other | 72,043 | - | 72,043 |
| Unrestricted | <u>12,868,979</u> | <u>11,153,980</u> | <u>24,022,959</u> |
| | <u>\$ 45,421,089</u> | <u>\$ 74,861,516</u> | <u>\$ 120,282,605</u> |

City of Siloam Springs, Arkansas
Statement of Activities
Year Ended December 31, 2012

| | Program Revenues | | | | Net (Expenses) Revenues and Changes in Net Position | | |
|---|----------------------|-------------------------|--|--|--|-----------------------------|-----------------------|
| | Expenses | Primary Government | | | Primary Government | | |
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Government/Programs | | | | | | | |
| Primary Government | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 4,024,174 | \$ 1,191,079 | \$ - | \$ - | \$ (2,833,095) | \$ - | \$ (2,833,095) |
| Public safety | 8,279,487 | 1,458,529 | 88,912 | - | (6,732,046) | - | (6,732,046) |
| Culture, parks, and recreation | 1,190,354 | 156,409 | 6,385 | - | (1,027,560) | - | (1,027,560) |
| Community development | 278,706 | 89,845 | - | - | (188,861) | - | (188,861) |
| Street department | 2,504,934 | - | - | - | (2,504,934) | - | (2,504,934) |
| Interest expense on long-term debt | 204,879 | - | - | - | (204,879) | - | (204,879) |
| Total governmental activities | <u>16,482,534</u> | <u>2,895,862</u> | <u>95,297</u> | <u>-</u> | <u>(13,491,375)</u> | <u>-</u> | <u>(13,491,375)</u> |
| Business-type activities: | | | | | | | |
| Utilities | 24,886,267 | 28,472,998 | - | - | - | 3,586,731 | 3,586,731 |
| Airport | 1,161,820 | 749,985 | 251,971 | - | - | (159,864) | (159,864) |
| Total business-type activities | <u>26,048,087</u> | <u>29,222,983</u> | <u>251,971</u> | <u>-</u> | <u>-</u> | <u>3,426,867</u> | <u>3,426,867</u> |
| Total primary government | <u>\$ 42,530,621</u> | <u>\$ 32,118,845</u> | <u>\$ 347,268</u> | <u>\$ -</u> | <u>(13,491,375)</u> | <u>3,426,867</u> | <u>(10,064,508)</u> |
| General Revenues: | | | | | | | |
| Property taxes | | | | | 1,373,184 | - | 1,373,184 |
| Sales and use taxes | | | | | 5,160,473 | 2,882,288 | 8,042,761 |
| Franchise and public service taxes | | | | | 54,644 | - | 54,644 |
| Intergovernmental | | | | | 1,205,528 | - | 1,205,528 |
| Investment income | | | | | 57,816 | 42,287 | 100,103 |
| Miscellaneous | | | | | 380,972 | - | 380,972 |
| Transfers - internal activity, net | | | | | 5,262,676 | (5,262,676) | - |
| Total general revenues and transfers | | | | | <u>13,495,293</u> | <u>(2,338,101)</u> | <u>11,157,192</u> |
| Change in Net Position | | | | | <u>3,918</u> | <u>1,088,766</u> | <u>1,092,684</u> |
| Net position - Beginning of Year, as Previously Reported | | | | | <u>45,858,120</u> | <u>73,650,998</u> | <u>119,509,118</u> |
| Adjustments Applicable to Prior Year (Note 15) | | | | | <u>(440,949)</u> | <u>121,752</u> | <u>(319,197)</u> |
| Net position - Beginning of Year, as Restated | | | | | <u>45,417,171</u> | <u>73,772,750</u> | <u>119,189,921</u> |
| Net position - End of Year | | | | | <u>\$ 45,421,089</u> | <u>\$ 74,861,516</u> | <u>\$ 120,282,605</u> |

City of Siloam Springs, Arkansas
Balance Sheet – Governmental Funds
December 31, 2012

| | General Fund | Street Fund | Debt Service Fund (Nonmajor) | Total Governmental Funds |
|---|----------------------|---------------------|------------------------------------|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 2,767,682 | \$ - | \$ - | \$ 2,767,682 |
| Certificates of deposit | 8,407,391 | - | - | 8,407,391 |
| Taxes receivable, net of allowance for doubtful accounts of \$347,762, \$118,950 and \$0 | 1,663,413 | 652,404 | 30,400 | 2,346,217 |
| Ambulance fees receivable, net allowance for doubtful accounts of \$1,692,243 | 392,154 | - | - | 392,154 |
| Other receivables | 160,697 | 6,447 | - | 167,144 |
| Prepaid items | 38,995 | 3,380 | - | 42,375 |
| Restricted assets | | | | |
| Cash and cash equivalents | 72,043 | 2,798,952 | 284,221 | 3,155,216 |
| | <u>13,502,375</u> | <u>3,461,183</u> | <u>314,621</u> | <u>17,278,179</u> |
| Total assets | <u>\$ 13,502,375</u> | <u>\$ 3,461,183</u> | <u>\$ 314,621</u> | <u>\$ 17,278,179</u> |
| Liabilities | | | | |
| Accounts payable | \$ 420,141 | \$ 65,373 | \$ - | \$ 485,514 |
| Due to other funds | 136 | 1,023,826 | - | 1,023,962 |
| Due to other governments | 10,382 | - | - | 10,382 |
| Accrued liabilities | 546,374 | 45,402 | - | 591,776 |
| Deferred revenues | 1,313,243 | 448,841 | - | 1,762,084 |
| | <u>2,290,276</u> | <u>1,583,442</u> | <u>-</u> | <u>3,873,718</u> |
| Total liabilities | <u>2,290,276</u> | <u>1,583,442</u> | <u>-</u> | <u>3,873,718</u> |
| Fund balances | | | | |
| Nonspendable | 38,995 | 3,380 | - | 42,375 |
| Restricted | 72,043 | 1,874,361 | 314,621 | 2,261,025 |
| Assigned | 10,336,816 | - | - | 10,336,816 |
| Unassigned | 764,245 | - | - | 764,245 |
| | <u>11,212,099</u> | <u>1,877,741</u> | <u>314,621</u> | <u>13,404,461</u> |
| Total fund balance | <u>11,212,099</u> | <u>1,877,741</u> | <u>314,621</u> | <u>13,404,461</u> |
| Total liabilities and fund balances | <u>\$ 13,502,375</u> | <u>\$ 3,461,183</u> | <u>\$ 314,621</u> | <u>\$ 17,278,179</u> |

Total fund balances - governmental funds \$ 13,404,461

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. 35,382,038

Amounts reported as deferred revenue 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 assets. 1,762,084

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds,
Deferred bond issuance costs, net 24,550

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 | (3,146,700) |
| Unamortized bond premiums | (10,265) |
| Accrued interest on bonds and notes | (27,550) |
| Postemployment benefits liability | (934,775) |
| Accrued compensated absences | (722,296) |
| Net pension obligation | (388,370) |

Internal service funds are used by management to charge the costs of maintenance and engineering to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 77,912

Total net position - governmental activities \$ 45,421,089

City of Siloam Springs, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds
For the Year Ended December 31, 2012

| | General Fund | Street Fund | Debt Service (Nonmajor) | Total Governmental Funds |
|--------------------------------------|-------------------|------------------|-------------------------------|--------------------------------|
| Revenues | | | | |
| Property taxes | \$ 1,027,618 | \$ 337,990 | \$ - | \$ 1,365,608 |
| Sales taxes | 2,439,726 | 2,310,482 | 410,265 | 5,160,473 |
| Licenses and permits | 304,056 | - | - | 304,056 |
| Intergovernmental | 516,618 | 688,910 | - | 1,205,528 |
| Charges for services | 2,331,432 | - | - | 2,331,432 |
| Fines and forfeitures | 300,322 | - | - | 300,322 |
| Grants and contributions | 99,643 | - | - | 99,643 |
| Investment income | 54,100 | 3,714 | 2 | 57,816 |
| Miscellaneous | 42,188 | 1,647 | - | 43,835 |
| Total revenues | <u>7,115,703</u> | <u>3,342,743</u> | <u>410,267</u> | <u>10,868,713</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | | | | |
| Administration | 2,398,738 | - | - | 2,398,738 |
| Cemetery | 175,251 | - | - | 175,251 |
| Total general government | <u>2,573,989</u> | <u>-</u> | <u>-</u> | <u>2,573,989</u> |
| Public safety and judiciary | | | | |
| Police | 3,280,865 | - | - | 3,280,865 |
| Fire | 3,704,851 | - | - | 3,704,851 |
| Municipal court | 287,538 | - | - | 287,538 |
| Animal control | 279,424 | - | - | 279,424 |
| Total public safety and judiciary | <u>7,552,678</u> | <u>-</u> | <u>-</u> | <u>7,552,678</u> |
| Transportation | | | | |
| Streets | - | 903,722 | - | 903,722 |
| Cultural, parks and recreation | | | | |
| Library | 243,031 | - | - | 243,031 |
| Parks | 681,184 | - | - | 681,184 |
| Total cultural, parks and recreation | <u>924,215</u> | <u>-</u> | <u>-</u> | <u>924,215</u> |
| Community development | | | | |
| Building inspections | 274,938 | - | - | 274,938 |
| Debt service | | | | |
| Principal retirement | - | - | 2,067,900 | 2,067,900 |
| Interest and other charges | - | 15,035 | 215,475 | 230,510 |
| Capital outlay | <u>548,054</u> | <u>1,248,738</u> | <u>-</u> | <u>1,796,792</u> |
| Total expenditures | <u>11,873,874</u> | <u>2,167,495</u> | <u>2,283,375</u> | <u>16,324,744</u> |

City of Siloam Springs, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds (Continued)
For the Year Ended December 31, 2012

| | General Fund | Street Fund | Debt Service (Nonmajor) | Total Governmental Funds |
|---|-----------------------------|----------------------------|--|---|
| Excess (Deficiency) of Revenues Over Expenditures | <u>\$ (4,758,171)</u> | <u>\$ 1,175,248</u> | <u>\$ (1,873,108)</u> | <u>\$ (5,456,031)</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of capital assets | 390,376 | - | - | 390,376 |
| Refunding bonds issued | - | - | 1,795,000 | 1,795,000 |
| Premium on refunding bonds issued | - | - | 10,265 | 10,265 |
| Transfers in | 5,267,980 | 13,758 | - | 5,281,738 |
| Transfers out | <u>(250,671)</u> | <u>-</u> | <u>-</u> | <u>(250,671)</u> |
| Total other financing sources (uses) | <u>5,407,685</u> | <u>13,758</u> | <u>1,805,265</u> | <u>7,226,708</u> |
| Change in Fund Balances | <u>649,514</u> | <u>1,189,006</u> | <u>(67,843)</u> | <u>1,770,677</u> |
| Fund Balances, Beginning of Year, as Previously Reported | 10,829,600 | 741,568 | 382,464 | 11,953,632 |
| Adjustment Applicable to Prior Years - Note 15 | <u>(267,015)</u> | <u>(52,833)</u> | <u>-</u> | <u>(319,848)</u> |
| Fund Balances, Beginning of Year, as Restated | <u>10,562,585</u> | <u>688,735</u> | <u>382,464</u> | <u>11,633,784</u> |
| Fund Balances, End of Year | <u><u>\$ 11,212,099</u></u> | <u><u>\$ 1,877,741</u></u> | <u><u>\$ 314,621</u></u> | <u><u>\$ 13,404,461</u></u> |

City of Siloam Springs, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds (Continued)
For the Year Ended December 31, 2012

| | |
|---|-----------------|
| Net change in net position – total governmental funds | \$ 1,770,677 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| <p>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.</p> | |
| Capital asset purchases | 1,796,792 |
| Depreciation expense | (2,506,743) |
| <p>Governmental funds report the sale of capital assets as other financing sources. However, these amounts must be adjusted for the net book value of the asset to calculate an appropriate gain/loss on the sale. Further, any impairment loss is ignored for the governmental funds but must be reported in the statement of activities.</p> | |
| Loss on sale of fixed assets | (100,906) |
| Impairment loss | (364,484) |
| <p>Revenues that do not provide current financial resources, such as ad valorem taxes, 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 deferred ad valorem taxes reported in the governmental fund statements.</p> | |
| | 7,576 |
| <p>Expenses that do not require the use of current financial resources, such as compensated absences, other postemployment benefits ("OPEB") liabilities and accrued interest payable, 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.</p> | |
| Increase in OPEB | (87,882) |
| Increase in accrued long-term compensated absences | (27,439) |
| Decrease in accrued interest expense | 25,631 |
| Increase in net pension obligation | (388,370) |
| Adjustment for self-insured health insurance liability | (349,373) |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The repayment of principal on long-term debt 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 these amounts are deferred and amortized in the statement of activities.</p> | |
| Principal repayments | 2,067,900 |
| Refunding bonds issued | (1,795,000) |
| Premium on refunding bonds | (10,265) |
| Amortization of bond issue costs and bond discounts | (4,715) |
| <p>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.</p> | |
| | (29,481) |
| Change in net position of governmental activities | \$ 3,918 |

City of Siloam Springs, Arkansas
Statement of Net Position –
Proprietary Funds
December 31, 2012

| Assets | Enterprise Funds | | | Governmental Activities |
|--|-------------------------|-------------------------------|---------------|------------------------------------|
| | Utilities | Airport (Nonmajor) | Totals | Internal Service Funds |
| Current Assets: | | | | |
| Cash | \$ 4,545,149 | \$ 8,472 | \$ 4,553,621 | \$ 6,144 |
| Certificates of deposit | 2,137,614 | - | 2,137,614 | - |
| Receivables | | | | |
| Accounts, net of allowance for uncollectible accounts | 3,469,842 | 14,314 | 3,484,156 | - |
| Taxes | 140,628 | - | 140,628 | - |
| Accrued interest | 20,149 | - | 20,149 | - |
| Inventory | 1,762,927 | 65,038 | 1,827,965 | 24,852 |
| Due from other funds | 1,024,696 | - | 1,024,696 | - |
| Prepaid items | 38,484 | 3,284 | 41,768 | 810 |
| Total currents assets | 13,139,489 | 91,108 | 13,230,597 | 31,806 |
| Noncurrent Assets | | | | |
| Restricted cash | 1,528,584 | - | 1,528,584 | - |
| Certificates of deposit | 2,199,638 | - | 2,199,638 | - |
| Capital assets, net of accumulated depreciation | | | | |
| Land and improvements | 859,216 | 350,055 | 1,209,271 | - |
| Construction in progress | 2,827,444 | - | 2,827,444 | - |
| Distribution and collection systems | 68,059,683 | - | 68,059,683 | - |
| Buildings and equipment | 1,771,986 | 3,640,716 | 5,412,702 | 86,903 |
| Unamortized bond costs | 138,842 | - | 138,842 | - |
| Total noncurrent assets | 77,385,393 | 3,990,771 | 81,376,164 | 86,903 |
| Total assets | 90,524,882 | 4,081,879 | 94,606,761 | 118,709 |

| Liabilities | Enterprise Funds | | | Governmental Activities |
|-------------------------------------|------------------|-----------------------|---------------|---------------------------|
| | Utilities | Airport (Nonmajor) | Totals | Internal Service Funds |
| Current Liabilities: | | | | |
| Accounts payable | \$ 1,293,092 | \$ 34,072 | \$ 1,327,164 | \$ 2,830 |
| Accrued expenses | 233,868 | 5,901 | 239,769 | 37,967 |
| Customer deposits | 413,604 | - | 413,604 | - |
| Current maturities of bonds payable | 2,428,204 | - | 2,428,204 | - |
| Accrued interest payable | 96,080 | - | 96,080 | - |
| Total current liabilities | 4,464,848 | 39,973 | 4,504,821 | 40,797 |
| Noncurrent Liabilities | | | | |
| Bonds payable | 15,240,424 | - | 15,240,424 | - |
| Total liabilities | 19,705,272 | 39,973 | 19,745,245 | 40,797 |
| Net Position | | | | |
| Net investment in capital assets | 55,988,543 | 3,990,771 | 59,979,314 | 86,903 |
| Restricted | | | | |
| Capital Projects | 2,914,375 | - | 2,914,375 | - |
| Debt service | 813,847 | - | 813,847 | - |
| Unrestricted (deficit) | 11,102,845 | 51,135 | 11,153,980 | (8,991) |
| Total net position | \$ 70,819,610 | \$ 4,041,906 | \$ 74,861,516 | \$ 77,912 |

City of Siloam Springs, Arkansas
Statement of Revenues, Expenses and Changes in
Net Position – Proprietary Funds
For the Year Ended December 31, 2012

| | Enterprise Funds | | | Governmental Activities |
|--|----------------------|-----------------------|----------------------|----------------------------|
| | Utilities | Airport (Nonmajor) | Totals | Internal Service Funds |
| Operating Revenues | | | | |
| Charges for services | | | | |
| Electric | \$ 20,362,952 | \$ - | \$ 20,362,952 | \$ - |
| Water | 3,017,386 | - | 3,017,386 | - |
| Wastewater | 1,979,301 | - | 1,979,301 | - |
| Sanitation | 2,307,652 | - | 2,307,652 | - |
| Fuel Sales | - | 652,138 | 652,138 | - |
| Penalties | 251,245 | - | 251,245 | - |
| Miscellaneous | 554,462 | 66,735 | 621,197 | 347,487 |
| Total operating revenues | <u>28,472,998</u> | <u>718,873</u> | <u>29,191,871</u> | <u>347,487</u> |
| Operating Expenses | | | | |
| Cost of goods sold | | | | |
| Cost of power | 13,857,276 | - | 13,857,276 | - |
| Cost of fuel | - | 520,227 | 520,227 | - |
| Personal services | 2,937,128 | 127,113 | 3,064,241 | 332,581 |
| Contracted services | 1,347,616 | 1,178 | 1,348,794 | 4,477 |
| Maintenance and operating expenses | 1,422,820 | 49,447 | 1,472,267 | 34,952 |
| Other services and charges | 753,450 | 58,310 | 811,760 | 184,219 |
| Utilities | 798,463 | 20,753 | 819,216 | 6,778 |
| Depreciation | 3,129,760 | 353,680 | 3,483,440 | 31,961 |
| Total operating expenses | <u>24,246,513</u> | <u>1,130,708</u> | <u>25,377,221</u> | <u>594,968</u> |
| Operating Income | <u>4,226,485</u> | <u>(411,835)</u> | <u>3,814,650</u> | <u>(247,481)</u> |
| Nonoperating Income (Expenses) | | | | |
| Sales tax revenue | 2,882,288 | - | 2,882,288 | - |
| Interest income | 42,287 | - | 42,287 | - |
| Interest expense | (639,754) | - | (639,754) | - |
| Net non-operating revenues (expenses) | <u>2,284,821</u> | <u>-</u> | <u>2,284,821</u> | <u>-</u> |
| Income Before Capital Contributions and Transfers | <u>6,511,306</u> | <u>(411,835)</u> | <u>6,099,471</u> | <u>(247,481)</u> |
| Grants | - | 251,971 | 251,971 | - |
| Transfers In | 317,434 | 66,000 | 383,434 | 218,000 |
| Transfers Out | (5,646,110) | - | (5,646,110) | - |
| | <u>(5,328,676)</u> | <u>317,971</u> | <u>(5,010,705)</u> | <u>218,000</u> |
| Change in Net Position | <u>1,182,630</u> | <u>(93,864)</u> | <u>1,088,766</u> | <u>(29,481)</u> |
| Net Position, Beginning of Year, as Previously Reported | 69,513,257 | 4,137,741 | 73,650,998 | 136,918 |
| Adjustment Applicable to Prior Years - Note 15 | <u>123,723</u> | <u>(1,971)</u> | <u>121,752</u> | <u>(29,525)</u> |
| Net Position, Beginning of Year, as Restated | <u>69,636,980</u> | <u>4,135,770</u> | <u>73,772,750</u> | <u>107,393</u> |
| Net Position, End of Year | <u>\$ 70,819,610</u> | <u>\$ 4,041,906</u> | <u>\$ 74,861,516</u> | <u>\$ 77,912</u> |

City of Siloam Springs, Arkansas
Statement of Cash Flows –
Proprietary Funds
Year Ended December 31, 2012

| | <u>Enterprise Funds</u> | | | <u>Governmental Activities</u> |
|--|-----------------------------------|--|---------------------|------------------------------------|
| | <u>Utilities (Major Fund)</u> | <u>Airport (Nonmajor Fund)</u> | <u>Totals</u> | <u>Internal Service Funds</u> |
| Operating Activities | | | | |
| Cash received from customers | \$ 27,801,817 | \$ 720,781 | \$ 28,522,598 | \$ - |
| Cash received from other funds for services | - | - | - | 354,648 |
| Cash payments to suppliers for goods and services | (18,776,620) | (637,817) | (19,414,437) | (267,861) |
| Cash payments to employees for services | (2,818,330) | (122,398) | (2,940,728) | (301,316) |
| Other operating receipts (payments) | (464,873) | - | (464,873) | - |
| Net cash provided by (used in) operating activities | <u>5,741,994</u> | <u>(39,434)</u> | <u>5,702,560</u> | <u>(214,529)</u> |
| Noncapital Financing Activities | | | | |
| Interfund transfers | (5,328,676) | 66,000 | (5,262,676) | 218,000 |
| Net cash provided by (used in) noncapital financing activities | <u>(5,328,676)</u> | <u>66,000</u> | <u>(5,262,676)</u> | <u>218,000</u> |
| Capital and Related Financing Activities | | | | |
| Sales tax revenue | 2,888,102 | - | 2,888,102 | - |
| Grants | - | 251,971 | 251,971 | - |
| Acquisition and construction of capital assets | (4,566,759) | (271,618) | (4,838,377) | - |
| Proceeds from bonds and loans | 5,324,216 | - | 5,324,216 | - |
| Principal paid on debt | (12,527,505) | - | (12,527,505) | - |
| Interest and fees paid on debt | (489,287) | - | (489,287) | - |
| Net cash used in capital and related financing activities | <u>(9,371,233)</u> | <u>(19,647)</u> | <u>(9,390,880)</u> | <u>-</u> |
| Investing Activities | | | | |
| Interest on cash and certificates of deposits | 14,375 | - | 14,375 | - |
| Net cash provided by investing activities | <u>14,375</u> | <u>-</u> | <u>14,375</u> | <u>-</u> |
| (Decrease) Increase in Cash and Cash Equivalents | (8,943,540) | 6,919 | (8,936,621) | 3,471 |
| Cash and Cash Equivalents, Beginning of Year | <u>15,017,273</u> | <u>1,553</u> | <u>15,018,826</u> | <u>2,673</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 6,073,733</u> | <u>\$ 8,472</u> | <u>\$ 6,082,205</u> | <u>\$ 6,144</u> |

See Notes to Financial Statements

| | <u>Enterprise Funds</u> | | | <u>Governmental Activities</u> |
|--|-------------------------------|--------------------------------|---------------------|--------------------------------|
| | <u>Utilities (Major Fund)</u> | <u>Airport (Nonmajor Fund)</u> | <u>Totals</u> | <u>Internal Service Funds</u> |
| Presented on the "Statement of Net Position - Proprietary Funds" as follows: | | | | |
| Cash and cash equivalents | \$ 4,545,149 | \$ 8,472 | \$ 4,553,621 | \$ 6,144 |
| Restricted cash and cash equivalents - noncurrent | 1,528,584 | - | 1,528,584 | - |
| | <u>\$ 6,073,733</u> | <u>\$ 8,472</u> | <u>\$ 6,082,205</u> | <u>\$ 6,144</u> |
| Reconciliation of Operating Income to Net Cash Provided By Operating Activities | | | | |
| Operating income | \$ 4,226,485 | \$ (411,835) | \$ 3,814,650 | \$ (247,481) |
| Adjustment to reconcile operating income to net cash provided by operating activities | | | | |
| Depreciation and amortization expense | 3,129,760 | 353,680 | 3,483,440 | 31,961 |
| Changes in assets and liabilities | | | | |
| Accounts receivable | (1,141,415) | 1,908 | (1,139,507) | - |
| Inventory | 116,886 | 7,085 | 123,971 | (1,963) |
| Prepaid expenses | 17,091 | 1,421 | 18,512 | 676 |
| Accounts payable and accrued liabilities | (595,083) | 8,307 | (586,776) | 2,278 |
| Customer deposits | (11,730) | - | (11,730) | - |
| Net cash provided by operating activities | <u>\$ 5,741,994</u> | <u>\$ (39,434)</u> | <u>\$ 5,702,560</u> | <u>\$ (214,529)</u> |

City of Siloam Springs, Arkansas
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2012

| | <u>Pension Trust Funds</u> | | <u>Private- purpose Trust Fund</u> |
|--|---|---|--|
| | <u>Firemen's Pension and Relief</u> | <u>Municipal Judge/Clerk Retirement</u> | <u>Oak Hill Cemetery Trust</u> |
| Assets | | | |
| Cash | \$ 108,059 | \$ - | \$ 76,400 |
| Certificates of deposit | - | - | 230,036 |
| Investments | | | |
| U.S. government obligations | 260,679 | - | - |
| Mutual funds | 3,396,311 | - | - |
| Accounts receivable | - | - | 297 |
| Interest receivable | - | - | 1,053 |
| Property taxes receivable, net of allowance for doubtful accounts of \$34,769 | <u>144,460</u> | <u>-</u> | <u>-</u> |
| Total assets | <u>3,909,509</u> | <u>-</u> | <u>307,786</u> |
| Liabilities and Fiduciary Net Position | | | |
| Liabilities | | | |
| Accounts payable | - | 35,781 | - |
| Due to other funds | 734 | - | - |
| Deferred revenue | <u>131,281</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>132,015</u> | <u>35,781</u> | <u>-</u> |
| Fiduciary net position | | | |
| Held in trust for pension benefits and other purposes | <u>\$ 3,777,494</u> | <u>\$ (35,781)</u> | <u>\$ 307,786</u> |

City of Siloam Springs, Arkansas
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2012

| | <u>Pension Trust Funds</u> | | <u>Private- purpose Trust Fund</u> |
|---|---|---|--|
| | <u>Firemen's Pension and Relief</u> | <u>Municipal Judge/Clerk Retirement</u> | <u>Oak Hill Cemetery Trust</u> |
| Additions | | | |
| Contributions | | | |
| Employer | \$ 21,162 | \$ - | \$ - |
| Investment income | | | |
| Interest and dividends | 173,028 | - | 1,452 |
| Gain from sale of investments | 19,861 | - | - |
| Net increase in fair value of investments | 306,718 | - | - |
| Net investment income | 499,607 | - | 1,452 |
| Other additions | | | |
| Property taxes | 15,710 | - | - |
| Transfer from Cemetery SLS Trust | - | - | 13,609 |
| Total other additions | 15,710 | - | 13,609 |
| Total additions | 536,479 | - | 15,061 |
| Deductions | | | |
| Benefits | 912,674 | - | - |
| Administrative expenses | 30,503 | - | - |
| Total deductions | 943,177 | - | - |
| Change in Fiduciary Net Position | (406,698) | - | 15,061 |
| Net Position Held in Trust For Pension Benefits, Beginning of Year | 4,184,192 | (35,781) | 292,725 |
| Net Position Held in Trust For Pension Benefits, End of Year | <u>\$ 3,777,494</u> | <u>\$ (35,781)</u> | <u>\$ 307,786</u> |

City of Siloam Springs, Arkansas
Notes to Financial Statements
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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, commissions, and other organizations. For inclusion as part of the City’s basic financial statements, financial accountability was determined based on the City’s ability to impose its will on operations, to select the governing authority, or on the component units’ potential to provide financial benefits or to impose financial burdens on the City.

The City’s defined benefit plans, being fiduciary in nature, were not evaluated as potential component units but instead were reported as fiduciary funds.

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

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restricted to meeting the operational or capital requirements of a particular program or identifiable activity.

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, drainage and traffic control operations.

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 are 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 consist of the maintenance and engineering funds.

Additionally, the City reports the *pension trust fund* which accounts for assets held in trust for the Firemen's Relief and Pension Fund and the Municipal Court Retirement Fund. Plan trustees must act in accordance with the specific purposes and terms of these retirement plans. Pension trust funds are 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.

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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 deferred 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.

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Budgets and Budgetary Accounting

Annual budgets are prepared on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recognized. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis or accounting on the governmental fund statements and on the full accrual basis on the government-wide statements. Budgets are used as a management control for all funds. All annual appropriations lapse at year end, except for certain appropriations for capital outlay in the special revenue funds.

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 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, 2012, cash equivalents consisted primarily of money market accounts with brokers.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

Investments and Investment Income

All investments in the City's Pension Trust Funds are carried at fair value. For all other funds, investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

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.

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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 October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The property tax is considered due the first Monday in January 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 are measurable when levied even though not available. Accordingly, property taxes receivable of \$1,853,656 and related deferred revenues have been recorded at December 31, 2012, in the governmental funds. Benton County is the collecting agent and remits collections to the City, net of a collection fee, on a monthly basis.

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 a statutory rate of 20 percent 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.

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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.

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 their estimated fair value at the date of donation.

Capital assets are defined as assets with an initial value or cost greater than or equal to \$1,000 and an estimated useful life of greater than one year.

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.

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Long-lived Asset Impairment

GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" requires the City to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. GASB Statement No. 42 defines an asset impairment as a significant, unexpected decline in the service utility of a capital asset. GASB Statement No. 42 applies to proprietary fund and government-wide financial statements and does not apply to governmental fund financial statements. During the year ended December 31, 2012, the City recorded impairment charges of \$364,484 for the hospital building that was demolished early in 2013. The charges are recorded in the general government expenses on the statement of activities.

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 unamortized gain on refunding and bond issue premium or discount. Debt issuance costs are deferred and amortized over the life of the related debt using the straight-line method.

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

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. The City records a liability for accumulated unused sick leave for all employees with in excess of 20 years of service. 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. In governmental funds, amounts accrued are expected to be liquidated with available financial resources and are reported as an expenditure and are included in accrued liabilities in the financial statements and reported as accrued expenditures. For governmental activities, compensated absences are generally liquidated by the general fund.

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Deferred Revenue

Resource inflows that do not yet meet the criteria for revenue recognition are deferred in all funds. Unearned amounts are always reported as deferred revenues. In the governmental funds, earned amounts are also reported as deferred if they are not received within 60 days of year-end. Deferred revenue consists mainly of unavailable property taxes.

Fund Balance - Governmental Funds

The fund balances for the City's governmental funds are displayed in 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.

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.

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.

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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 reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net position is 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, 2012, net position restricted by enabling legislation was \$2,188,982 for governmental activities and \$3,728,222 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.

Budgetary Information

The City is required by state statute to prepare and submit an annual budget to the City Board of Directors prior to February 1 of each year. Approval of the budget by the City's Board of Directors amounts to an appropriation for the purposes of budgeting of funds that are lawfully applicable to the items contained therein. The budget as originally adopted has been amended with the approval of the City's Board of Directors. Encumbrance accounting is not employed and all appropriations lapse at December 31 of each year, except for certain appropriations for capital outlay in special revenue funds. Anticipated unexpended funds at year end are not considered resources for the budgeting process for the next year. The City's Board of Directors has properly approved all budget overruns for the year ended December 31, 2012.

New Governmental Accounting Standards Board (GASB) Pronouncements

The GASB has issued the following statements which the City has not yet adopted and which require adoption subsequent to December 31, 2012:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—An Amendment of GASB Statements No. 14 and No. 34*, issued November 2010 will be effective for the City for the year ending December 31, 2013. The Statement modifies certain requirements for inclusion of component units in the financial reporting entity, amends criteria for reporting component units as if they were part of the primary government (i.e. blending) in certain circumstances and clarifies the reporting of equity interests in legally separate organizations.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of GASB 65 are effective for periods beginning after December 15, 2012, and would be applied on a prospective basis.

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GASB Statement No. 66, *Technical Corrections - 2012*, enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. GASB 66 amends both GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 66 are effective for periods beginning after December 15, 2012, and would be applied on a prospective basis.

GASB Statement No. 67, *Financial Reporting for Pension Plans (an amendment of GASB Statement No. 25)*, replaces requirements of GASB Statements No. 25 and No. 50, related to pension plans administered through trusts or similar arrangements. GASB 67 uses existing framework for financial reports of defined benefit pension plans, including a statement of fiduciary net position and a statement of changes in fiduciary net position and enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. GASB 67 requires the presentation of information about annual money-weighted rates of return in the notes and in 10-year required supplementary information schedules. The provisions of GASB 67 are effective for periods beginning after June 15, 2013.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)* replaces requirements of GASB Statements No. 27 and No. 50, related to pension plans administered through trusts or similar arrangements. GASB 67 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits and adds revised and new note disclosures and required supplementary information. The provisions of GASB 68 are effective for periods beginning after June 15, 2014.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term, "government combinations," includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. GASB 69 is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

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.

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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, 2012, the City had bank balances of \$19,946,528 that 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, 2012, was \$20,994,661.

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.

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Investments at December 31, 2012, which are all included in the Firemen’s Pension and Relief Trust Fund, consisted of the following:

| Type | Fair Value | Maturities in Years | | | |
|-----------------------------|---------------------|---------------------|-------------|-------------|-------------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| U.S. government obligations | \$ 260,679 | \$ - | \$ - | \$ - | \$ 260,679 |
| Bond mutual funds | 1,808,098 | 1,808,098 | - | - | - |
| | | <u>\$ 1,808,098</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 260,679</u> |
| Equity mutual funds | <u>1,588,212</u> | | | | |
| | <u>\$ 3,656,989</u> | | | | |

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 and Standard & Poor’s.

| Investment Type | Rating Agency | Rating |
|-----------------|---------------|-------------|
| Corporate bonds | 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.

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Summary of Carrying Values

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

| | | |
|--|----|------------|
| Carrying value | | |
| Deposits | \$ | 25,164,241 |
| | | |
| Balance sheet-governmental funds | | |
| Cash | \$ | 2,767,682 |
| Certificates of deposit | | 8,407,391 |
| Restricted | | |
| Cash and certificates of deposit | | 3,155,216 |
| Statement of fund net position - proprietary funds | | |
| Cash | | 4,553,621 |
| Certificates of deposit | | 2,137,614 |
| Restricted | | |
| Cash | | 1,528,584 |
| Certificates of deposit | | 2,199,638 |
| Statement of fiduciary net position | | |
| Cash | | 184,459 |
| Certificates of deposit | | 230,036 |
| | | |
| | \$ | 25,164,241 |

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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, 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 | \$ 1,729,017 | \$ 591,351 | \$ - | \$ 2,320,368 |
| Sales taxes | 282,158 | 180,003 | 30,400 | 492,561 |
| Ambulance | 1,754,540 | - | - | 1,754,540 |
| Other | 160,697 | 6,447 | - | 167,144 |
| Gross receivables | <u>3,926,412</u> | <u>777,801</u> | <u>30,400</u> | <u>4,734,613</u> |
| Less allowance for uncollectibles | <u>(1,710,148)</u> | <u>(118,950)</u> | <u>-</u> | <u>(1,829,098)</u> |
| Net total receivables | <u><u>\$ 2,216,264</u></u> | <u><u>\$ 658,851</u></u> | <u><u>\$ 30,400</u></u> | <u><u>\$ 2,905,515</u></u> |
| | | Utilities | Airport | Total |
| Proprietary | | | | |
| Accounts | | \$ 4,440,420 | \$ 14,314 | \$ 4,454,734 |
| Sales taxes | | 140,628 | - | 140,628 |
| Gross receivables | | <u>4,581,048</u> | <u>14,314</u> | <u>4,595,362</u> |
| Less allowance for uncollectibles | | <u>(970,578)</u> | <u>-</u> | <u>(970,578)</u> |
| Net total receivables | | <u><u>\$ 3,610,470</u></u> | <u><u>\$ 14,314</u></u> | <u><u>\$ 3,624,784</u></u> |
| Fiduciary | | | | |
| Property taxes | | | | \$ 172,889 |
| Other | | | | 6,340 |
| Gross receivables | | | | <u>179,229</u> |
| Less allowance for uncollectibles | | | | <u>(34,769)</u> |
| Net total receivables | | | | <u><u>\$ 144,460</u></u> |

City of Siloam Springs, Arkansas
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Note 4: Capital Assets

A summary of changes in capital assets for the year ended December 31, 2012, is presented below:

| Governmental Activities | Balance, December 31, 2011 | Additions and Transfers, Net | Retirements and Transfers, Net | Balance, December 31, 2012 |
|---|---|---|---|---|
| Capital assets, non-depreciable | | | | |
| Land | \$ 7,646,367 | \$ - | \$ - | \$ 7,646,367 |
| Total capital assets, non-depreciable | <u>7,646,367</u> | <u>-</u> | <u>-</u> | <u>7,646,367</u> |
| Capital assets, depreciable | | | | |
| Buildings | 15,276,641 | 123,467 | (3,432,789) | 11,967,319 |
| Furniture, fixtures, & equipment | 14,260,743 | 447,327 | (7,245,828) | 7,462,242 |
| Infrastructure | 38,430,591 | 1,225,999 | - | 39,656,590 |
| Total capital assets, depreciable | <u>67,967,975</u> | <u>1,796,793</u> | <u>(10,678,617)</u> | <u>59,086,151</u> |
| Less accumulated depreciation | | | | |
| Buildings | (15,275,001) | (522,164) | 9,731,310 | (6,065,855) |
| Furniture, fixtures, & equipment | (5,892,147) | (425,532) | - | (6,317,679) |
| Infrastructure | (17,439,860) | (1,527,086) | - | (18,966,946) |
| Total accumulated depreciation | <u>(38,607,008)</u> | <u>(2,474,782)</u> | <u>9,731,310</u> | <u>(31,350,480)</u> |
| Total governmental activities, net | <u>37,007,334</u> | <u>(677,989)</u> | <u>(947,307)</u> | <u>35,382,038</u> |
| Internal service funds | | | | |
| Maintenance and engineering | 444,700 | - | - | 444,700 |
| Accumulated depreciation | (325,836) | (31,961) | - | (357,797) |
| Total internal service funds | <u>118,864</u> | <u>(31,961)</u> | <u>-</u> | <u>86,903</u> |
| Total governmental activities and internal service funds | <u>\$ 37,126,198</u> | <u>\$ (709,950)</u> | <u>\$ (947,307)</u> | <u>\$ 35,468,941</u> |

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2012

| Business-type Activities | Balance, December 31, 2011 | Additions and Transfers, Net | Retirements and Transfers, Net | Balance, December 31, 2012 |
|--|---|---|---|---|
| Capital assets, non-depreciable | | | | |
| Land | \$ 1,209,271 | \$ - | \$ - | \$ 1,209,271 |
| Construction in progress | <u>3,081,355</u> | <u>3,319,414</u> | <u>(3,573,325)</u> | <u>2,827,444</u> |
| Total capital assets, non-depreciable | <u>4,290,626</u> | <u>3,319,414</u> | <u>(3,573,325)</u> | <u>4,036,715</u> |
| Capital assets, depreciable | | | | |
| Buildings | 6,328,481 | 283,618 | - | 6,612,099 |
| Furniture, fixtures, & equipment | 7,032,662 | 246,335 | - | 7,278,997 |
| Infrastructure | <u>96,150,004</u> | <u>4,344,160</u> | <u>-</u> | <u>100,494,164</u> |
| Total capital assets, depreciable | <u>109,511,147</u> | <u>4,874,113</u> | <u>-</u> | <u>114,385,260</u> |
| Less accumulated depreciation | <u>(37,448,318)</u> | <u>(3,464,557)</u> | <u>-</u> | <u>(40,912,875)</u> |
| Total business-type activities, net | <u>\$ 76,353,455</u> | <u>\$ 4,728,970</u> | <u>\$ (3,573,325)</u> | <u>\$ 77,509,100</u> |

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

| | |
|---|---------------------|
| Governmental activities | |
| General Government | \$ 330,172 |
| Public Safety and judiciary | |
| Police | 201,674 |
| Fire | 105,254 |
| Other | 4,534 |
| Transportation | 1,601,212 |
| Cultural, parks and recreation | 260,183 |
| Community development | <u>3,714</u> |
| Total depreciation expense | <u>2,506,743</u> |
| Business-type activities | |
| Electric | 715,900 |
| Water utilities | 1,117,034 |
| Wastewater utilities | 1,160,684 |
| Sanitation | 117,259 |
| Airport | <u>353,680</u> |
| Total depreciation expense | <u>3,464,557</u> |
| Total depreciation expense-primary government | <u>\$ 5,971,300</u> |

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2012

Note 5: Long-term Liabilities

Changes in long-term liabilities for the year ended December 31, 2012, were as follows:

| Governmental Activities | Balance December 31, 2011 | Increases | Decreases | Balance December 31, 2012 | Amounts Due in One Year |
|--|--|---------------------------|------------------------------|--|--|
| Bonds payable | | | | | |
| Refunding bonds, Series 2003 | \$ 1,589,600 | \$ - | \$ (237,900) | \$ 1,351,700 | \$ 249,500 |
| Refunding bonds, Series 2004 | 1,830,000 | - | (1,830,000) | - | - |
| General Revenue Note, Series 2007 | 1,930,000 | - | (1,930,000) | - | - |
| Sales & Use Tax Refunding bonds, Series 2012 | - | 1,795,000 | - | 1,795,000 | - |
| Unamortized bond discount | (10,357) | 10,357 | - | - | - |
| Unamortized bond premium | - | 10,265 | - | 10,265 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Bonds payable, net | 5,339,243 | 1,815,622 | (3,997,900) | 3,156,965 | 249,500 |
| Compensated absences | 694,857 | 27,439 | - | 722,296 | - |
| Other postemployment benefits ("OPEB") liability | 846,893 | 190,973 | (103,091) | 934,775 | - |
| Net pension obligation | - | 388,370 | - | 388,370 | - |
| Total governmental activities long-term liabilities | <hr/> <u>\$ 6,880,993</u> | <hr/> <u>\$ 2,422,404</u> | <hr/> <u>\$ (4,100,991)</u> | <hr/> <u>\$ 5,202,406</u> | <hr/> <u>\$ 249,500</u> |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Business-type Activities | Balance December 31, 2011 | Increases | Decreases | Balance December 31, 2012 | Amounts Due in One Year |
| Bonds payable | | | | | |
| Revolving Loan Fund | \$ 16,534,482 | \$ 1,419,216 | \$ (8,028,772) | \$ 9,924,926 | \$ 1,874,777 |
| Revolving Loan Fund | 4,084,089 | - | (245,387) | 3,838,702 | 253,427 |
| Refunding and Construction Revenue Bonds, Series 2003 | 4,253,346 | - | (4,253,346) | - | - |
| Refunding and Construction Revenue Bonds, Series 2012 | - | 3,905,000 | - | 3,905,000 | 300,000 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total business-type activities long-term liabilities | <hr/> <u>\$ 24,871,917</u> | <hr/> <u>\$ 5,324,216</u> | <hr/> <u>\$ (12,527,505)</u> | <hr/> <u>\$ 17,668,628</u> | <hr/> <u>\$ 2,428,204</u> |

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2012

Bonds outstanding at December 31, 2012, 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.

A portion of the bond proceeds were deposited with the trustee for the 2004 bonds and used, along with other funds held in connection with the 2004 bonds, to fully redeem the 2004 bonds on the date the 2012 bonds were issued, at a price of par plus accrued interest.

The City refunded the 2004 Series sales and use tax refunding bonds to reduce its total debt service payments over nine years by \$289,947 and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$277,911.

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 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, 2012

A portion of the bond proceeds were deposited with the trustee for the 2003 bonds and used, along with other funds, to fully redeem the 2003 bonds on the date the 2012 bonds were issued, at a price of par plus accrued interest.

The City refunded the 2003 Series Utility System Refunding and Construction Revenue Bonds to reduce its total debt service payments over ten years by \$546,260 and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$498,098.

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, 2012.

| Fiscal Year | Governmental Activities | |
|--------------------|--------------------------------|-------------------|
| | Principal | Interest |
| 2013 | \$ 249,500 | \$ 55,472 |
| 2014 | 260,750 | 77,235 |
| 2015 | 270,900 | 66,603 |
| 2016 | 350,650 | 55,571 |
| 2017 | 364,900 | 42,761 |
| 2018 - 2022 | <u>1,650,000</u> | <u>85,262</u> |
| | <u>\$ 3,146,700</u> | <u>\$ 382,904</u> |

| Fiscal Year | Business-type Activities | | |
|--------------------|---------------------------------|---------------------|-------------------|
| | Principal | Interest | Fees |
| 2013 | \$ 2,428,204 | \$ 295,620 | \$ 133,382 |
| 2014 | 2,553,669 | 274,404 | 113,553 |
| 2015 | 2,620,593 | 232,059 | 91,575 |
| 2016 | 2,684,016 | 188,587 | 69,024 |
| 2017 | 2,748,973 | 144,071 | 45,884 |
| 2018 - 2022 | 3,736,978 | 354,907 | 91,229 |
| 2023 - 2027 | <u>896,195</u> | <u>30,572</u> | <u>13,587</u> |
| | <u>\$ 17,668,628</u> | <u>\$ 1,520,220</u> | <u>\$ 558,234</u> |

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2012

Note 6: Interfund Receivables and Payables

Interfund receivables and payables as of December 31, 2012, are as follows:

| | Interfund Receivables | Interfund Payables |
|--|----------------------------------|-------------------------------|
| Governmental funds | | |
| General fund | \$ - | \$ 136 |
| Street fund | - | 1,023,826 |
| Total governmental funds | - | 1,023,962 |
| Proprietary funds to/from nonfiduciary funds | | |
| Utilities | 1,024,696 | - |
| | | |
| Proprietary funds to/from fiduciary funds | | |
| Firemen's Pension and Relief | - | 734 |
| | | 734 |
| Total | \$ 1,024,696 | \$ 1,024,696 |

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 7: Interfund Transfers

Amount of interfund transfers between funds are summarized as follows:

| | Transfers In | Transfers Out |
|---------------------------------|-------------------------|--------------------------|
| Governmental funds | | |
| General fund | \$ 5,267,980 | \$ 250,671 |
| Street fund | 13,758 | - |
| Proprietary funds | | |
| Utilities | 317,434 | 5,646,110 |
| Other nonmajor enterprise funds | 66,000 | - |
| Internal service funds | 218,000 | - |
| Fiduciary funds | 13,609 | - |
| | | |
| Total | \$ 5,896,781 | \$ 5,896,781 |

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, 2012

Note 8: Pension Plans

Firemen's 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 the City, established in accordance with legislation enacted by the Arkansas General Assembly. Benefit provisions are established by State of Arkansas Act #14, as amended. Fund assets are administered by a Board of Trustees. The FRPF provides retirement benefits for firemen who have completed 20 years of service. Disability benefits are available to firemen who become permanently disabled, unless the disability is the direct result of gainful employment performed outside the fire department. The FRPF also provides benefits for surviving spouses and dependent children of deceased firemen. No participants' benefits vest until normal retirement age. At normal retirement, participants may elect to continue working and enter the Deferred Retirement Option Plan for up to 5 years. All firemen hired after January 1, 1983, participate in the Arkansas Local Police and Fire Retirement System created by Act 364 of 1981. Therefore, the Firemen's Fund is effectively closed to new members. The FRPF does not issue a separate, publicly available financial report.

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 (fair value).

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 available for benefits represents 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. Additionally the City contributes a percentage of the firemen's salaries, which amounted to 6% during 2012. The participants contributed 6% of their salaries in 2012. Administrative costs were financed by the FRPF. Total 2012 contributions to the FRPF were \$161,510. The City's share of contributions was \$150,929 and included \$101,446 in property taxes and \$18,845 in state insurance premium taxes. On behalf payments (state insurance premium taxes) are recognized as revenues and expenditures in the appropriate fund.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2012

The City's annual pension cost and net pension asset of the FRPF for 2012 is as follows:

| | |
|---|--------------------------|
| Annual required contribution | \$ 342,732 |
| Interest on net pension obligation | 10,704 |
| Adjustment to annual required contribution | <u>(48,269)</u> |
| | |
| Annual pension cost | 305,167 |
| Contributions made | <u>(130,872)</u> |
| | |
| Increase in net pension obligation | 174,295 |
| Net pension obligation at beginning of the year | <u>214,075</u> |
| | |
| Net pension obligation at end of year | <u><u>\$ 388,370</u></u> |

Funded Status and Funding Progress.

As of December 31, 2011, the most recent actuarial valuation date, the plan was 72.8% funded. The actuarial accrued liability for benefits was \$5,586,893, and the actuarial value of assets was \$4,066,850, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,520,043. There is no covered payroll as there are no active employees.

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. Actuarially determined amounts are subject to 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, will present 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.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2012

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 biennially and the last evaluation was as of December 31, 2011. Actuarial assumptions used in evaluating the fund include entry age cost method, five year smoothed market for valuing assets, level percent open amortization method, and amortization period of 5 years for active participants and 5 years for retirees, 5% investment rate of return, 4.2% to 8% salary increases, and 4% inflation rate. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at December 31, 2012 was 30 years.

Three Year Trend Information

| Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation (Asset) |
|------------|------------------------------|----------------------------------|--------------------------------------|
| 12/31/2010 | \$ 386,116 | 33% | \$ 53,573 |
| 12/31/2011 | \$ 318,787 | 50% | \$ 214,075 |
| 12/31/2012 | \$ 305,167 | 43% | \$ 388,370 |

Membership Information

Membership of the FPRF consisted of the following at December 31, 2012:

| | |
|--|----|
| Retirees and beneficiaries receiving benefits | 20 |
| Active plan members | 0 |
| Members on Deferred Retirement Option Plan (DROP) | 3 |
| Total | 23 |

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 retirement program 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.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2012

Funding Policy. The City contributes 17.78% of covered employees' salaries to the plan for firemen and 19.11% of covered employees' salaries to the plan for policemen. Employees contributed \$195,493 to the contributory plan for the year ended December 31, 2012. The current employee contribution rate is 8.5 percent of covered payroll for policemen and 8.5 percent of covered payroll for firemen. City contributions to the plan for the years ended December 31, 2012, 2011 and 2010, were approximately \$599,175, \$462,982, and \$511,242, respectively, and were equal to 100 percent of the required contributions for each year. The contribution requirements of employers and employees and the amendments of those requirements are established by the LOPFI Board of Trustees, and shall be based on the actuary's determination of the rate required to fund the Plan.

Municipal Judge and Clerk Retirement Fund

The City contributes a portion of court fees to the Municipal Judge and Clerk Retirement Plan (the "MJCRP"). The MJCRP was established by the City in accordance with Arkansas statutes and is included in the City's fiduciary financial statements.

The pension benefit obligation has not been actuarially determined as the City has only one active judge. Any deficiencies for retirement obligations will be met by payment from the City's general fund.

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 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 (employee) participant and include mutual funds whose focus is on stocks, bonds, treasury securities, money market-type investments or a combination of these.

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 which 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 2012, the City's contributions totaled \$615,398.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2012

Note 9: Other Post Employment 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 the retiree and the retiree's 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 \$124.37 per month to \$347.28 per month depending on the coverage elected. The City's policy maintains that retirees must pay 100% of the extra cost of premiums for dependent coverage and the City pays 100% of the contribution for the retiree. 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 5 retirees covered under this plan at December 31, 2012. Dependent coverage was provided for 2 of the retirees. Total benefits paid by the City for retirees during the fiscal year were \$103,091. Retirees contributed \$90,939 of the total current year cost.

Annual OPEB Cost and Net OPEB Obligation: The City's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), 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:

| | |
|--|--------------------------|
| Annual required contribution | \$ 188,175 |
| Interest on net OPEB Obligation | 38,110 |
| Adjustment to annual required contribution | <u>(35,312)</u> |
| Annual OPEB cost | 190,973 |
| Total annual employer contribution (pay-as-you-go) | <u>(103,091)</u> |
| Increase in net OPEB obligation | 87,882 |
| Net OPEB Obligation - beginning of year | <u>846,893</u> |
| Net OPEB Obligation - end of year | <u><u>\$ 934,775</u></u> |

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2012

The components of the annual required contribution (ARC) calculation reflecting a 30 year amortization period is as follows:

| | |
|-------------------|------------------------------|
| Service cost | \$ 73,165 |
| Amortization cost | <u>115,010</u> |
| ARC | <u><u>\$ 188,175</u></u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 is as follows:

| Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|------------|------------------|--|------------------------|
| 12/31/2010 | \$ 255,797 | 12% | \$ 629,893 |
| 12/31/2011 | \$ 246,712 | 12% | \$ 846,893 |
| 12/31/2012 | \$ 190,973 | 54% | \$ 934,775 |

Funded Status and Funding Progress: As of December 31, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$2,719,288 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,719,288. The covered payroll (annual payroll of active employees covered by the plan) was \$7,239,535, and the ratio of the UAAL to the covered payroll was 37.56%.

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.

City of Siloam Springs, Arkansas
Notes to Financial Statements
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In the December 31, 2012, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5% investment rate of return based on the City's rate of return on investments for 2012, and an annual healthcare cost trend rate of 8% for 2013 and then reduced by decrements of one-half percent annually to an ultimate rate of 4% after eight years. Both rates included a 3.0% 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, 2012, was 30 years.

Note 10: 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.

Note 11: Pledged Revenues

The City has pledged future revenues to pay the debt of the City. Proceeds from the debt provided financing for the construction and expansion of the City. The debt is payable from the pledged revenues and are payable through 2025. Annual principal and interest payments on the debt are expected to be paid fully from the revenue. The total principal and interest remaining to be paid on the debt is approximately \$23,300,000. Principal and interest paid for 2012 from pledged revenue was approximately \$11,600,000.

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. AML provides the City with automobile and legal defense coverage. Fixed premiums are set annually by AML based on such factors as claims experience, employee class multipliers and population. For risks covered by AML, the City pays no deductible; however, the City pays a \$3,000 fee to AML for each legal matter it handles. There have been no significant reductions in coverage from 2011 to 2012; nor have settlement amounts exceeded insurance coverage for the current year or the three prior years.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2012

The City maintains self-insured health coverage for the employees of the City. The City currently reports all of its risk management activities for this plan in each fund in proportion to the amount of benefits paid for each fund relative to the yearly total. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

Eligible employees are those who work full-time (at least 32 hours per week) and have been employed at least 30 days. The plan provides medical, dental, and vision insurance coverage. The city utilizes a third-party insurance company for stop-loss and reinsurance costs. The City has third party insurance for its employees' life and long-term disability insurance. The following is a schedule of changes in claims liability:

| | |
|------------------------|--------------------------|
| Beginning liability | \$ 454,753 |
| Changes in estimates | 34,206 |
| Claims and adjustments | 1,826,100 |
| Claim payments | <u>(1,831,460)</u> |
| Ending liability | <u><u>\$ 483,599</u></u> |

Note 13: Contingencies

The City participates in several federal financial assistance programs. The City's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996, and are subject to resolution of questioned costs, if any. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time.

The City, its agencies and its employees are defendants in various legal proceedings, many of which normally occur in governmental operations. Such litigation includes, but is not limited to, claims assessed against the City for property damage and personal injury, 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.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2012

Note 14: Fund Balance

The City classified governmental fund balances as follows:

| | General Fund | Street Fund | Debt Service Fund | Total |
|---------------------------------|-------------------------|------------------------|------------------------------|----------------------|
| Funds Balances | | | | |
| Nonspendable | | | | |
| Prepaid expenses | \$ 38,995 | \$ 3,380 | \$ - | \$ 42,375 |
| Spendable | | | | |
| Restricted | | | | |
| Capital outlay and debt service | 72,043 | 1,874,361 | 314,621 | 2,261,025 |
| Assigned | | | | |
| Capital outlay | 10,336,816 | - | - | 10,336,816 |
| Unassigned | | | | |
| General fund | 764,245 | - | - | 764,245 |
| Total fund balances | <u>\$ 11,212,099</u> | <u>\$ 1,877,741</u> | <u>\$ 314,621</u> | <u>\$ 13,404,461</u> |

Note 15: Adjustment Applicable to Prior Years

An adjustment applicable to 2011 was made to restate the beginning balance of governmental activities net position to correct errors in 2011 capital assets. In 2011, land was incorrectly impaired. Also, certain infrastructure assets were duplicated in the amount of capital assets recorded in the statement of net position. The restatement related to impairment increased beginning 2012 net position and previously reported 2011 changes in net position by \$2,462,748 while the restatement related to infrastructure assets decreased beginning 2012 net position by \$2,903,697 and increased previously reported 2011 changes in net position by \$462,737.

An adjustment applicable to 2011 was also made to restate the beginning balance of governmental net position and governmental fund balance to correct an error in 2011 accrued liabilities. In 2011, the liability for the self-funded health insurance was understated. The restatement decreased beginning 2012 governmental fund balance by \$319,848 and internal service funds net position by \$29,525. The restatement also decreased beginning enterprise funds net position by \$105,380. This restatement decreased the previously reported 2011 changes in fund balance by \$55,033 and internal service funds changes in net position by \$5,078. The restatement also decreased the previously reported 2011 proprietary changes in net position by \$18,139.

An adjustment applicable to 2011 was also made to restate the beginning balance of proprietary funds net position to correct an error in 2011 capital assets and accrued liabilities. In prior years, the liability for accrued interest was overstated and interest was capitalized after an asset had been placed in service. The restatement increased proprietary funds beginning 2012 net position by \$227,132. The restatement increased the previously reported 2011 change in net position by \$227,132.

Required Supplementary Information

City of Siloam Springs, Arkansas
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2012

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|--|------------------------|---------------------|--------------------|---------------------------------------|
| Revenues | | | | |
| Property taxes | \$ 1,000,000 | \$ 1,025,000 | \$ 1,027,618 | \$ 2,618 |
| Sales taxes | 3,343,000 | 3,538,192 | 2,439,726 | (1,098,466) |
| Licenses and permits | 328,100 | 322,512 | 304,056 | (18,456) |
| Intergovernmental | 317,132 | 449,507 | 516,618 | 67,111 |
| Charges for services | 2,554,529 | 2,742,450 | 2,331,432 | (411,018) |
| Fines and forfeitures | 288,000 | 284,112 | 300,322 | 16,210 |
| Grants and contributions | 90,000 | 98,420 | 99,643 | 1,223 |
| Investment income | 42,650 | 9,052 | 54,100 | 45,048 |
| Miscellaneous | 20,500 | 46,391 | 42,188 | (4,203) |
| Total revenues | <u>7,983,911</u> | <u>8,515,636</u> | <u>7,115,703</u> | <u>(1,399,933)</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | | | | |
| Administration | 2,197,390 | 3,432,541 | 2,398,738 | (1,033,803) |
| Cemetery | 149,553 | 181,036 | 175,251 | (5,785) |
| Total general government | <u>2,346,943</u> | <u>3,613,577</u> | <u>2,573,989</u> | <u>(1,039,588)</u> |
| Public safety and judiciary | | | | |
| Police | 3,303,077 | 3,252,906 | 3,280,865 | 27,959 |
| Fire | 3,573,294 | 3,528,935 | 3,704,851 | 175,916 |
| Municipal court | 278,682 | 289,728 | 287,538 | (2,190) |
| Animal control | 310,790 | 275,823 | 279,424 | 3,601 |
| Total public safety and judiciary | <u>7,465,843</u> | <u>7,347,392</u> | <u>7,552,678</u> | <u>205,286</u> |
| Cultural, parks and recreation | | | | |
| Library | 262,171 | 236,282 | 243,031 | 6,749 |
| Parks | 632,890 | 509,740 | 681,184 | 171,444 |
| Total cultural, parks and recreation | <u>895,061</u> | <u>746,022</u> | <u>924,215</u> | <u>178,193</u> |
| Community development | | | | |
| Building inspections | 325,522 | 315,163 | 274,938 | (40,225) |
| Capital outlay | <u>605,500</u> | <u>536,284</u> | <u>548,054</u> | <u>11,770</u> |
| Total expenditures | <u>11,638,869</u> | <u>12,558,438</u> | <u>11,873,874</u> | <u>(684,564)</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(3,654,958)</u> | <u>(4,042,802)</u> | <u>(4,758,171)</u> | <u>(715,369)</u> |

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|----------------------------|----------------------------|-----------------------------|---------------------------------------|
| Other Financing Sources (Uses) | | | | |
| Sale of capital assets | \$ - | \$ 7,300 | \$ 390,376 | \$ 383,076 |
| Transfers in | - | - | 5,267,980 | 5,267,980 |
| Transfers out | (9,650) | (9,650) | (250,671) | (241,021) |
| Total other financing sources (uses) | <u>(9,650)</u> | <u>(2,350)</u> | <u>5,407,685</u> | <u>5,410,035</u> |
| Change in Fund Balances | <u>(3,664,608)</u> | <u>(4,045,152)</u> | <u>649,514</u> | <u>4,694,666</u> |
| Fund Balances, Beginning of Year, as Previously Reported | 10,829,600 | 10,829,600 | 10,829,600 | - |
| Adjustment Applicable to Prior Years - Note 15 | <u>(267,015)</u> | <u>(267,015)</u> | <u>(267,015)</u> | <u>-</u> |
| Fund Balances, Beginning of Year, as Restated | <u>10,562,585</u> | <u>10,562,585</u> | <u>10,562,585</u> | <u>-</u> |
| Fund Balances, End of Year | <u><u>\$ 6,897,977</u></u> | <u><u>\$ 6,517,433</u></u> | <u><u>\$ 11,212,099</u></u> | <u><u>\$ 4,694,666</u></u> |

City of Siloam Springs, Arkansas
Budgetary Comparison Schedule –
Street Fund
Year Ended December 31, 2012

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|------------------------|---------------------|---------------------|---------------------------------------|
| Revenues | | | | |
| Property taxes | \$ 350,000 | \$ 247,935 | \$ 337,990 | \$ 90,055 |
| Sales taxes | 2,300,000 | 2,382,745 | 2,310,482 | (72,263) |
| Intergovernmental | 697,000 | 696,576 | 688,910 | (7,666) |
| Investment income | 23,000 | 5,135 | 3,714 | (1,421) |
| Miscellaneous | 1,500 | 578 | 1,647 | 1,069 |
| Total revenues | <u>3,371,500</u> | <u>3,332,969</u> | <u>3,342,743</u> | <u>9,774</u> |
| Expenditures | | | | |
| Current: | | | | |
| Transportation | | | | |
| Streets | 843,577 | 947,819 | 903,722 | (44,097) |
| Debt service | | | | |
| Interest and other charges | 116,000 | 29,309 | 15,035 | (14,274) |
| Capital outlay | <u>1,605,000</u> | <u>1,282,240</u> | <u>1,248,738</u> | <u>(33,502)</u> |
| Total expenditures | <u>2,564,577</u> | <u>2,259,368</u> | <u>2,167,495</u> | <u>(91,873)</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>806,923</u> | <u>1,073,601</u> | <u>1,175,248</u> | <u>101,647</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in | <u>-</u> | <u>-</u> | <u>13,758</u> | <u>13,758</u> |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>13,758</u> | <u>13,758</u> |
| Change in Fund Balances | <u>806,923</u> | <u>1,073,601</u> | <u>1,189,006</u> | <u>115,405</u> |
| Fund Balances, Beginning of Year, as Previously Reported | 741,568 | 741,568 | 741,568 | 10,829,600 |
| Adjustment Applicable to Prior Years - Note 15 | <u>(52,833)</u> | <u>(52,833)</u> | <u>(52,833)</u> | <u>(267,015)</u> |
| Fund Balances, Beginning of Year, as Restated | <u>688,735</u> | <u>688,735</u> | <u>688,735</u> | <u>10,562,585</u> |
| Fund Balances, End of Year | <u>\$ 1,495,658</u> | <u>\$ 1,762,336</u> | <u>\$ 1,877,741</u> | <u>\$ 10,677,990</u> |

City of Siloam Springs, Arkansas
Defined Benefit Pension Plans –
Schedules of Funding Progress
For the Year Ended December 31, 2012

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability ("AAL") Entry Age (b) | Unfunded AAL ("UAAL") (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------------|--------------------------------------|--|------------------------------------|---------------------------|----------------------------|--|
| 12/31/2003 | \$ 3,868,102 | \$ 3,354,098 | \$ (514,004) | 115.3% | \$ 245,447 | -209.4% |
| 12/31/2005 | 4,360,076 | 4,925,349 | 565,273 | 88.5% | - | N/A |
| 12/31/2007 a | 5,054,448 | 4,846,443 | (208,005) | 104.3% | - | N/A |
| 12/31/2008 | 3,580,457 | 4,967,107 | 1,386,650 | 72.1% | - | N/A |
| 12/31/2009 b | 4,488,628 | 6,040,496 | 1,551,868 | 74.3% | - | N/A |
| 12/31/2010 | 4,914,261 | 6,369,800 | 1,455,539 | 77.1% | - | N/A |
| 12/31/2011 | 4,006,850 | 5,586,893 | 1,520,043 | 72.8% | - | N/A |

a Includes change in assumptions to 7% discount rate and 83GAM mortality.

b Includes change in assumptions to 5% discount rate and 83GAM mortality.

City of Siloam Springs, Arkansas
Other Postemployment Benefit Plans –
Schedule of Funding Progress
For the Year Ended December 31, 2012

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability ("AAL") Entry Age (b) | Unfunded AAL ("UAAL") (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------------|--------------------------------------|--|------------------------------------|---------------------------|----------------------------|--|
| 1/1/2009 | \$ - | \$ 1,792,276 | \$ 1,792,276 | 0.0% | \$ 9,291,241 | 19.30% |
| 1/1/2010 | - | 2,159,050 | 2,159,050 | 0.0% | 10,135,753 | 21.30% |
| 1/1/2012 | - | 2,719,288 | 2,719,288 | 0.0% | 7,239,535 | 37.56% |

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) 5% rate of return on investments, (b) an annual healthcare cost trend rate of 8% initially reduced by decrements to an ultimate rate of 4% after 9 years, and (c) mortality rates based on the RP-2000 Combined Male/Female Mortality (Projection Scale AA) and (d) salary increases of 3%. 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, 2012

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 2012, 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 schedules comparing budget and actual amounts for the General and Street Funds include adjustments to those budgetary bases for the difference noted above and for certain other items which are reported in the City's budget differently than they are reported for accounting principles generally accepted in the United States. 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 purposed and actual results except the budgets do not include operating transfers in as a resource. This results in a budget with charges exceeding resources. The actual results include the operating transfers in as a resource, which results in actual resources in excess of actual charges.

The City's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recognized. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of account on the governmental fund statements and on the full accrual basis on the government-wide statements.

**Combining and Individual Fund
Financial Statements and Schedules**

City of Siloam Springs, Arkansas
Combining Schedule of Revenues, Expenses and Changes in Net Position –
Enterprise Fund
Year Ended December 31, 2012

| | Enterprise Funds | | | | |
|--|------------------|--------------|--------------|--------------|---------------|
| | Electric | Water | Wastewater | Sanitation | Totals |
| Operating Revenues | | | | | |
| Charges for services | \$ 20,795,154 | \$ 3,057,190 | \$ 2,006,555 | \$ 2,614,099 | \$ 28,472,998 |
| Operating Expenses | | | | | |
| Cost of goods sold | | | | | |
| Cost of power | 13,857,276 | - | - | - | 13,857,276 |
| Personal services | 1,490,774 | 530,284 | 247,522 | 668,548 | 2,937,128 |
| Contracted services | 67,934 | 65,832 | 191,410 | 1,022,440 | 1,347,616 |
| Maintenance and operating expenses | 584,183 | 342,193 | 224,707 | 271,737 | 1,422,820 |
| Other services and charges | 393,963 | 107,222 | 113,900 | 138,365 | 753,450 |
| Utilities | 18,147 | 334,174 | 432,356 | 13,786 | 798,463 |
| Depreciation | 715,900 | 1,135,917 | 1,160,684 | 117,259 | 3,129,760 |
| Total operating expenses | 17,128,177 | 2,515,622 | 2,370,579 | 2,232,135 | 24,246,513 |
| Operating Income | 3,666,977 | 541,568 | (364,024) | 381,964 | 4,226,485 |
| Nonoperating Income (Expenses) | | | | | |
| Sales tax revenue | 1,083,038 | - | 1,799,250 | - | 2,882,288 |
| Interest income | 39,488 | 487 | 2,012 | 300 | 42,287 |
| Interest expense | - | (155,405) | (440,518) | (43,831) | (639,754) |
| Net non-operating revenues (expenses) | 1,122,526 | (154,918) | 1,360,744 | (43,531) | 2,284,821 |
| Income Before Capital Contributions and Transfers | 4,789,503 | 386,650 | 996,720 | 338,433 | 6,511,306 |
| Transfers In | 10,004 | 89,039 | - | 218,391 | 317,434 |
| Transfers Out | (5,646,110) | - | - | - | (5,646,110) |
| | (5,636,106) | 89,039 | - | 218,391 | (5,328,676) |
| Change in Net Position | \$ (846,603) | \$ 475,689 | \$ 996,720 | \$ 556,824 | 1,182,630 |
| Net Position, Beginning of Year, as Previously Reported | | | | | 69,513,257 |
| Adjustment Applicable to Prior Years - Note 15 | | | | | 123,723 |
| Net Position, Beginning of Year, as Restated | | | | | 69,636,980 |
| Net Position, End of Year | | | | | \$ 70,819,610 |

City of Siloam Springs, Arkansas
Combining Statement of Net Position –
Internal Services Fund
Year Ended December 31, 2012

| Assets | Maintenance | Engineering | Totals |
|---|--------------------|--------------------|------------------|
| Current Assets: | | | |
| Cash | \$ 4,453 | \$ 1,691 | \$ 6,144 |
| Inventory | 24,852 | - | 24,852 |
| Prepaid items | 587 | 223 | 810 |
| Due from other funds | - | - | - |
| Total currents assets | <u>29,892</u> | <u>1,914</u> | <u>31,806</u> |
| Noncurrent Assets | | | |
| Capital assets | | | |
| Maintenance property, plant and equipment | 335,678 | 109,022 | 444,700 |
| Less accumulated depreciation | <u>291,316</u> | <u>66,481</u> | <u>357,797</u> |
| Total noncurrent assets | <u>44,362</u> | <u>42,541</u> | <u>86,903</u> |
| Total assets | <u>74,254</u> | <u>44,455</u> | <u>118,709</u> |
| Current Liabilities: | | | |
| Accounts payable | 2,022 | 808 | 2,830 |
| Accrued expenses | <u>10,968</u> | <u>26,999</u> | <u>37,967</u> |
| Total current liabilities | <u>12,990</u> | <u>27,807</u> | <u>40,797</u> |
| Net Position | | | |
| Net investment in capital assets | 44,362 | 42,541 | 86,903 |
| Unrestricted (deficit) | <u>16,902</u> | <u>(25,893)</u> | <u>(8,991)</u> |
| Total net position | <u>\$ 61,264</u> | <u>\$ 16,648</u> | <u>\$ 77,912</u> |

City of Siloam Springs, Arkansas
Combining Statement of Revenues, Expenses and Changes in Net Position –
Internal Service Funds
Year Ended December 31, 2012

| | <u>Maintenance</u> | <u>Engineering</u> | <u>Totals</u> |
|--|--------------------|--------------------|------------------|
| Operating Revenues | | | |
| Repairs and services for other departments | \$ 226,009 | \$ 121,478 | \$ 347,487 |
| Total operating revenues | <u>226,009</u> | <u>121,478</u> | <u>347,487</u> |
| Operating Expenses | | | |
| Personal services | 136,095 | 152,601 | 288,696 |
| Payroll taxes | 10,990 | 12,523 | 23,513 |
| Employee retirement | 6,386 | 13,986 | 20,372 |
| Materials and supplies | 23,603 | 2,789 | 26,392 |
| Uniforms | 4,143 | 382 | 4,525 |
| Dues and training | 1,763 | 11,668 | 13,431 |
| Small tools | 2,843 | 1,545 | 4,388 |
| Vehicle and equipment operation | 2,060 | 1,851 | 3,911 |
| Vehicle and equipment maintenance | 1,066 | 151 | 1,217 |
| Office supplies and postage | 35 | 3,315 | 3,350 |
| Telephone | 983 | 534 | 1,517 |
| Utilities | 6,778 | - | 6,778 |
| Insurance | 40,067 | 92,469 | 132,536 |
| Lease | - | 1,361 | 1,361 |
| Professional fees | 35 | 3,081 | 3,116 |
| Miscellaneous expense | 5,608 | 3,467 | 9,075 |
| Administrative department charges | 13,494 | 2,517 | 16,011 |
| Maintenance department charges | 1,783 | 1,035 | 2,818 |
| Depreciation | 15,959 | 16,002 | 31,961 |
| Total operating expenses | <u>273,691</u> | <u>321,277</u> | <u>594,968</u> |
| Operating Income (Loss) Before Operating Transfers | <u>(47,682)</u> | <u>(199,799)</u> | <u>(247,481)</u> |
| Operating Transfers In | <u>27,000</u> | <u>191,000</u> | <u>218,000</u> |
| Change in Net Position | <u>(20,682)</u> | <u>(8,799)</u> | <u>(29,481)</u> |
| Net Position, Beginning of Year, as Previously Reported | 85,981 | 50,937 | 136,918 |
| Adjustment Applicable to Prior Years - Note 15 | <u>(4,035)</u> | <u>(25,490)</u> | <u>(29,525)</u> |
| Net Position, Beginning of Year, as Restated | <u>81,946</u> | <u>25,447</u> | <u>107,393</u> |
| Net Position, End of Year | <u>\$ 61,264</u> | <u>\$ 16,648</u> | <u>\$ 77,912</u> |

City of Siloam Springs, Arkansas
Combining Statement of Cash Flows –
Internal Service Funds
Year Ended December 31, 2012

| | <u>Maintenance</u> | <u>Engineering</u> | <u>Totals</u> |
|--|---------------------------|----------------------------|----------------------------|
| Operating Activities | | | |
| Cash received from other funds for services | \$ 231,492 | \$ 123,156 | \$ 354,648 |
| Cash payments to suppliers for goods and services | (108,420) | (159,441) | (267,861) |
| Cash payments to employees for services | <u>(146,856)</u> | <u>(154,460)</u> | <u>(301,316)</u> |
| Net cash used in operating activities | <u>(23,784)</u> | <u>(190,745)</u> | <u>(214,529)</u> |
| Noncapital Financing Activities | | | |
| Interfund transfers | <u>27,000</u> | <u>191,000</u> | <u>218,000</u> |
| Net cash provided by noncapital financing activities | <u>27,000</u> | <u>191,000</u> | <u>218,000</u> |
| Increase in Cash | 3,216 | 255 | 3,471 |
| Cash, Beginning of Year | <u>1,237</u> | <u>1,436</u> | <u>2,673</u> |
| Cash, End of Year | <u><u>\$ 4,453</u></u> | <u><u>\$ 1,691</u></u> | <u><u>\$ 6,144</u></u> |
| Presented on the "Statement of Net Position - Internal Service Funds" as follows: | | | |
| Cash and cash equivalents | <u><u>\$ 4,453</u></u> | <u><u>\$ 1,691</u></u> | <u><u>\$ 6,144</u></u> |
| Reconciliation of Operating Loss to Net Cash Provided By Operating Activities | | | |
| Operating income (loss) | \$ (47,682) | \$ (199,799) | \$ (247,481) |
| Adjustment to reconcile operating income to net cash provided by operating activities | | | |
| Depreciation and amortization expense | 15,959 | 16,002 | 31,961 |
| Changes in assets and liabilities | | | |
| Inventory | (1,963) | - | (1,963) |
| Prepaid expenses | 610 | 66 | 676 |
| Accounts payable and accrued liabilities | <u>9,292</u> | <u>(7,014)</u> | <u>2,278</u> |
| Net cash provided by operating activities | <u><u>\$ (23,784)</u></u> | <u><u>\$ (190,745)</u></u> | <u><u>\$ (214,529)</u></u> |

City of Siloam Springs, Arkansas
Schedules of Bonds Outstanding
Year Ended December 31, 2012

Sales and Use Tax Refunding Bonds, Series 2003

| Maturity Year | Interest Rate | Interest Payments | Serial Bond Maturities | Total Payment |
|---------------|---------------|----------------------|---------------------------|---------------------|
| 2013 | 4.00% | \$ 49,078 | \$ 249,500 | \$ 298,578 |
| 2014 | 4.00% | 38,873 | 260,750 | 299,623 |
| 2015 | 4.00% | 28,240 | 270,900 | 299,140 |
| 2016 | 4.00% | 17,209 | 280,650 | 297,859 |
| 2017 | 4.00% | 5,798 | 289,900 | 295,698 |
| | | <u>\$ 139,198</u> | <u>\$ 1,351,700</u> | <u>\$ 1,490,898</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)
Year Ended December 31, 2012

Sales and Use Tax Refunding Bonds, Series 2012

| Maturity Year | Interest Rate | Interest Payments | Serial Bond Maturities | Total Payment |
|---------------|---------------|----------------------|---------------------------|---------------------|
| 2013 | 2.00% | \$ 6,394 | \$ - | \$ 6,394 |
| 2014 | 2.00% | 38,362 | - | 38,362 |
| 2015 | 2.00% | 38,363 | - | 38,363 |
| 2016 | 2.00% | 38,362 | 70,000 | 108,362 |
| 2017 | 2.00% | 36,963 | 75,000 | 111,963 |
| 2018 | 2.00% | 35,462 | 455,000 | 490,462 |
| 2019 | 2.00% | 26,363 | 465,000 | 491,363 |
| 2020 | 2.25% | 17,062 | 475,000 | 492,062 |
| 2021 | 2.50% | 6,375 | 255,000 | 261,375 |
| | | <u>\$ 243,706</u> | <u>\$ 1,795,000</u> | <u>\$ 2,038,706</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)
Year Ended December 31, 2012

Revolving Loan Fund #00618-CWRLF-L

| Maturity Year | Interest Rate | Interest Payments | 1.00% Service Fee | Principal Payments | Total Payment |
|----------------------|----------------------|--------------------------|--------------------------|---------------------------|----------------------|
| 2013 | 1.50% | \$ 143,439 | \$ 95,623 | \$ 1,874,777 | \$ 2,113,839 |
| 2014 | 1.50% | 117,526 | 78,349 | 1,921,939 | 2,117,814 |
| 2015 | 1.50% | 88,517 | 59,010 | 1,970,288 | 2,117,815 |
| 2016 | 1.50% | 58,777 | 39,184 | 2,019,854 | 2,117,815 |
| 2017 | 1.50% | 28,292 | 18,859 | 2,070,665 | 2,117,816 |
| 2018 | 1.50% | 2,474 | 1,649 | 67,403 | 71,526 |
| | | <u>\$ 439,025</u> | <u>\$ 292,674</u> | <u>\$ 9,924,926</u> | <u>\$ 10,656,625</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)
Year Ended December 31, 2012

Revolving Loan Fund #00254-CWRLF-L (Sewer Revenue Bonds Series 2003)

| Maturity Year | Interest Rate | Interest Payments | 1.00% Service Fee | Principal Payments | Total Payment |
|----------------------|----------------------|--------------------------|--------------------------|---------------------------|----------------------|
| 2013 | 2.50% | \$ 84,956 | \$ 37,759 | \$ 253,427 | \$ 376,142 |
| 2014 | 2.50% | 79,208 | 35,204 | 261,730 | 376,142 |
| 2015 | 2.50% | 73,272 | 32,565 | 270,305 | 376,142 |
| 2016 | 2.50% | 67,140 | 29,840 | 279,162 | 376,142 |
| 2017 | 2.50% | 60,809 | 27,025 | 288,308 | 376,142 |
| 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 | 925 | 185,063 | 188,070 |
| | | <u>\$ 597,512</u> | <u>\$ 265,560</u> | <u>\$ 3,838,702</u> | <u>\$ 4,701,774</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)
Year Ended December 31, 2012

Utility System Refunding and Construction Revenue Bonds, Series 2012

| Maturity Year | Interest Rate | Interest Payments | Serial Bond Maturities | Total Payment |
|---------------|---------------|----------------------|---------------------------|---------------------|
| 2013 | 1.00% | \$ 67,225 | \$ 300,000 | \$ 367,225 |
| 2014 | 2.00% | 77,670 | 370,000 | 447,670 |
| 2015 | 2.00% | 70,270 | 380,000 | 450,270 |
| 2016 | 2.00% | 62,670 | 385,000 | 447,670 |
| 2017 | 2.00% | 54,970 | 390,000 | 444,970 |
| 2018 | 2.00% | 47,170 | 400,000 | 447,170 |
| 2019 | 2.00% | 39,170 | 405,000 | 444,170 |
| 2020 | 2.20% | 31,070 | 415,000 | 446,070 |
| 2021 | 2.45% | 21,940 | 425,000 | 446,940 |
| 2022 | 2.65% | 11,528 | 435,000 | 446,528 |
| | | <u>\$ 483,683</u> | <u>\$ 3,905,000</u> | <u>\$ 4,388,683</u> |

Paying Agent: BancorpSouth Bank
Stuttgart, Arkansas

Principal Payment Date: October 1

Interest Payment Dates: April 1
October 1

Single Audit Section

City of Siloam Springs, Arkansas
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

| Cluster/Program | Federal Agency/ Pass-Through Entity | CFDA Number | Amount Expended |
|---|---|----------------|--------------------|
| Capitalization Grants for Clean Water State Revolving Funds | U.S. Environmental Protection Agency/Arkansas Natural Resource Commission | 66.458 | \$ 627,041 |
| Airport Improvement Program | U.S. Department of Transportation/Arkansas Department of Aeronautics | 20.106 | 102,805 |
| Edward Byrne Memorial Justice Assistance Grant Program | U.S. Department of Justice/Arkansas State Police | 16.738 | 4,200 |
| Assistance to Firefighters Grant Program - Fire Prevention and Safety Grants | U.S. Department of Homeland Security/FEMA | 97.044 | 3,800 |
| | | | <u>\$ 737,846</u> |

Notes to Schedule

1. This schedule includes the federal awards activity of the City of Siloam Springs, Arkansas and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Of the federal expenditures presented in this schedule, the City of Siloam Springs, Arkansas provided no federal awards to subrecipients.

Independent Auditor’s 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*

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2012 which collectively comprise its basic financial statements and have issued our report thereon dated October 1, 2013, which contained an “Emphasis of Matter” paragraph regarding a restatement of prior financial statements.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the City’s internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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. 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 Organization’s financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2012-001 to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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*.

City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Other Matter(s)

We also noted certain matters that we reported to the City's management in a separate letter dated October 1, 2013.

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

BKD, LLP

Rogers, Arkansas
October 1, 2013

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Report on Compliance for the Major Federal Program

We have audited the compliance of the City of Siloam Springs, Arkansas with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal programs for the year ended December 31, 2012. 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

Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Organization's management.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, the City of Siloam Springs, Arkansas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Report on Internal Control Over Compliance

The management of the City of Siloam Springs, Arkansas 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 requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Rogers, Arkansas
October 1, 2013

City of Siloam Springs, Arkansas
Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Summary of Auditor's Results

1. The opinion(s) expressed in the Independent Auditor's report was (were):
 Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting described:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs described:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

5. The opinion(s) expressed in the independent auditor's report on compliance with requirements that could have a direct and material effect on major federal awards was (were):
 Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

City of Siloam Springs, Arkansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

7. The City's major program was:

| Cluster/Program | CFDA Number |
|---|--------------------|
| Capitalization Grants for Clean Water State Revolving Funds | 66.458 |

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The City qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

City of Siloam Springs, Arkansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

Findings Required to be Reported by Government Auditing Standards

| Reference Number | Finding | Questioned Costs |
|------------------|---|------------------|
| 2012-001 | <p>Criteria or Specific Requirement Management is responsible for the propriety and completeness of the information in the financial statements.</p> <p>Condition The City did not properly record capital assets or certain liabilities related to health insurance and accrued interest in accordance with generally accepted accounting principles.</p> <p>Context According to generally accepted accounting principles, land is to be evaluated separately for impairment. In 2011, as a result of the closing of its hospital, the City improperly recorded an impairment loss on land unrelated to the hospital facility. Also the City had infrastructure assets duplicated in their records and errors in health insurance and accrued interest liabilities recorded in prior years. These errors caused misstatements in the financial statements which were not identified by the City's internal control.</p> <p>Effect Potentially material misstatements in the financial statements due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause The controls currently in place are not adequate or are not functioning effectively.</p> <p>Recommendation Management should evaluate the costs versus the benefits of additional monitoring and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions The City has hired a CPA with governmental experience to ensure internal controls are in place to prevent material misstatements from occurring.</p> | N/A |

City of Siloam Springs, Arkansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

Findings Required to be Reported by OMB Circular A-133

| Reference Number | Finding | Questioned Costs |
|-----------------------------|----------------|-----------------------------|
|-----------------------------|----------------|-----------------------------|

No matters are reportable.

City of Siloam Springs, Arkansas
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2012

| Reference Number | Summary of Finding | Status |
|-----------------------------|---------------------------|---------------|
|-----------------------------|---------------------------|---------------|

No matters are reportable.

Other Required Report

Independent Auditor's Report on Compliance With Arkansas State Requirements

The Honorable Mayor and Members of the City Council
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, 2012.

- (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 the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included 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 examination provides 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, the City of Siloam Springs, Arkansas complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2012.

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
October 1, 2013