

City of Siloam Springs

Auditor's Reports and Financial Statements

For the Year Ended December 31, 2014



CITY OF
Siloam Springs

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Visit our website at: www.siloamsprings.com

City of Siloam Springs, Arkansas

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Financial Section

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Siloam Springs, Arkansas as of and for the year ended December 31, 2014, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Siloam Springs, Arkansas as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2014 the City implemented the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans, an Amendment of GASB Statement No. 25*. Our opinions are not modified with respect to this matter.

Other Matters

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 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 Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The schedule of bonds outstanding listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2015, 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 19, 2015

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

December 31, 2014

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, 2014. This analysis focuses on the 2014 and 2013 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. 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.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

City of Siloam Springs, Arkansas
Management's Discussion and Analysis
December 31, 2014

City as a Whole

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer term view of the City's finances. These statements include all assets and 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 Statements of Net Position at December 31, 2014 and 2013 is as follows:

Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Cash and investments	\$ 11.6	\$ 13.2	\$ 14.2	\$ 10.0	\$ 25.8	\$ 23.2
Other assets	2.5	2.6	8.2	6.3	10.7	8.9
Capital assets (net)	42.3	39.5	75.2	75.9	117.5	115.4
Total assets	<u>56.4</u>	<u>55.3</u>	<u>97.6</u>	<u>92.2</u>	<u>154.0</u>	<u>147.5</u>
Current liabilities	1.6	1.7	4.3	2.1	5.9	3.8
Long-term liabilities	3.7	4.7	12.6	15.7	16.3	20.4
Total liabilities	<u>5.3</u>	<u>6.4</u>	<u>16.9</u>	<u>17.8</u>	<u>22.2</u>	<u>24.2</u>
Net investment in capital assets	39.7	36.6	61.2	60.2	100.9	96.8
Restricted	5.4	5.4	5.1	4.4	10.5	9.8
Unrestricted	<u>6.0</u>	<u>6.9</u>	<u>14.4</u>	<u>9.8</u>	<u>20.4</u>	<u>16.7</u>
Total net position	<u>\$ 51.1</u>	<u>\$ 48.9</u>	<u>\$ 80.7</u>	<u>\$ 74.4</u>	<u>\$ 131.8</u>	<u>\$ 123.3</u>

The City's combined net position increased from \$123.3 million to \$131.8 million, a 6.89% increase in 2014. Unrestricted net position for governmental activities, which is the portion of net position that can be used to finance day to day operations without constraints established by debt covenants, enabling legislation or other legal requirements, decreased \$.9 million, from a balance of \$6.9 million to \$6.0 million. The driver for this decrease is the renovations for the Police Station and Fire Station 3 and architect fees for the new library. Revenues came in \$600 thousand under budget. This was mainly due to the budgeting of the 3/8ths cent sales tax in the general fund and the subsequent transfer of those sales tax funds to the Electric department because they are restricted to the expansion of the City's utility services.

City of Siloam Springs, Arkansas
Management's Discussion and Analysis
December 31, 2014

Net position of the business-type activities reflects a \$6.3 million or 8.47% increase (\$80.7 million compared to \$74.4 million). This increase is mainly a reflection of a one year contract with a major customer for new services and rate increases in electric, water and sewer services.

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

Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues						
<i>Program revenues</i>						
Charges for services	\$ 3.1	\$ 3.1	\$ 37.4	\$ 30.2	\$ 40.5	\$ 33.3
Grants and contributions	2.2	1.7	0.1	0.1	2.3	1.8
<i>General revenues</i>						
Taxes	7.0	6.6	3.2	2.9	10.2	9.5
Investment	0.1	0.1	-	-	0.1	0.1
Intergovernmental	1.9	1.3	-	-	1.9	1.3
Other	0.3	0.4	-	-	0.3	0.4
Total revenues	<u>14.6</u>	<u>13.2</u>	<u>40.7</u>	<u>33.2</u>	<u>55.3</u>	<u>46.4</u>
Expenses						
General government	4.7	4.2	-	-	4.7	4.2
Public safety and judiciary	8.6	8.8	-	-	8.6	8.8
Transportation	3.3	2.7	-	-	3.3	2.7
Cultural, parks, and recreation	1.3	1.5	-	-	1.3	1.5
Community development	0.4	0.3	-	-	0.4	0.3
Interest on long-term debt	0.1	0.1	-	-	0.1	0.1
Utilities	-	-	27.6	24.8	27.6	24.8
Airport	-	-	0.8	0.9	0.8	0.9
Total expenses	<u>18.4</u>	<u>17.6</u>	<u>28.4</u>	<u>25.7</u>	<u>46.8</u>	<u>43.3</u>
Increase (decrease) in net position before transfers	(3.8)	(4.4)	12.3	7.5	8.5	3.1
Transfers	<u>6.0</u>	<u>7.9</u>	<u>(6.0)</u>	<u>(7.9)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>\$ 2.2</u>	<u>\$ 3.5</u>	<u>\$ 6.3</u>	<u>\$ (0.4)</u>	<u>\$ 8.5</u>	<u>\$ 3.1</u>

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

December 31, 2014

The City's total revenue of \$55.3 million in 2014 reflects a \$8.9 million, or 19.18%, increase over total revenue of \$46.4 million in 2013. This increase in total revenue in 2014 is the result of the grants provided for the kayak park, senior center and other projects; sales tax increases; intergovernmental revenue increases; a one year contract for new services; and the rate increases for utilities. 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 8.08% (\$43.3 million, to a total cost of \$46.8 million). This increase in total cost was a combination of significantly higher healthcare costs with some increase in salaries offset by a reduction in debt interest from the prior year. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenue for the City's governmental activities in 2014 came in at \$14.6 million which is approximately a \$1.4 million dollar increase from 2013. There were several drivers for this increase including intergovernmental revenue, grant income, and sales tax revenue. Intergovernmental revenues increased by \$600 thousand which includes an increase of \$300 thousand for ambulance services from the County. Grant income was approximately \$500 thousand higher than 2013 and sales taxes increased by \$216 thousand. In the context of total revenue versus total expense, the City's governmental activities ran a \$3.8 million dollar deficit before transfers from the business-type activities funds of \$6.0 million.

Governmental activities total expenses increased \$.8 million in 2014 from 2013, a 4.55% increase. This increase is largely related to an increase in salaries and wages and the amount of health claims paid during 2014.

Business-type Activities

Revenues of the City's business-type activities or enterprise funds increased by \$7.5 million or 22.59% (\$40.7 million in 2014 compared to \$33.2 million in 2013). This increase in business activity revenue can be attributed to a one year contract with a major customer for new services, rate increases in electric, water and sewer services, and incremental increases and decreases across the business-type activities revenue streams.

Business-type activities revenue represents 74% of total City revenues in 2014. Electric revenues and other income are equal to 62% of the business-type operating revenue and 41% of the total City revenue. As noted above, the cost or expenses of all business-type activities in 2014 compared to 2013 were up \$2.7 million with the primary driver being the increased activity within utilities. Power cost for electric service increased \$1.1 million over 2013.

Budgetary Highlights

Over the course of the year, the City Board of Directors revised the budget once. The City develops their budget on a modified accrual basis. The City's general fund budget annually reflects a deficit which is covered or balanced with transfers from the enterprise funds. Transfers to the general fund from the enterprise funds in 2014 to balance the general fund budget were equal to \$6.0 million.

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

December 31, 2014

Capital Assets and Debt Administration

Capital Assets

At December 31, 2014, the City had \$117.5 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 increase of \$2.1 million or 1.82% (\$117.5 million compared to \$115.4 million). Significant capital asset projects and capital asset additions during the year by fund net of accumulated depreciation and adjustments included:

- General Fund – \$1.4 million for the police station renovation
\$927,000 for the kayak park
\$698,000 for the Fire Station 3 renovations
- Street Fund – \$489,000 for the Dogwood sidewalks and overlay

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

Debt Outstanding

At year-end 2014, the City had \$16.6 million in bonds and notes outstanding. The City paid down approximately \$2.0 million in principal on debt outstanding in 2014.

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 8.3% decrease in 2014 over the previous three year period average. The City issued 100 building permits in 2014 compared to 99 issued in 2013, 123 issued in 2012 and 105 issued in 2011.

The City sales tax revenue stream increased in 2014 with a year-over-year increase of 6.22% after reflecting an increase of 1.33% in 2013. The City share of County sales tax revenue stream also increased in 2014 with a year-over-year increase of 5.14% after reflecting an increase in 2013 of 12.49%. 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 2015 and through eight months of 2015 these projections appear to be only slightly higher than actual receipts. The City is no longer experiencing contraction in our industrial customer market base as local industries continue to maintain production levels in their operations in 2015.

City of Siloam Springs, Arkansas
Management's Discussion and Analysis
December 31, 2014

In 2014, 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 2014 achievements include:

- Retirement of the North Substation
- Repainting of the Hill St. Water Tower
- Continued work on a new police department and fire station
- Continued work on new regulation soccer fields
- Continued work on the grant funded kayak park
- Began work on Basin 5
- Began work on Airport taxiway rehabilitation

Financial Contact

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

Basic Financial Statements

City of Siloam Springs, Arkansas
Statement of Net Position
December 31, 2014

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Assets			
Cash and cash equivalents	\$ 666,113	\$ 7,038,233	\$ 7,704,346
Certificates of deposit	5,554,287	2,159,684	7,713,971
Accounts receivable, net of allowance for uncollectibles	2,540,431	5,737,621	8,278,052
Inventories	73,101	1,936,532	2,009,633
Prepays	203,050	178,295	381,345
Restricted assets			
Restricted cash and certificates of deposit	5,352,382	5,049,543	10,401,925
Accounts receivable	36,120	-	36,120
Internal balances	(371,305)	371,305	-
Capital assets - non-depreciable	9,362,981	1,916,011	11,278,992
Capital assets - depreciable, net	33,004,858	73,238,811	106,243,669
Total assets	<u>56,422,018</u>	<u>97,626,035</u>	<u>154,048,053</u>
Liabilities			
Accounts payable	183,463	1,787,804	1,971,267
Accrued expenses	590,340	237,299	827,639
Accrued interest payable	22,201	66,176	88,377
Customer deposits	-	434,095	434,095
Due to other governments	10,481	-	10,481
Unearned revenues	49,787	-	49,787
Noncurrent liabilities			
Due within one year	753,864	2,026,112	2,779,976
Due in more than one year	3,650,476	12,377,049	16,027,525
Total liabilities	<u>5,260,612</u>	<u>16,928,535</u>	<u>22,189,147</u>
Net Position			
Net investment in capital assets	39,723,376	61,207,233	100,930,609
Restricted			
Expendable			
Capital projects	4,671,148	3,466,897	8,138,045
Debt service	344,831	1,582,646	1,927,477
Other	439,137	-	439,137
Unrestricted	5,982,914	14,440,724	20,423,638
Total net position	<u>\$ 51,161,406</u>	<u>\$ 80,697,500</u>	<u>\$ 131,858,906</u>

City of Siloam Springs, Arkansas
Statement of Activities
Year Ended December 31, 2014

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Government/Programs							
Primary Government							
Governmental activities:							
General government	\$ 4,650,397	\$ 1,450,616	\$ 1,911,945	\$ -	\$ (1,287,836)	\$ -	\$ (1,287,836)
Public safety	8,599,219	1,411,165	164,556	-	(7,023,498)	-	(7,023,498)
Culture, parks, and recreation	1,332,056	173,100	90,323	-	(1,068,633)	-	(1,068,633)
Community development	405,231	81,034	-	-	(324,197)	-	(324,197)
Street department	3,259,070	-	-	-	(3,259,070)	-	(3,259,070)
Interest expense on long-term debt	67,916	-	-	-	(67,916)	-	(67,916)
Total governmental activities	<u>18,313,889</u>	<u>3,115,915</u>	<u>2,166,824</u>	<u>-</u>	<u>(13,031,150)</u>	<u>-</u>	<u>(13,031,150)</u>
Business-type Activities:							
Utilities	27,631,978	37,069,609	27,959	-	-	9,465,590	9,465,590
Airport	852,733	368,848	41,861	-	-	(442,024)	(442,024)
Total business-type activities	<u>28,484,711</u>	<u>37,438,457</u>	<u>69,820</u>	<u>-</u>	<u>-</u>	<u>9,023,566</u>	<u>9,023,566</u>
Total primary government	<u>\$ 46,798,600</u>	<u>\$ 40,554,372</u>	<u>\$ 2,236,644</u>	<u>\$ -</u>	<u>(13,031,150)</u>	<u>9,023,566</u>	<u>(4,007,584)</u>
General Revenues:							
Property taxes					1,327,975	-	1,327,975
Sales and use taxes					5,616,956	3,204,689	8,821,645
Franchise and public service taxes					69,931	-	69,931
Intergovernmental					1,871,875	-	1,871,875
Investment income					22,904	21,477	44,381
Miscellaneous					390,958	-	390,958
Transfers - internal activity, net					5,971,466	(5,971,466)	-
Total general revenues and transfers					<u>15,272,065</u>	<u>(2,745,300)</u>	<u>12,526,765</u>
Change in Net Position					<u>2,240,915</u>	<u>6,278,266</u>	<u>8,519,181</u>
Net Position - Beginning of Year					<u>48,920,491</u>	<u>74,419,234</u>	<u>123,339,725</u>
Net Position - End of Year					<u>\$ 51,161,406</u>	<u>\$ 80,697,500</u>	<u>\$ 131,858,906</u>

City of Siloam Springs, Arkansas
Balance Sheet – Governmental Funds
December 31, 2014

	General Fund	Street Fund	Debt Service Fund (Nonmajor)	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 661,156	\$ -	\$ -	\$ 661,156
Certificates of deposit	5,554,287	-	-	5,554,287
Taxes receivable, net of allowance for doubtful accounts of \$38,277, \$14,592 and \$0	1,495,880	578,522	36,120	2,110,522
Ambulance fees receivable, net allowance for doubtful accounts of \$912,067	260,846	-	-	260,846
Inventories	49,993	-	-	49,993
Due from other funds	-	134	-	134
Other receivables	205,183	-	-	205,183
Prepaid items	159,866	32,286	-	192,152
Restricted assets				
Cash and cash equivalents	439,137	4,604,534	308,711	5,352,382
Total assets	<u>\$ 8,826,348</u>	<u>\$ 5,215,476</u>	<u>\$ 344,831</u>	<u>\$ 14,386,655</u>
Liabilities				
Accounts payable	\$ 157,029	\$ 25,492	\$ -	\$ 182,521
Due to other funds	371,439	-	-	371,439
Due to other governments	10,481	-	-	10,481
Accrued liabilities	534,681	37,227	-	571,908
Unearned revenues - grants	49,787	-	-	49,787
Total liabilities	<u>1,123,417</u>	<u>62,719</u>	<u>-</u>	<u>1,186,136</u>
Deferred Inflows of Resources				
Unavailable revenues - property taxes	1,090,254	449,323	-	1,539,577
Total deferred inflows of resources	<u>1,090,254</u>	<u>449,323</u>	<u>-</u>	<u>1,539,577</u>
Fund Balances				
Nonspendable	209,859	32,286	-	242,145
Restricted	439,137	4,671,148	344,831	5,455,116
Assigned	5,350,512	-	-	5,350,512
Unassigned	613,169	-	-	613,169
Total fund balance	<u>6,612,677</u>	<u>4,703,434</u>	<u>344,831</u>	<u>11,660,942</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 8,826,348</u>	<u>\$ 5,215,476</u>	<u>\$ 344,831</u>	<u>\$ 14,386,655</u>

Total fund balances - governmental funds \$ 11,660,942

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. 42,282,172

Amounts reported as deferred inflows of resources are not recognized at the fund level on the modified accrual basis but are reported as revenues on the full accrual basis in the governmental activities in the statement of net assets. 1,539,577

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	(2,636,450)
Unamortized bond premiums	(7,983)
Accrued interest on bonds and notes	(22,201)
Postemployment benefits liability	(865,919)
Accrued compensated absences	(482,964)
Net pension obligation	(411,024)

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. 105,256

Total net position - governmental activities \$ 51,161,406

City of Siloam Springs, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds
Year Ended December 31, 2014

	General Fund	Street Fund	Debt Service (Nonmajor)	Total Governmental Funds
Revenues				
Property taxes	\$ 1,042,631	\$ 355,862	\$ -	\$ 1,398,493
Sales taxes	4,021,758	1,244,735	350,463	5,616,956
Licenses and permits	412,387	-	-	412,387
Intergovernmental	877,332	994,543	-	1,871,875
Charges for services	2,282,543	-	-	2,282,543
Fines and forfeitures	291,024	-	-	291,024
Grants and contributions	2,166,824	-	-	2,166,824
Investment income	18,155	4,747	2	22,904
Miscellaneous	233,158	11,596	-	244,754
Total revenues	<u>11,345,812</u>	<u>2,611,483</u>	<u>350,465</u>	<u>14,307,760</u>
Expenditures				
Current:				
General government				
Administration	3,897,503	-	-	3,897,503
Cemetery	183,348	-	-	183,348
Total general government	<u>4,080,851</u>	<u>-</u>	<u>-</u>	<u>4,080,851</u>
Public safety and judiciary				
Police	3,668,147	-	-	3,668,147
Fire	3,980,851	-	-	3,980,851
Municipal court	278,110	-	-	278,110
Animal control	369,557	-	-	369,557
Total public safety and judiciary	<u>8,296,665</u>	<u>-</u>	<u>-</u>	<u>8,296,665</u>
Transportation				
Streets	-	1,646,642	-	1,646,642
Cultural, parks and recreation				
Library	273,733	-	-	273,733
Parks	840,440	-	-	840,440
Total cultural, parks and recreation	<u>1,114,173</u>	<u>-</u>	<u>-</u>	<u>1,114,173</u>
Community development				
Building inspections	401,653	-	-	401,653
Debt service				
Principal retirement	-	-	260,750	260,750
Interest and other charges	-	-	79,037	79,037
Capital outlay	<u>4,180,988</u>	<u>1,075,322</u>	<u>-</u>	<u>5,256,310</u>
Total expenditures	<u>18,074,330</u>	<u>2,721,964</u>	<u>339,787</u>	<u>21,136,081</u>

City of Siloam Springs, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds (Continued)
Year Ended December 31, 2014

	General Fund	Street Fund	Debt Service (Nonmajor)	Total Governmental Funds
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (6,728,518)</u>	<u>\$ (110,481)</u>	<u>\$ 10,678</u>	<u>\$ (6,828,321)</u>
Other Financing Sources (Uses)				
Transfers in	6,113,321	29,675	-	6,142,996
Transfers out	<u>(440,898)</u>	<u>-</u>	<u>-</u>	<u>(440,898)</u>
Total other financing sources (uses)	<u>5,672,423</u>	<u>29,675</u>	<u>-</u>	<u>5,702,098</u>
Change in Fund Balances	(1,056,095)	(80,806)	10,678	(1,126,223)
Fund Balances, Beginning of Year	<u>7,668,772</u>	<u>4,784,240</u>	<u>334,153</u>	<u>12,787,165</u>
Fund Balances, End of Year	<u><u>\$ 6,612,677</u></u>	<u><u>\$ 4,703,434</u></u>	<u><u>\$ 344,831</u></u>	<u><u>\$ 11,660,942</u></u>

City of Siloam Springs, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds (Continued)
Year Ended December 31, 2014

Net change in net position – total governmental funds	\$ (1,126,223)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital asset purchases	5,256,310
Depreciation expense	(2,402,322)
The net effect of various miscellaneous transactions involving capital assets (<i>i.e.</i> , sales and donations) is to decrease net assets.	
	(4,367)
Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities. This is the change in the amount of unavailable revenues reported in the governmental fund statements.	
	(70,518)
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.	
Decrease in OPEB liabilities	136,242
Decrease in accrued long-term compensated absences	171,444
Decrease in accrued interest expense	9,980
Decrease in net pension obligation	8,604
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 certain immaterial amounts deferred and amortized in the statement of activities were expensed in connection with the adoption of GASB 65.	
Principal repayments	260,750
Amortization of bond issue premiums	1,141
Internal service funds are used by management to charge the costs of maintenance and engineering to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	
	(126)
Change in net position of governmental activities	\$ 2,240,915

City of Siloam Springs, Arkansas
Statement of Net Position –
Proprietary Funds
December 31, 2014

Assets	Enterprise Funds			Governmental Activities
	Utilities	Airport (Nonmajor)	Totals	Internal Service Funds
Current Assets:				
Cash	\$ 7,036,182	\$ 2,051	\$ 7,038,233	\$ 4,957
Certificates of deposit	2,159,684	-	2,159,684	-
Receivables				
Accounts, net of allowance for uncollectible accounts	5,467,215	1,345	5,468,560	-
Taxes	266,817	-	266,817	-
Accrued interest	2,244	-	2,244	-
Inventory	1,858,553	77,979	1,936,532	23,108
Due from other funds	371,305	-	371,305	-
Prepaid items	170,140	8,155	178,295	10,898
Total currents assets	17,332,140	89,530	17,421,670	38,963
Noncurrent Assets				
Restricted cash	3,338,638	-	3,338,638	-
Certificates of deposit	1,710,905	-	1,710,905	-
Capital assets, net of accumulated depreciation				
Land and improvements	859,216	350,055	1,209,271	-
Construction in progress	626,335	80,405	706,740	-
Distribution and collection systems	66,846,693	-	66,846,693	-
Buildings and equipment	3,430,902	2,961,216	6,392,118	85,667
Total noncurrent assets	76,812,689	3,391,676	80,204,365	85,667
Total assets	94,144,829	3,481,206	97,626,035	124,630

Liabilities	Enterprise Funds			Governmental Activities
	Utilities	Airport (Nonmajor)	Totals	Internal Service Funds
Current Liabilities:				
Accounts payable	\$ 1,784,407	\$ 3,397	\$ 1,787,804	\$ 942
Accrued expenses	232,547	4,752	237,299	18,432
Customer deposits	434,095	-	434,095	-
Current maturities of bonds payable	1,830,222	-	1,830,222	-
Accrued interest payable	66,176	-	66,176	-
Total current liabilities	<u>4,347,447</u>	<u>8,149</u>	<u>4,355,596</u>	<u>19,374</u>
Noncurrent Liabilities				
Compensated absences	193,713	2,177	195,890	-
Other post employment benefits	247,337	12,344	259,681	-
Bonds payable, net	12,117,368	-	12,117,368	-
Total noncurrent liabilities	<u>12,558,418</u>	<u>14,521</u>	<u>12,572,939</u>	<u>-</u>
Total liabilities	<u>16,905,865</u>	<u>22,670</u>	<u>16,928,535</u>	<u>19,374</u>
Net Position				
Net investment in capital assets	57,815,556	3,391,676	61,207,232	85,667
Restricted				
Capital Projects	3,466,897	-	3,466,897	-
Debt service	1,582,646	-	1,582,646	-
Unrestricted	14,373,865	66,860	14,440,725	19,589
Total net position	<u>\$ 77,238,964</u>	<u>\$ 3,458,536</u>	<u>\$ 80,697,500</u>	<u>\$ 105,256</u>

City of Siloam Springs, Arkansas
Statement of Revenues, Expenses and Changes in
Net Position – Proprietary Funds
Year Ended December 31, 2014

	Enterprise Funds			Governmental Activities
	Utilities	Airport (Nonmajor)	Totals	Internal Service Funds
Operating Revenues				
Charges for services				
Electric	\$ 22,059,697	\$ -	\$ 22,059,697	\$ -
Water	4,151,372	-	4,151,372	-
Wastewater	7,216,547	-	7,216,547	-
Sanitation	2,228,035	-	2,228,035	-
Fuel sales	-	302,427	302,427	-
Penalties	278,997	-	278,997	-
Miscellaneous	1,134,961	66,421	1,201,382	346,096
Total operating revenues	<u>37,069,609</u>	<u>368,848</u>	<u>37,438,457</u>	<u>346,096</u>
Operating Expenses				
Cost of goods sold				
Cost of power	14,619,199	-	14,619,199	-
Cost of fuel	-	237,117	237,117	-
Personal services	3,774,498	137,387	3,911,885	358,778
Contracted services	1,441,894	5,774	1,447,668	9,272
Maintenance and operating expenses	2,019,128	48,239	2,067,367	47,323
Other services and charges	1,117,777	58,072	1,175,849	162,743
Utilities	857,854	23,649	881,503	7,124
Depreciation and amortization	3,418,221	342,495	3,760,716	30,350
Total operating expenses	<u>27,248,571</u>	<u>852,733</u>	<u>28,101,304</u>	<u>615,590</u>
Operating Income (Loss)	<u>9,821,038</u>	<u>(483,885)</u>	<u>9,337,153</u>	<u>(269,494)</u>
Nonoperating Income (Expenses)				
Sales tax revenue	3,204,689	-	3,204,689	-
Interest income	21,477	-	21,477	-
Interest expense	(383,407)	-	(383,407)	-
Net non-operating revenues	<u>2,842,759</u>	<u>-</u>	<u>2,842,759</u>	<u>-</u>
Income (Loss) Before Capital Contributions and Transfers	<u>12,663,797</u>	<u>(483,885)</u>	<u>12,179,912</u>	<u>(269,494)</u>
Grants	27,959	41,861	69,820	-
Transfers In	1,515,641	132,345	1,647,986	269,368
Transfers Out	(7,619,452)	-	(7,619,452)	-
	<u>(6,075,852)</u>	<u>174,206</u>	<u>(5,901,646)</u>	<u>269,368</u>
Change in Net Position	6,587,945	(309,679)	6,278,266	(126)
Net Position, Beginning of Year	<u>70,651,019</u>	<u>3,768,215</u>	<u>74,419,234</u>	<u>105,382</u>
Net Position, End of Year	<u>\$ 77,238,964</u>	<u>\$ 3,458,536</u>	<u>\$ 80,697,500</u>	<u>\$ 105,256</u>

City of Siloam Springs, Arkansas
Statement of Cash Flows –
Proprietary Funds
Year Ended December 31, 2014

	Enterprise Funds			Governmental Activities
	Utilities (Major Fund)	Airport (Nonmajor Fund)	Totals	Internal Service Funds
Operating Activities				
Cash received from customers	\$ 34,505,767	\$ 381,372	\$ 34,887,139	\$ -
Cash received from other funds for services	-	-	-	346,096
Cash payments to suppliers for goods and services	(19,362,810)	(401,994)	(19,764,804)	(235,178)
Cash payments to employees for services	(3,313,349)	(122,187)	(3,435,536)	(373,119)
Other operating receipts (payments)	480,308	-	480,308	-
	12,309,916	(142,809)	12,167,107	(262,201)
Noncapital Financing Activities				
Grants	27,959	-	27,959	-
Interfund transfers	(6,103,811)	132,345	(5,971,466)	269,368
	(6,075,852)	132,345	(5,943,507)	269,368
Capital and Related Financing Activities				
Sales tax revenue	3,092,623	-	3,092,623	-
Grants	-	41,861	41,861	-
Acquisition and construction of capital assets	(2,946,731)	(30,499)	(2,977,230)	(13,146)
Principal paid on debt	(1,780,725)	-	(1,780,725)	-
Interest and fees paid on debt	(393,919)	-	(393,919)	-
	(2,028,752)	11,362	(2,017,390)	(13,146)
Investing Activities				
Interest on cash and certificates of deposits	21,177	-	21,177	-
Purchase of certificates of deposit	(3,870,589)	-	(3,870,589)	-
Redemption of certificates of deposit	3,851,842	-	3,851,842	-
	2,430	-	2,430	-
Increase in Cash and Cash Equivalents	4,207,742	898	4,208,640	(5,979)
Cash and Cash Equivalents, Beginning of Year	6,167,078	1,153	6,168,231	10,936
Cash and Cash Equivalents, End of Year	\$ 10,374,820	\$ 2,051	\$ 10,376,871	\$ 4,957

	Enterprise Funds			Governmental Activities
	Utilities (Major Fund)	Airport (Nonmajor Fund)	Totals	Internal Service Funds
Presented on the "Statement of Net Position - Proprietary Funds" as follows:				
Cash and cash equivalents	\$ 7,036,182	\$ 2,051	\$ 7,038,233	\$ 4,957
Restricted cash and cash equivalents - noncurrent	3,338,638	-	3,338,638	-
	<u>\$ 10,374,820</u>	<u>\$ 2,051</u>	<u>\$ 10,376,871</u>	<u>\$ 4,957</u>
Reconciliation of Operating Income to to Net Cash Provided By (Used In) Operating Activities				
Operating income (loss)	\$ 9,821,038	\$ (483,885)	\$ 9,337,153	\$ (269,494)
Adjustment to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization expense	3,418,221	342,495	3,760,716	30,350
Changes in assets and liabilities				
Accounts receivable	(1,597,971)	12,524	(1,585,447)	-
Inventory	(147,058)	(7,740)	(154,798)	1,745
Prepaid expenses	(115,535)	(1,725)	(117,260)	(1,231)
Accounts payable and accrued liabilities	948,526	(4,478)	944,048	(23,571)
Customer deposits	(17,305)	-	(17,305)	-
Net cash provided by (used in) operating activities	<u>\$ 12,309,916</u>	<u>\$ (142,809)</u>	<u>\$ 12,167,107</u>	<u>\$ (262,201)</u>

City of Siloam Springs, Arkansas
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2014

	<u>Pension Trust Fund</u>	<u>Private- purpose Trust Fund</u>
	<u>Firemen's Pension and Relief</u>	<u>Oak Hill Cemetery Trust</u>
Assets		
Cash	\$ 229,611	\$ 89,823
Certificates of deposit	-	241,386
Investments		
U.S. government obligations	150,145	-
Mutual funds	3,167,809	-
Property taxes receivable, net of allowance for doubtful accounts of \$3,576	<u>115,623</u>	<u>-</u>
Total assets	<u>3,663,188</u>	<u>331,209</u>
Liabilities		
Accounts payable	<u>-</u>	<u>-</u>
Deferred Inflows of Resources		
Unavailable revenue - property taxes	<u>110,038</u>	<u>-</u>
Net Position		
Net position restricted for pensions	3,553,150	-
Net position restricted for cemetery maintenance	<u>-</u>	<u>331,209</u>
Net position restricted for pensions and other purposes	<u><u>\$ 3,553,150</u></u>	<u><u>\$ 331,209</u></u>

City of Siloam Springs, Arkansas
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended December 31, 2014

	Pension Trust Fund	Private- purpose Trust Fund
	Firemen's Pension and Relief	Oak Hill Cemetery Trust
Additions		
Contributions		
Property taxes	\$ 103,259	\$ -
State insurance premium taxes	22,230	-
Future supplement	10,280	-
Intergovernmental	-	10,713
	135,769	10,713
Total contributions		
Investment income		
Interest and dividends	119,778	665
Gain from sale of investments	117,900	-
Net decrease in fair value of investments	(5,546)	-
	232,132	665
Net investment income		
Total additions	367,901	11,378
Deductions		
Benefits	406,630	-
Administrative expenses	29,104	-
	435,734	-
Total deductions		
Change in Fiduciary Net Position	(67,833)	11,378
Net Position - Beginning of Year	3,620,983	319,831
Net Position - End of Year	\$ 3,553,150	\$ 331,209

City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2014

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

City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2014

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.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2014

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.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2014

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and Street Funds. 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, 2014, cash equivalents consisted primarily of money market accounts with brokers.

Investments and Investment Income

All investments in the City's Pension Trust Funds are carried at fair value. For all other funds, investments 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.

Accounts Receivable

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

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

In the governmental funds, property taxes are measurable when levied even though not available. As a result, at December 31, 2014, property taxes receivable of \$1,678,255 and related deferred inflows of resources of \$1,539,577 have been recorded in the governmental funds. In the government-wide statement of net position, property taxes are considered earned at the time levied. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible. The appraised value of taxable property upon which the property tax is levied is determined by the county assessor. The assessor estimates full market value of the property and applies the statutory rate of 20% to arrive at assessed value.

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

Unbilled Revenue

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

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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.

Long-term Obligations

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government does not have any items that qualifies for reporting in this category as of December 31, 2014.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

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.

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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.

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, 2014, net position restricted by enabling legislation was \$5,455,116 for governmental activities and \$5,049,543 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, 2014.

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Adoption of Accounting Principles

GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, for 2014. The objective of this statement is to improve financial reporting by state and local governmental pension plans. For defined benefit pension plans, this statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer-contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented.

The statement resulted from a comprehensive review of the effectiveness of previously existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27*, as they relate to pension plans that are administered through trusts or equivalent arrangements.

Adoption of GASB 67 had no effect on net position restricted for pensions or net increase (decrease) in net position. It did, however, change required footnote disclosures and information required to be reported as required supplementary information for the System. This information has been added to *Note 8* and to the required supplementary information, as required.

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, 2014:

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 68 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.

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GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date (an amendment of GASB Statement No. 68)*, amends Statement 68 related to transition provisions for certain pension contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and nonemployer contributing entities. At the beginning of the period in which the provisions of Statement 68 are adopted, there may be circumstances in which it is not practical for a government to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. In such circumstances, the government should recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. Additionally, in those circumstances, no beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions should be recognized. GASB 71 is effective for periods beginning after June 15, 2014, and should be applied simultaneously with the provision of Statement 68.

GASB Statement No. 72, *Fair Value Measurement and Application (GASB 72)*: GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB 72 will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB 72 is effective for financial statements for fiscal years beginning after June 15, 2015.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefits Other Than Pension Plans (GASB 74)*: GASB 74 addresses the reporting requirements for Other Postemployment Benefit (OPEB) plans that administer benefits on behalf of government. GASB 74 replaces GASB Statement No. 43, *Financial Reporting for Postemployments Benefit Plans Other Than Pension Plans* and addresses the financial reporting of OPEB plans that are administered through trusts that meet certain criteria. GASB 74 requires the inclusion of a statement of fiduciary net position and a statement of changes in fiduciary net position in the financial reporting for the plan. GASB 74 also requires more extensive note disclosures and required supplementary information (RSI) related to the measurement of the OPEB liabilities and sets forth note disclosure requirements for defined contribution OPEB plans. GASB 74 is effective for financial statements for fiscal years beginning after June 15, 2016.

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

Employers that are responsible only for OPEB liabilities for their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability (the difference between the total OPEB liability and the assets accumulated in trust to make the benefit payments)

Employers that participate in a cost-sharing OPEB plan that is administered through a trust that meets specified criteria will report a liability equal to the employer's proportionate share for the collective OPEB liability for all employers participating in the plan

Employers that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability for their own employees

GASB 75 requires more extensive note disclosures and required supplementary information (RSI) about the OPEB liabilities. GASB 75 is effective for fiscal years beginning after June 15, 2017. Therefore, the statement will be effective for the City's year ending December 31, 2018.

GASB Statement No. 77, *Tax Abatement Disclosures*. According to this soon-to-be-released standard, a tax abatement is defined as "a reduction in taxes that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they otherwise are entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments."

This standard requires disclosures about a government's tax abatement agreements, as well as those of other governments (including discretely-presented component units of the reporting government) that reduce the reporting government's tax revenues. Disclosures for the former should be organized by each major tax abatement program, while disclosures for the latter should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. If deemed preferable, information may be disclosed by individual tax abatement agreement, but may be limited to those above quantitative thresholds to be established by the reporting government. All such disclosures should commence in the period in which the tax abatement agreement is entered into and generally continue until the tax abatement agreement expires. If information regarding individual tax abatement programs, whether they are those of the reporting government or those of other governments that reduce the reporting government's tax revenues, are legally prohibited from being disclosed, a description of the general nature of the tax abatement information omitted and the specific source of the legal prohibition is to be disclosed.

This statement will be effective for periods beginning after December 15, 2015, or the City's year ending December 31, 2016.

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

Note 2: Deposits and Investments

Deposits

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

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

At December 31, 2014, the City had bank balances of \$25,956,224 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, 2014, was \$25,526,458.

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.

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

Investments at December 31, 2014, consisted of the following:

Type	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. government obligations	\$ 150,145	\$ -	\$ -	\$ -	\$ 150,145
Money market mutual funds	844,243	844,243	-	-	-
Bond mutual funds	2,114,967	-	766,114	556,581	792,272
		<u>\$ 844,243</u>	<u>\$ 766,114</u>	<u>\$ 556,581</u>	<u>\$ 942,417</u>
Equity mutual funds	<u>1,053,257</u>				
	<u>\$ 4,162,612</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	\$ 25,526,458
Cash on hand	9,946
Investments	4,162,612
	<u>\$ 29,699,016</u>
Balance sheet-governmental funds	
Cash	\$ 661,156
Certificates of deposit	5,554,287
Restricted	
Cash and certificates of deposit	5,352,382
Statement of fund net position - proprietary funds	
Cash	7,038,233
Certificates of deposit	2,159,684
Restricted	
Cash	3,338,638
Certificates of deposit	1,710,905
Statement of fund net position - internal service funds	
Cash	4,957
Statement of fiduciary net position	
Cash	319,434
Certificates of deposit	241,386
Investments	
U.S. governmental obligations	150,145
Mutual funds	3,167,809
	<u>\$ 29,699,016</u>

City of Siloam Springs, Arkansas
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Note 3: Receivables

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

	General Fund	Street Fund	Debt Service Fund	Total
Governmental				
Property taxes	\$ 1,191,868	\$ 486,387	\$ -	\$ 1,678,255
Sales taxes	342,289	106,727	36,120	485,136
Ambulance	1,172,913	-	-	1,172,913
Other	205,183	-	-	205,183
Gross receivables	<u>2,912,253</u>	<u>593,114</u>	<u>36,120</u>	<u>3,541,487</u>
Less allowance for uncollectibles	<u>(950,344)</u>	<u>(14,592)</u>	<u>-</u>	<u>(964,936)</u>
Net total receivables	<u><u>\$ 1,961,909</u></u>	<u><u>\$ 578,522</u></u>	<u><u>\$ 36,120</u></u>	<u><u>\$ 2,576,551</u></u>
		Utilities	Airport	Total
Proprietary				
Accounts		\$ 6,894,339	\$ 1,345	\$ 6,895,684
Sales taxes		<u>266,817</u>	<u>-</u>	<u>266,817</u>
Gross receivables		<u>7,161,156</u>	<u>1,345</u>	<u>7,162,501</u>
Less allowance for uncollectibles		<u>(1,427,124)</u>	<u>-</u>	<u>(1,427,124)</u>
Net total receivables		<u><u>\$ 5,734,032</u></u>	<u><u>\$ 1,345</u></u>	<u><u>\$ 5,735,377</u></u>
Fiduciary				
Property taxes				<u>\$ 119,199</u>
Gross receivables				119,199
Less allowance for uncollectibles				<u>(3,576)</u>
Net total receivables				<u><u>\$ 115,623</u></u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
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Note 4: Capital Assets

A summary of changes in capital assets for the year ended December 31, 2014, is presented below:

Governmental Activities	Balance, December 31, 2013	Additions and Transfers, Net	Retirements and Transfers, Net	Balance, December 31, 2014
Capital assets, non-depreciable				
Land	\$ 8,408,779	\$ 575,649	\$ -	\$ 8,984,428
Construction in progress	4,676,596	3,369,210	(7,667,253)	378,553
	<u>13,085,375</u>	<u>3,944,859</u>	<u>(7,667,253)</u>	<u>9,362,981</u>
Total capital assets, non-depreciable	<u>13,085,375</u>	<u>3,944,859</u>	<u>(7,667,253)</u>	<u>9,362,981</u>
Capital assets, depreciable				
Buildings	12,043,845	6,059,881	-	18,103,726
Furniture, fixtures, & equipment	8,285,483	1,009,900	-	9,295,383
Infrastructure	39,798,772	1,904,556	-	41,703,328
	<u>60,128,100</u>	<u>8,974,337</u>	<u>-</u>	<u>69,102,437</u>
Total capital assets, depreciable	<u>60,128,100</u>	<u>8,974,337</u>	<u>-</u>	<u>69,102,437</u>
Less accumulated depreciation				
Buildings	(6,575,488)	(458,749)	-	(7,034,237)
Furniture, fixtures, & equipment	(6,683,006)	(386,148)	-	(7,069,154)
Infrastructure	(20,522,430)	(1,557,425)	-	(22,079,855)
	<u>(33,780,924)</u>	<u>(2,402,322)</u>	<u>-</u>	<u>(36,183,246)</u>
Total accumulated depreciation	<u>(33,780,924)</u>	<u>(2,402,322)</u>	<u>-</u>	<u>(36,183,246)</u>
Total governmental activities, net	<u>39,432,551</u>	<u>10,516,874</u>	<u>(7,667,253)</u>	<u>42,282,172</u>
Internal service funds				
Maintenance and engineering	489,579	13,146	-	502,725
Accumulated depreciation	(386,708)	(30,350)	-	(417,058)
Total internal service funds	<u>102,871</u>	<u>(17,204)</u>	<u>-</u>	<u>85,667</u>
Total governmental activities and internal service funds	<u>\$ 39,535,422</u>	<u>\$ 10,499,670</u>	<u>\$ (7,667,253)</u>	<u>\$ 42,367,839</u>

City of Siloam Springs, Arkansas
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Business-type Activities	Balance, December 31, 2013	Additions and Transfers, Net	Retirements and Transfers, Net	Balance, December 31, 2014
Capital assets, non-depreciable				
Land	\$ 1,209,271	\$ -	\$ -	\$ 1,209,271
Construction in progress	<u>447,952</u>	<u>1,327,115</u>	<u>(1,068,327)</u>	<u>706,740</u>
Total capital assets, non-depreciable	<u>1,657,223</u>	<u>1,327,115</u>	<u>(1,068,327)</u>	<u>1,916,011</u>
Capital assets, depreciable				
Buildings	7,087,766	36,163	-	7,123,929
Furniture, fixtures, & equipment	7,851,098	1,160,741	-	9,011,839
Infrastructure	<u>103,906,579</u>	<u>1,521,538</u>	<u>-</u>	<u>105,428,117</u>
Total capital assets, depreciable	<u>118,845,443</u>	<u>2,718,442</u>	<u>-</u>	<u>121,563,885</u>
Less accumulated depreciation				
Buildings	(3,485,146)	(336,639)	-	(3,821,785)
Furniture, fixtures, & equipment	(5,607,011)	(314,854)	-	(5,921,865)
Infrastructure	<u>(35,472,201)</u>	<u>(3,109,223)</u>	<u>-</u>	<u>(38,581,424)</u>
Total accumulated depreciation	<u>(44,564,358)</u>	<u>(3,760,716)</u>	<u>-</u>	<u>(48,325,074)</u>
Total business-type activities, net	<u>\$ 75,938,308</u>	<u>\$ 284,841</u>	<u>\$ (1,068,327)</u>	<u>\$ 75,154,822</u>

City of Siloam Springs, Arkansas
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 276,499
Public safety and judiciary	
Police	84,231
Fire	221,762
Other	5,165
Transportation	1,608,061
Cultural, parks and recreation	206,136
Community development	468
Sub total	<u>2,402,322</u>
Internal service funds	<u>30,350</u>
Total depreciation expense	<u>2,432,672</u>
Business-type activities	
Electric	904,172
Water utilities	1,150,272
Wastewater utilities	1,193,278
Sanitation	170,499
Airport	<u>342,495</u>
Total depreciation expense	<u>3,760,716</u>
Total depreciation expense-primary government	<u>\$ 6,193,388</u>

City of Siloam Springs, Arkansas
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Note 5: Long-term Liabilities

Changes in long-term liabilities for the year ended December 31, 2014, were as follows:

Governmental Activities	Balance December 31, 2013	Increases	Decreases	Balance December 31, 2014	Amounts Due in One Year
Bonds payable					
Refunding bonds, Series 2003	\$ 1,102,200	\$ -	\$ (260,750)	\$ 841,450	\$ 270,900
Sales & Use Tax Refunding bonds, Series 2012	1,795,000	-	-	1,795,000	-
Unamortized bond premium	9,124	-	(1,141)	7,983	-
	<u>2,906,324</u>	<u>-</u>	<u>(261,891)</u>	<u>2,644,433</u>	<u>270,900</u>
Bonds payable, net					
	2,906,324	-	(261,891)	2,644,433	270,900
Compensated absences	654,408	422,221	(593,665)	482,964	482,964
Other postemployment benefits ("OPEB") liability	1,002,161	-	(136,242)	865,919	-
Net pension obligation	419,628	-	(8,604)	411,024	-
Total governmental activities long-term liabilities	<u>\$ 4,982,521</u>	<u>\$ 422,221</u>	<u>\$ (1,000,402)</u>	<u>\$ 4,404,340</u>	<u>\$ 753,864</u>
Business-type Activities	Balance December 31, 2013	Increases	Decreases	Balance December 31, 2014	Amounts Due in One Year
Bonds payable					
Revolving Loan Fund	\$ 8,494,170	\$ -	\$ (1,148,995)	\$ 7,345,175	\$ 1,179,917
Revolving Loan Fund	3,585,275	-	(261,730)	3,323,545	270,305
Refunding and Construction Revenue Bonds, Series 2012	3,605,000	-	(370,000)	3,235,000	380,000
Unamortized bond premium	49,530	-	(5,660)	43,870	-
	<u>15,733,975</u>	<u>-</u>	<u>(1,786,385)</u>	<u>13,947,590</u>	<u>1,830,222</u>
Bonds payable, net					
	15,733,975	-	(1,786,385)	13,947,590	1,830,222
Compensated absences	-	386,709	(190,819)	195,890	195,890
Other postemployment benefits ("OPEB") liability	24,433	235,248	-	259,681	-
Total business-type activities long-term liabilities	<u>\$ 15,758,408</u>	<u>\$ 621,957</u>	<u>\$ (1,977,204)</u>	<u>\$ 14,403,161</u>	<u>\$ 2,026,112</u>

City of Siloam Springs, Arkansas
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Bonds outstanding at December 31, 2014, 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 cent City sales tax; interest rate of 1.50% with final maturity date of October 15, 2020.

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

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

City of Siloam Springs, Arkansas
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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, 2014.

Fiscal Year	Governmental Activities	
	Principal	Interest
2015	\$ 270,900	\$ 66,603
2016	350,650	55,572
2017	364,900	42,761
2018	455,000	35,462
2019	465,000	26,362
2020 - 2024	<u>730,000</u>	<u>23,437</u>
	<u>\$ 2,636,450</u>	<u>\$ 250,197</u>

Fiscal Year	Business-type Activities		
	Principal	Interest	Fees
2015	\$ 1,830,222	\$ 252,244	\$ 105,033
2016	1,873,761	220,703	90,435
2017	1,918,336	188,414	75,449
2018	1,968,977	155,358	60,065
2019	2,015,712	121,415	44,272
2020 - 2024	4,111,648	207,860	67,046
2025 - 2029	<u>185,064</u>	<u>2,083</u>	<u>924</u>
	<u>\$ 13,903,720</u>	<u>\$ 1,148,077</u>	<u>\$ 443,224</u>

City of Siloam Springs, Arkansas
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The following is a summary of pledged revenues for the City for the year ended December 31, 2014.

Debt	Revenue Pledged	Total Pledged Revenue	Portion of Pledged Revenue Stream	Percentage Portion of Pledged Revenue Stream	Remaining Principal, Interest and Fees	Period Revenue Will Not Be Available for Other Purposes
Governmental Activities:						
Sales and Use Tax Refunding Bonds - Series 2003	Sales and Use Taxes	\$ 350,463	\$ 260,750	74.4%	\$ 892,697	Until 2017
Sales and Use Tax Refunding Bonds - Series 2012	Sales and Use Taxes	350,463	-	0.0%	1,993,950	Until 2021
Business-Type Activities:						
Utility System Refunding Revenue Bonds - Series 2012	Revenues of the Enterprise Fund	40,323,734	447,670	1.1%	3,573,788	Until 2022
Revolving Loan Fund #00618-CWRLF-L	5/8 Cent City Sales Tax	1,944,899	1,272,072	65.4%	7,971,743	Until 2020
Revolving Loan Fund #00254-CWRLF-L	Revenues of the Enterprise Fund	40,323,734	339,144	0.8%	3,949,490	Until 2025

Note 6: Interfund Receivables and Payables

Interfund receivables and payables as of December 31, 2014, are as follows:

	Interfund Receivables	Interfund Payables
Governmental funds		
General fund	\$ -	\$ 371,439
Street fund	134	-
Total governmental funds	<u>134</u>	<u>371,439</u>
Proprietary funds to/from nonfiduciary funds		
Utilities	<u>371,305</u>	<u>-</u>
Total	<u>\$ 371,439</u>	<u>\$ 371,439</u>

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.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2014

Note 7: Interfund Transfers

Amount of interfund transfers between funds are summarized as follows:

	Transfers In	Transfers Out
Governmental funds		
General fund	\$ 6,113,321	\$ 440,898
Street fund	29,675	-
Proprietary funds		
Utilities	1,515,641	7,619,452
Other nonmajor enterprise funds	132,345	-
Internal service funds	269,368	-
Total	\$ 8,060,350	\$ 8,060,350

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

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 a Board of Trustees, established in accordance with legislation enacted by the Arkansas General Assembly. The Board of Trustees consists of two members of City Management and five members elected by the plan members. The elected members are required to be participants within the plan. Benefit provisions are established by State of Arkansas Act #14, as amended. Fund assets are administered by 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).

City of Siloam Springs, Arkansas
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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 2014. The participants contributed 6% of their salaries in 2014. Administrative costs were financed by the FRPF. Total 2014 contributions to the FRPF were \$139,778. The City's share of contributions was \$127,028 and included \$99,597 in property taxes and \$21,024 in state insurance premium taxes. On behalf payments (state insurance premium taxes) are recognized as revenues and expenditures in the appropriate fund.

The asset concentrations of over 5% are as follows:

AllianzGI Convertible Institutional Fund	\$ 780,321
Eaton Vance Floating-Rate & High Income Fund	235,822
Loomis Sayles Strategic Income Fund Class Y	381,075
Eaton Vance Floating-Rate & High Income Fund	230,084
Principal Preferred Securities Fund Institutional Class	487,250
MFS Value Fund Class I	479,443
T. Rowe Price Institutional Large Cap Growth Fund	506,020

The City's annual pension cost and net pension asset of the FRPF for 2014 is as follows:

Annual required contribution	\$ 179,714
Interest on net pension obligation	20,981
Adjustment to annual required contribution	<u>(94,616)</u>
Annual pension cost	106,079
Contributions made	<u>(114,685)</u>
Decrease in net pension obligation	(8,606)
Net pension obligation at beginning of the year	<u>419,630</u>
Net pension obligation at end of year	<u><u>\$ 411,024</u></u>

City of Siloam Springs, Arkansas
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Funded Status and Funding Progress.

As of December 31, 2014, the most recent actuarial valuation date, the plan was 82.1% funded. The actuarial accrued liability for benefits was \$4,357,216, and the actuarial value of assets was \$3,575,497, resulting in an unfunded actuarial accrued liability (UAAL) of \$781,716. There is no covered payroll as there are no active employees.

The plan has elected to participate in the Deferred Retirement Option Plan effective 12/20/1993. Members who elect to participate have a DROP account that is increased by the monthly amount of their retirement as if they had retired as of the date DROP was elected. As of December 31, 2014, the DROP accounts had no active members and did not have a balance.

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.

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, 2014. Actuarial assumptions used in evaluating the fund include entry age normal 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 the 1983 group annuity mortality table. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level dollar of projected payroll on a closed basis. The amortization period at December 31, 2014 was 5 years.

City of Siloam Springs, Arkansas
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Three Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
12/31/2012	\$ 305,167	45%	\$ 382,089
12/31/2013	164,568	77%	419,630
12/31/2014	106,079	108%	411,024

Membership Information

Membership of the FPRF consisted of the following at December 31, 2014:

Retirees and beneficiaries receiving benefits	22
Active plan members	-
Members on Deferred Retirement Option Plan (DROP)	-
Total	22

Net Pension Liability

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

FY Ended December 31,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability
2014	\$ 4,357,213	\$ 3,553,150	\$ 804,063	81.55%

City of Siloam Springs, Arkansas
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Long-term Expected Return on Plan Assets

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

Long-term Expected Real Rate of Return		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Fixed Income	80%	5.00%
Domestic Equity	10%	7.80%
Cash	10%	2.00%
Total	100.00%	

Discount Rate

In the December 31, 2014 actuarial valuation, a single discount rate of 5.0% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 5.0%. The projection of cash flows, based on the assumptions made, found that the pension plan's net position was available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	Sensitivity of the Net Position Liability to the Single Discount Rate Assumption		
	1% Decrease	Current Single Rate Assumption	1% Increase
	4.00%	5.00%	6.00%
Net Pension Liability	\$ 1,290,880	\$ 804,063	\$ 398,847

City of Siloam Springs, Arkansas
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Money-Weighted Rate of Return

The annual money-weighted rate of return on pension plan investments is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense, adjusted for the changing amounts actually invested. The money-weighted rates of returns are shown in the tables below:

<u>FY Ended December 31,</u>	<u>Annual Return</u>
2014	5.83%

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.

Funding Policy. The City contributes 19.78% of covered employees’ salaries to the plan for firemen and 21.11% of covered employees’ salaries to the plan for policemen. Employees contributed \$207,172 to the contributory plan for the year ended December 31, 2014. The current employee contribution rate is 2.5 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, 2014, 2013 and 2012, were approximately \$709,889, \$654,373, and \$599,175, 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.

City of Siloam Springs, Arkansas
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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 for whom the City makes a contribution based on the employees’ gross earnings, as defined by the agreement based on their respective position with the City. During 2014, the City’s contributions totaled \$649,345.

Note 9: Other Postemployment Benefits (OPEB)

Plan Description: The City sponsors and administers an informal single-employer defined benefit healthcare plan. Retirees who are vested in their retirement plan and are eligible to receive a retirement benefit (and actually apply for and receive the retirement benefit) are entitled to purchase continued health benefits coverage for 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 \$178.94 per month to \$581.02 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, 2014. Dependent coverage was provided for 2 of the retirees. Total benefits paid by the City for retirees during the fiscal year were \$115,401. Retirees contributed \$24,377 of the total current year cost.

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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	\$ 236,467
Interest on net OPEB Obligation	46,197
Adjustment to annual required contribution	<u>(42,804)</u>
Annual OPEB cost	239,860
Total annual employer contribution (pay-as-you-go)	<u>(140,854)</u>
Increase in net OPEB obligation	99,006
Net OPEB Obligation - beginning of year	<u>1,026,594</u>
Net OPEB Obligation - end of year	<u><u>\$ 1,125,600</u></u>

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

Service cost	\$ 101,164
Amortization cost	<u>135,303</u>
ARC	<u><u>\$ 236,467</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	\$ 190,973	54%	\$ 934,775
12/31/2013	194,909	53%	1,026,594
12/31/2014	239,860	59%	1,125,600

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Funded Status and Funding Progress: As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$3,191,043 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,191,043. The covered payroll (annual payroll of active employees covered by the plan) was \$8,315,032, and the ratio of the UAAL to the covered payroll was 38.38%.

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

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

In the December 31, 2014, 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 2014, and an annual healthcare cost trend rate of 8% for 2014 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, 2014, 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.

City of Siloam Springs, Arkansas
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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 \$18,400,000. Principal and interest paid for 2014 from pledged revenue was approximately \$2,500,000.

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 2013 to 2014; nor have settlement amounts exceeded insurance coverage for the current year or the three prior years.

Until September 2014, the City maintained self-insured health coverage for the employees of the City. Although the City switched to an insured plan, there were still unprocessed claims existing at year end that were incurred prior to the switch. 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 were those who worked full-time (at least 32 hours per week) and had been employed at least 30 days. The plan provided medical, dental, and vision insurance coverage. The city utilized a third-party insurance company for stop-loss and reinsurance costs. The City had third party insurance for its employees' life and long-term disability insurance. The following is a schedule of changes in claims liability reported in accrued liabilities:

Beginning liability	\$ 678,569
Changes in estimates	227,620
Claims and adjustments	1,911,953
Claim payments	<u>(2,634,285)</u>
Ending liability	<u>\$ 183,857</u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2014

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.

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	\$ 159,866	\$ 32,286	\$ -	\$ 192,152
Inventories	49,993	-	-	49,993
Spendable				
Restricted				
Capital outlay and debt service	439,137	4,671,148	344,831	5,455,116
Assigned				
Capital outlay	5,350,512	-	-	5,350,512
Unassigned				
General fund	613,169	-	-	613,169
Total fund balances	<u>\$ 6,612,677</u>	<u>\$ 4,703,434</u>	<u>\$ 344,831</u>	<u>\$ 11,660,942</u>

Required Supplementary Information

City of Siloam Springs, Arkansas
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property taxes	\$ 1,020,000	\$ 1,020,000	\$ 1,042,631	\$ 22,631
Sales taxes	4,977,500	5,067,500	4,021,758	(1,045,742)
Licenses and permits	289,900	289,900	412,387	122,487
Intergovernmental	640,918	640,918	877,332	236,414
Charges for services	2,663,814	2,413,814	2,282,543	(131,271)
Fines and forfeitures	284,300	284,300	291,024	6,724
Grants and contributions	294,507	2,179,557	2,166,824	(12,733)
Investment income	3,650	3,650	18,155	14,505
Miscellaneous	42,650	42,650	233,158	190,508
Total revenues	<u>10,217,239</u>	<u>11,942,289</u>	<u>11,345,812</u>	<u>(596,477)</u>
Expenditures				
Current:				
General government				
Administration	2,422,858	3,948,816	3,897,503	(51,313)
Cemetery	207,846	214,706	183,348	(31,358)
Total general government	<u>2,630,704</u>	<u>4,163,522</u>	<u>4,080,851</u>	<u>(82,671)</u>
Public safety and judiciary				
Police	3,853,732	3,944,222	3,668,147	(276,075)
Fire	3,887,501	3,954,081	3,980,851	26,770
Municipal court	300,783	442,208	278,110	(164,098)
Animal control	414,844	397,934	369,557	(28,377)
Total public safety and judiciary	<u>8,456,860</u>	<u>8,738,445</u>	<u>8,296,665</u>	<u>(441,780)</u>
Cultural, parks and recreation				
Library	310,443	299,923	273,733	(26,190)
Parks	911,912	808,173	840,440	32,267
Total cultural, parks and recreation	<u>1,222,355</u>	<u>1,108,096</u>	<u>1,114,173</u>	<u>6,077</u>
Community development				
Building inspections	373,591	419,521	401,653	(17,868)
Capital outlay	<u>4,773,352</u>	<u>6,820,138</u>	<u>4,180,988</u>	<u>(2,639,150)</u>
Total expenditures	<u>17,456,862</u>	<u>21,249,722</u>	<u>18,074,330</u>	<u>(3,175,392)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(7,239,623)</u>	<u>(9,307,433)</u>	<u>(6,728,518)</u>	<u>2,578,915</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	\$ 2,000	\$ 2,000	\$ -	\$ (2,000)
Transfers in	-	-	6,113,321	6,113,321
Transfers out	-	-	(440,898)	(440,898)
Total other financing sources (uses)	<u>2,000</u>	<u>2,000</u>	<u>5,672,423</u>	<u>5,670,423</u>
Change in Fund Balances	(7,237,623)	(9,305,433)	(1,056,095)	8,249,338
Fund Balances, Beginning of Year	<u>7,668,772</u>	<u>7,668,772</u>	<u>7,668,772</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 431,149</u>	<u>\$ (1,636,661)</u>	<u>\$ 6,612,677</u>	<u>\$ 8,249,338</u>

City of Siloam Springs, Arkansas
Budgetary Comparison Schedule –
Street Fund
Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property taxes	\$ 350,000	\$ 350,000	\$ 355,862	\$ 5,862
Sales taxes	1,166,000	1,166,000	1,244,735	78,735
Intergovernmental	719,100	969,100	994,543	25,443
Investment income	3,060	1,560	4,747	3,187
Miscellaneous	1,000	1,000	11,596	10,596
Total revenues	<u>2,239,160</u>	<u>2,487,660</u>	<u>2,611,483</u>	<u>123,823</u>
Expenditures				
Current:				
Transportation				
Streets	1,572,835	1,817,765	1,646,642	(171,123)
Capital outlay	<u>5,367,000</u>	<u>4,907,000</u>	<u>1,075,322</u>	<u>(3,831,678)</u>
Total expenditures	<u>6,939,835</u>	<u>6,724,765</u>	<u>2,721,964</u>	<u>(4,002,801)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,700,675)</u>	<u>(4,237,105)</u>	<u>(110,481)</u>	<u>4,126,624</u>
Other Financing Sources				
Transfers in	<u>-</u>	<u>-</u>	<u>29,675</u>	<u>29,675</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>29,675</u>	<u>29,675</u>
Change in Fund Balances	(4,700,675)	(4,237,105)	(80,806)	4,156,299
Fund Balances, Beginning of Year	<u>4,784,240</u>	<u>4,784,240</u>	<u>4,784,240</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 83,565</u>	<u>\$ 547,135</u>	<u>\$ 4,703,434</u>	<u>\$ 4,156,299</u>

City of Siloam Springs, Arkansas
Defined Benefit Pension Plan –
Schedule of Funding Progress
For the Year Ended December 31, 2014

Actuarial Valuation Date	Market Value of Assets (a)	Actuarial Accrued 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)
12/31/2009 a	\$ 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	4,066,850	5,586,893	1,520,043	72.8%	-	N/A
12/31/2012	3,789,818	4,817,054	1,027,236	78.7%	-	N/A
12/31/2013	3,642,110	4,439,155	797,045	82.0%	-	N/A
12/31/2014	3,575,497	4,357,213	781,716	82.1%	-	N/A

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

City of Siloam Springs, Arkansas
Required Supplementary Information
Defined Benefit Pension Plan
Schedule of Changes in the City's Net Pension Liability and Related Ratios -
FRPF
Year Ended December 31, 2014

Total Pension Liability	
Interest	\$ 212,376
Difference Between Actual & Expected Experience	90,082
Benefit Payments	<u>(384,400)</u>
Net Change in Total Pension Liability	(81,942)
Total Pension Liability - Beginning	<u>4,439,155</u>
Total Pension Liability - Ending (a)	<u><u>\$ 4,357,213</u></u>
Plan Fiduciary Net Position	
Contributions - Member	\$ 113,539
Contributions - Other	22,230
Net Investment Income	232,132
Benefit Payments	(384,400)
Supplements	(22,230)
Administrative Expense	<u>(29,104)</u>
Net Change in Plan Fiduciary Net Position	(67,833)
Plan Fiduciary Net Position - Beginning	<u>3,620,983</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 3,553,150</u></u>
Net Pension Liability (a) - (b)	804,063
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	81.55%
Covered Employee Payroll	\$ -
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A

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

City of Siloam Springs, Arkansas
Required Supplementary Information
Defined Benefit Pension Plan
Schedule of Contributions - FRPF
Year Ended December 31, 2014

FY Ended December 31,	Actuarially Determined Contribution (ADC)	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2010	\$ 349,908	\$ 126,203	\$ 223,705	\$ -	N/A
2011	\$ 328,188	\$ 158,285	\$ 169,903	\$ -	N/A
2012	\$ 342,732	\$ 137,154	\$ 205,578	\$ -	N/A
2013	\$ 231,616	\$ 127,028	\$ 104,588	\$ -	N/A
2014	\$ 179,714	\$ 114,685	\$ 65,029	\$ -	N/A

Key Assumptions for ADC:

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

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

City of Siloam Springs, Arkansas
Required Supplementary Information
Defined Benefit Pension Plan
Schedule of Investment Returns - FRPF
Year Ended December 31, 2014

FY Ended December 31,	Annual Return
2014	5.83%

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

City of Siloam Springs, Arkansas
Required Supplementary Information
Other Postemployment Benefit Plan
Schedule of Funding Progress
Year Ended December 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued 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)
1/1/2010	\$ -	\$ 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%
1/1/2014	-	3,191,043	3,191,043	0.0%	8,315,032	38.38%

The required contribution was determined as part of the latest actuarial evaluation using the projected unit credit actuarial cost method. The actuarial assumptions used included (a) 4.5% 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, 2014

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 2014, the City's Board of Directors approved changes to budgetary expenditures for the General and Street Funds as reflected in the Budgetary Comparison Schedules.

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

The City prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). The Budgetary Comparison Schedule for the General and Street Funds present the original and revised budget amounts in comparison to the actual amounts of revenues and expenditures for the current year.

Combining 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, 2014

	Enterprise Fund				
	Electric	Water	Wastewater	Sanitation	Totals
Operating Revenues					
Charges for services	\$ 22,946,146	\$ 4,204,094	\$ 7,251,760	\$ 2,667,609	\$ 37,069,609
Operating Expenses					
Cost of goods sold					
Cost of power	14,619,199	-	-	-	14,619,199
Personal services	1,866,563	734,612	347,115	826,208	3,774,498
Contracted services	72,241	75,959	235,803	1,057,891	1,441,894
Maintenance and operating expenses	949,236	373,682	352,199	344,011	2,019,128
Other services and charges	504,667	269,721	212,355	131,034	1,117,777
Utilities	19,365	249,474	576,186	12,829	857,854
Depreciation	904,172	1,150,272	1,193,278	170,499	3,418,221
Total operating expenses	18,935,443	2,853,720	2,916,936	2,542,472	27,248,571
Operating Income	4,010,703	1,350,374	4,334,824	125,137	9,821,038
Nonoperating Income (Expenses)					
Sales tax revenue	1,259,790	-	1,944,899	-	3,204,689
Interest income	18,524	295	2,505	153	21,477
Interest expense	-	(53,479)	(313,248)	(16,680)	(383,407)
Net non-operating revenues (expenses)	1,278,314	(53,184)	1,634,156	(16,527)	2,842,759
Income Before Capital Contributions and Transfers	5,289,017	1,297,190	5,968,980	108,610	12,663,797
Grants	-	27,959	-	-	27,959
Transfers In	33,965	1,109,834	127,748	244,094	1,515,641
Transfers Out	(7,536,392)	-	(1,660)	(81,400)	(7,619,452)
	(7,502,427)	1,137,793	126,088	162,694	(6,075,852)
Change in Net Position	\$ (2,213,410)	\$ 2,434,983	\$ 6,095,068	\$ 271,304	6,587,945
Net Position, Beginning of Year					70,651,019
Net Position, End of Year					\$ 77,238,964

City of Siloam Springs, Arkansas
Combining Statement of Net Position –
Internal Service Funds
Year Ended December 31, 2014

Assets	<u>Maintenance</u>	<u>Engineering</u>	<u>Totals</u>
Current Assets:			
Cash	\$ 2,849	\$ 2,108	\$ 4,957
Inventory	23,108	-	23,108
Prepaid items	<u>5,771</u>	<u>5,127</u>	<u>10,898</u>
Total currents assets	<u>31,728</u>	<u>7,235</u>	<u>38,963</u>
Noncurrent Assets			
Capital assets			
Maintenance property, plant and equipment	367,519	135,205	502,724
Less accumulated depreciation	<u>315,398</u>	<u>101,659</u>	<u>417,057</u>
Total noncurrent assets	<u>52,121</u>	<u>33,546</u>	<u>85,667</u>
Total assets	<u>83,849</u>	<u>40,781</u>	<u>124,630</u>
Current Liabilities:			
Accounts payable	675	267	942
Accrued expenses	<u>8,201</u>	<u>10,231</u>	<u>18,432</u>
Total current liabilities	<u>8,876</u>	<u>10,498</u>	<u>19,374</u>
Net Position			
Net investment in capital assets	52,121	33,546	85,667
Unrestricted (deficit)	<u>22,852</u>	<u>(3,263)</u>	<u>19,589</u>
Total net position	<u>\$ 74,973</u>	<u>\$ 30,283</u>	<u>\$ 105,256</u>

City of Siloam Springs, Arkansas
Combining Statement of Revenues, Expenses and Changes in Net Position –
Internal Service Funds
Year Ended December 31, 2014

	<u>Maintenance</u>	<u>Engineering</u>	<u>Totals</u>
Operating Revenues			
Repairs and services for other departments	\$ 235,620	\$ 110,476	\$ 346,096
Total operating revenues	<u>235,620</u>	<u>110,476</u>	<u>346,096</u>
Operating Expenses			
Personal services	165,231	154,140	319,371
Payroll taxes	13,332	12,325	25,657
Employee retirement	9,062	4,688	13,750
Materials and supplies	34,147	6,450	40,597
Uniforms	3,042	365	3,407
Dues and training	-	1,852	1,852
Small tools	4,404	1,834	6,238
Vehicle and equipment operation	934	651	1,585
Vehicle and equipment maintenance	121	558	679
Office supplies and postage	7	1,401	1,408
Telephone	1,395	2,074	3,469
Utilities	7,124	-	7,124
Insurance	40,041	90,839	130,880
Lease	-	1,356	1,356
Professional fees	197	7,719	7,916
Miscellaneous expense	290	1,010	1,300
Administrative department charges	13,494	2,517	16,011
Maintenance department charges	1,807	833	2,640
Depreciation	10,421	19,929	30,350
Total operating expenses	<u>305,049</u>	<u>310,541</u>	<u>615,590</u>
Operating (Loss) Before Operating Transfers	(69,429)	(200,065)	(269,494)
Operating Transfers In	<u>79,792</u>	<u>189,576</u>	<u>269,368</u>
Change in Net Position	10,363	(10,489)	(126)
Net Position, Beginning of Year	<u>64,610</u>	<u>40,772</u>	<u>105,382</u>
Net Position, End of Year	<u>\$ 74,973</u>	<u>\$ 30,283</u>	<u>\$ 105,256</u>

City of Siloam Springs, Arkansas
Combining Statement of Cash Flows –
Internal Service Funds
Year Ended December 31, 2014

	<u>Maintenance</u>	<u>Engineering</u>	<u>Totals</u>
Operating Activities			
Cash received from other funds for services	\$ 235,620	\$ 110,476	\$ 346,096
Cash payments to suppliers for goods and services	(110,727)	(124,451)	(235,178)
Cash payments to employees for services	(190,636)	(182,483)	(373,119)
Net cash used in operating activities	<u>(65,743)</u>	<u>(196,458)</u>	<u>(262,201)</u>
Noncapital Financing Activities			
Interfund transfers	<u>79,792</u>	<u>189,576</u>	<u>269,368</u>
Net cash provided by noncapital financing activities	<u>79,792</u>	<u>189,576</u>	<u>269,368</u>
Capital and Related Financing Activities			
Acquisition and construction of capital assets	<u>(13,146)</u>	<u>-</u>	<u>(13,146)</u>
Net cash used in capital and related financing activities	<u>(13,146)</u>	<u>-</u>	<u>(13,146)</u>
Increase (Decrease) in Cash	903	(6,882)	(5,979)
Cash, Beginning of Year	<u>1,946</u>	<u>8,990</u>	<u>10,936</u>
Cash, End of Year	<u>\$ 2,849</u>	<u>\$ 2,108</u>	<u>\$ 4,957</u>
Presented on the "Statement of Net Position - Internal Service Funds" as follows:			
Cash and cash equivalents	<u>\$ 2,849</u>	<u>\$ 2,108</u>	<u>\$ 4,957</u>
Reconciliation of Operating Loss to Net Cash Provided By Operating Activities			
Operating loss	\$ (69,429)	\$ (200,065)	\$ (269,494)
Adjustment to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization expense	10,421	19,929	30,350
Changes in assets and liabilities			
Inventory	1,745	-	1,745
Prepaid expenses	(1,803)	572	(1,231)
Accounts payable and accrued liabilities	(6,677)	(16,894)	(23,571)
Net cash used by operating activities	<u>\$ (65,743)</u>	<u>\$ (196,458)</u>	<u>\$ (262,201)</u>

Other Information

City of Siloam Springs, Arkansas
Schedules of Bonds Outstanding
December 31, 2014

Sales and Use Tax Refunding Bonds, Series 2003

Maturity Year	Interest Rate	Interest Payments	Serial Bond Maturities	Total Payments
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>\$ 51,247</u>	<u>\$ 841,450</u>	<u>\$ 892,697</u>

Paying Agent: BancorpSouth Bank
Stuttgart, Arkansas

Principal Payment Date: February 1

Interest Payment Dates: February 1
August 1

City of Siloam Springs, Arkansas
Schedules of Bonds Outstanding (Continued)
December 31, 2014

Sales and Use Tax Refunding Bonds, Series 2012

Maturity Year	Interest Rate	Interest Payments	Serial Bond Maturities	Total Payments
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>\$ 198,950</u>	<u>\$ 1,795,000</u>	<u>\$ 1,993,950</u>

Paying Agent: BancorpSouth Bank
Stuttgart, Arkansas

Principal Payment Date: February 1

Interest Payment Dates: February 1
August 1

City of Siloam Springs, Arkansas
Schedules of Bonds Outstanding (Continued)
December 31, 2014

Revolving Loan Fund #00618-CWRLF-L

Maturity Year	Interest Rate	Interest Payments	1.00% Service Fee	Principal Payments	Total Payments
2015	1.50%	\$ 108,702	\$ 72,468	\$ 1,179,917	\$ 1,361,087
2016	1.50%	90,893	60,595	1,209,599	1,361,087
2017	1.50%	72,635	48,424	1,240,028	1,361,087
2018	1.50%	53,919	35,946	1,271,223	1,361,088
2019	1.50%	34,731	23,154	1,303,202	1,361,087
2020	1.50%	15,061	10,041	1,141,206	1,166,308
		<u>\$ 375,941</u>	<u>\$ 250,628</u>	<u>\$ 7,345,175</u>	<u>\$ 7,971,744</u>

Paying Agent: Arkansas Development Finance Authority
Little Rock, Arkansas

Principal Payment Date: April 15
October 15

Interest Payment Dates: April 15
October 15

City of Siloam Springs, Arkansas
Schedules of Bonds Outstanding (Continued)
December 31, 2014

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

Maturity Year	Interest Rate	Interest Payments	1.00% Service Fee	Principal Payments	Total Payments
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>\$ 433,348</u>	<u>\$ 192,597</u>	<u>\$ 3,323,545</u>	<u>\$ 3,949,490</u>

Paying Agent: Arkansas Development Finance Authority
Little Rock, Arkansas

Principal Payment Date: April 15
October 15

Interest Payment Dates: April 15
October 15

City of Siloam Springs, Arkansas
Schedules of Bonds Outstanding (Continued)
December 31, 2014

Utility System Refunding and Construction Revenue Bonds, Series 2012

Maturity Year	Interest Rate	Interest Payments	Serial Bond Maturities	Total Payments
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>\$ 338,788</u>	<u>\$ 3,235,000</u>	<u>\$ 3,573,788</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, 2014

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Department of Housing and Urban Development Programs				
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	U.S. Department of Housing and Urban Development/Arkansas Economic Development Commission	14.228	790-08839-12 790-08732-11	\$ 1,273,444
Total Department of Housing and Urban Development Programs				<u>1,273,444</u>
Department of Transportation				
Airport Improvement Program	U.S. Department of Transportation/Arkansas Department of Aeronautics	20.106	3-05-00058-012-2013	20,545
Total Department of Transportation				<u>20,545</u>
Environmental Protection Agency				
Capitalization Grants for Drinking Water State Revolving Funds	U.S. Environmental Protection Agency/Arkansas Natural Resource Commission	66.468	F0455C999610317	20,857
Capitalization Grants for Clean Water State Revolving Funds	U.S. Environmental Protection Agency/Arkansas Natural Resource Commission	66.458	794-00241-08	11,978
Total Environmental Protection Agency				<u>32,835</u>
Department of Justice				
Equitable Sharing Program	U.S. Department of Justice/Arkansas State Police	16.738		13,828
Total Department of Justice				<u>13,828</u>
Total Expenditures of Federal Awards				<u>\$ 1,340,652</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 federal awards to subrecipients as follows:

City of Siloam Springs, Arkansas
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

Program	CFDA Number	Subrecipient	Amount Provided
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	TGRC The Gates Corporation	\$ 234,000
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	Sager Creek, Inc.	<u>1,003,473</u>
			<u>\$ 1,237,473</u>

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 Board of Directors
City of Siloam Springs, Arkansas
Siloam Springs, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Siloam Springs, Arkansas, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 19, 2015.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Compliance and Other Matter

As part of obtaining reasonable assurance about whether the City's financial statements are free 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*.

Purpose of this Report

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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Rogers, Arkansas
October 19, 2015

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

Independent Auditor's Report

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

Report on Compliance for 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 program for the year ended December 31, 2014. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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, 2014.

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 or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Rogers, Arkansas
October 19, 2015

City of Siloam Springs, Arkansas
Schedule of Findings and Questioned Costs
Year Ended December 31, 2014

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 for 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 for 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, 2014

7. The City's major program was:

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

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, 2014

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding	Questioned Costs
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No matters are reportable.

City of Siloam Springs, Arkansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2014

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

City of Siloam Springs, Arkansas
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2014

Reference Number	Summary of Finding	Status
2013-001	<p>Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii, 14.228, U.S. Department of Housing and Urban Development/Arkansas Economic Development Commission</p> <p>Criteria or Specific Requirement Management is responsible for establishing and maintaining effective internal control over compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.</p> <p>Context The City relies on the work of an outside contractor in the administration of grant programs to ensure compliance with provisions of grant agreements.</p> <p>Effect The City could potentially have a compliance issue that could result in a fine, repayment of the grant, or denial of future grants, among other potential penalties.</p> <p>Cause City Management does not review the work of the outside contractor or have other controls in place to ensure adherence to applicable grant requirements.</p> <p>Recommendation City management should review the work of the outside contractor in the administration of their Federal programs to ensure compliance with all applicable provisions for contracts and grant agreements.</p> <p>Views of Responsible Officials and Planned Corrective Actions The City hired a CPA with governmental experience and experience with grants during 2013 as the Finance Director. The Finance Director is going to assume more responsibility related to the grants, including establishing more internal controls, to ensure compliance with applicable grant requirements.</p>	Corrected on a prospective basis

Other Required Report

Independent Accountants' Report on Compliance With Arkansas State Requirements

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

We have examined management's assertions that the City of Siloam Springs, Arkansas complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas statutes during the year ended December 31, 2014.

- (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, 2014.

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 19, 2015