

City of Siloam Springs

Independent Auditor's Reports and Financial Statements

For the Year Ended December 31, 2016



CITY OF
Siloam Springs

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City of Siloam Springs, Arkansas

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Financial Section

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Siloam Springs, Arkansas as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Siloam Springs, Arkansas as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund statements and schedules of bonds outstanding as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund statement information 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of bonds outstanding has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The Honorable Mayor, City Administrator
and Members of the Board of Directors
City of Siloam Springs, Arkansas
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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
June 19, 2017

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

December 31, 2016

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, 2016. This analysis focuses on the 2016 and 2015 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 and deferred outflows of resources the City owns, the liabilities and deferred inflows of resources it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. A significant difference from fund financial statements is that governmental activities reflect capital assets and long-term liabilities. Also, governmental activities are reported on the accrual basis of accounting.
- The Statement of Activities focuses on gross and net costs of City programs and the extent to which such programs rely upon general tax and other revenues including internal transfers from the enterprise funds. This statement summarizes and simplifies the user's analysis to determine the extent to which such programs are self-supporting and/or subsidized by general and other revenues.
- Fund financial statements focus separately on major governmental funds and proprietary funds. Governmental fund statements follow the more traditional presentation of government financial statements. The City's major governmental funds are presented in their own column and the remaining non-major governmental fund – Debt Service is presented in its own column on the statements. A budgetary comparison is presented for the general fund and street fund in the required supplementary information. Statements for the City's proprietary funds follow the governmental funds and include net position, revenues, expenses, changes in net position, and cash flows.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

City of Siloam Springs, Arkansas
Management's Discussion and Analysis
December 31, 2016

City as a Whole

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer term view of the City's finances. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, 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 deferred outflows of resources and liabilities and deferred inflows of resources, is one way to measure the City's financial position. Over time, increases or decreases in the City's net position are an indicator of whether its financial position is improving or deteriorating.

A condensed version of the Statements of Net Position at December 31, 2016 and 2015 is as follows:

Net Position
(Amounts in Millions)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Cash and investments	\$ 7.8	\$ 9.3	\$ 20.8	\$ 18.2	\$ 28.6	\$ 27.5
Other assets	2.4	2.4	7.8	7.2	10.2	9.6
Capital assets (net)	52.4	46.8	74.1	75.1	126.5	121.9
Total assets	<u>62.6</u>	<u>58.5</u>	<u>102.7</u>	<u>100.5</u>	<u>165.3</u>	<u>159.0</u>
Deferred outflows of resources	<u>2.9</u>	<u>1.0</u>	<u>-</u>	<u>-</u>	<u>2.9</u>	<u>1.0</u>
Current liabilities	2.5	2.0	5.1	4.4	7.6	6.4
Long-term liabilities	<u>11.2</u>	<u>8.1</u>	<u>8.7</u>	<u>10.5</u>	<u>19.9</u>	<u>18.6</u>
Total liabilities	<u>13.7</u>	<u>10.1</u>	<u>13.8</u>	<u>14.9</u>	<u>27.5</u>	<u>25.0</u>
Deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net investment in capital assets	48.8	44.4	63.8	63.0	112.6	107.4
Restricted	2.9	4.5	7.6	6.6	10.5	11.1
Unrestricted	<u>0.1</u>	<u>0.5</u>	<u>17.5</u>	<u>16.0</u>	<u>17.6</u>	<u>16.5</u>
Total net position	<u>\$ 51.8</u>	<u>\$ 49.4</u>	<u>\$ 88.9</u>	<u>\$ 85.6</u>	<u>\$ 140.7</u>	<u>\$ 135.0</u>

The City's combined net position increased from \$135.0 million to \$140.7 million, a 4.2% increase in 2016. 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 \$.4 million, from a balance of \$.5 million to \$.1 million. The driver for this decrease is the accrual of pension liabilities netting approximately \$.5 million in expense.

City of Siloam Springs, Arkansas
Management's Discussion and Analysis
December 31, 2016

Net position of the business-type activities reflects a \$3.3 million or 3.9% increase (\$88.9 million compared to \$85.6 million). This increase is mainly a reflection of the overall positive operations of the business-type activities with operating change in net position exceeding transfers to the governmental activities.

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

Changes in Net Position
(Amounts in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
<i>Program revenues</i>						
Charges for services	\$ 3.4	\$ 3.4	\$ 33.6	\$ 34.4	\$ 37.0	\$ 37.8
Grants and contributions	0.4	0.3	-	0.9	0.4	1.2
<i>General revenues</i>						
Taxes	8.2	7.7	3.6	3.3	11.8	11.0
Investment	0.1	0.1	-	-	0.1	0.1
Intergovernmental	2.0	2.0	-	-	2.0	2.0
Other	0.5	0.4	-	-	0.5	0.4
Total revenues	<u>14.6</u>	<u>13.9</u>	<u>37.2</u>	<u>38.6</u>	<u>51.8</u>	<u>52.5</u>
Expenses						
General government	4.3	3.5	-	-	4.3	3.5
Public safety and judiciary	9.5	8.5	-	-	9.5	8.5
Transportation	3.4	3.2	-	-	3.4	3.2
Cultural, parks, and recreation	1.9	1.6	-	-	1.9	1.6
Community development	0.7	0.6	-	-	0.7	0.6
Interest on long-term debt	0.1	0.1	-	-	0.1	0.1
Utilities	-	-	25.4	27.1	25.4	27.1
Airport	-	-	0.8	0.8	0.8	0.8
Total expenses	<u>19.9</u>	<u>17.5</u>	<u>26.2</u>	<u>27.9</u>	<u>46.1</u>	<u>45.4</u>
Increase (decrease) in net position before transfers	(5.3)	(3.6)	11.0	10.7	5.7	7.1
Transfers	7.7	5.8	(7.7)	(5.8)	-	-
Increase (decrease) in net position	<u>2.4</u>	<u>2.2</u>	<u>3.3</u>	<u>4.9</u>	<u>5.7</u>	<u>7.1</u>
Net position - beginning of year	<u>49.4</u>	<u>47.2</u>	<u>85.6</u>	<u>80.7</u>	<u>135.0</u>	<u>127.9</u>
Net position - end of year	<u>\$ 51.8</u>	<u>\$ 49.4</u>	<u>\$ 88.9</u>	<u>\$ 85.6</u>	<u>\$ 140.7</u>	<u>\$ 135.0</u>

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

December 31, 2016

The City's total revenue of \$51.8 million in 2016 reflects a \$.7 million, or 1.33%, decrease over total revenue of \$52.5 million in 2015. This decrease in total revenue in 2016 is primarily due to the mild weather leading to lower utility sales. The total operating expense, or cost of all programs and services provided by the City, increased 1.5% (to \$46.1 million, from a total cost of \$45.4 million). This increase in total cost was a combination of lower power costs offset by increased depreciation and grant expenditures in the general fund. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenue for the City's governmental activities in 2016 came in at \$14.6 million which is approximately a \$.7 million dollar increase from 2015. There were several drivers for this increase including grant income, sales taxes, and other. Grant income was approximately \$.1 million higher than 2015 and sales taxes increased by \$.5 million. Other income increased \$.1 million due to a reimbursement of cost sharing from the State. In the context of total revenue versus total expense, the City's governmental activities ran a \$5.3 million dollar deficit before transfers from the business-type activities funds of \$5.7 million.

Governmental activities total expenses increased \$2.4 million in 2016 from 2015, a 13.7% increase. The expense included \$.6 million in grant expenses. A Citywide wage increase of 5% and eight open positions in public safety being filled contributed to a \$.6 million increase in personnel costs and an increase in pension expense of \$.6 million. There was also an additional \$.3 million spent on culture and recreation due to expanded programs and a larger library.

Business-type Activities

Revenues of the City's business-type activities or enterprise funds decreased by \$1.4 million or 3.6% (\$37.2 million in 2016 compared to \$38.6 million in 2015). This decrease in business activity revenue can be attributed to a year of mild weather reducing the overall consumption of utilities and the absence of grant revenue. In 2015, the airport received a grant for \$.9 million that was completed and in 2015 with no additional monies received in 2016.

Business-type activities revenue represents 72% of total City revenues in 2016. Electric revenues and other income are equal to 64% 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 2016 compared to 2015 were down \$1.7 million with the primary driver being the decreased activity within utilities. Power cost for electric service decreased \$1.7 million over 2015.

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 2016 to balance the general fund budget were equal to \$7.7 million.

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

December 31, 2016

Capital Assets and Debt Administration

Capital Assets

At December 31, 2016, the City had \$126.5 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 \$4.6 million or 3.77% (\$126.5 million compared to \$121.9 million). Significant capital asset projects and capital asset additions during the year by fund net of accumulated depreciation and adjustments included:

- General Fund – \$1.3 million for the new library
\$769,000 for building renovations to the old police station
- Street Fund – \$2.0 million for the Cheri Whitlock overpass project
\$700,000 for various road and sidewalk improvements

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

Debt Outstanding

At year-end 2016, the City had \$13.8 million in bonds, notes and capital lease obligations outstanding. The City paid down approximately \$2.4 million in principal on debt outstanding in 2016. This decrease was offset by the acquisition of a capital lease for fire trucks costing \$1.7 million.

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

Economic Factors and Management Strategies

The City saw a significant uptick in the economy from a residential and commercial development and industrial activity perspective. Siloam Springs building permit activity reflected an 85.6% increase in 2016 over the previous three year period average. The City issued 198 building permits in 2016 compared to 121 issued in 2015, 100 issued in 2014 and 99 issued in 2013.

The City sales tax revenue stream increased in 2016 with a year-over-year increase of 8.5% after reflecting an increase of 7.5% in 2015. The City share of County sales tax revenue stream held steady in 2016 with an increase of 2.9% after reflecting an increase in 2015 of 11.1%. This revenue stream is primarily allocated to funding governmental activities operations and, therefore, a critical line item that is closely monitored by City leaders. The City and County sales tax revenue streams were budgeted for a 3% increase in 2017 and through four months of 2017 these projections appear to be lower than actual receipts. The City is experiencing expansion in our industrial customer market base and commercial retail markets in 2017.

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

December 31, 2016

In 2016, the City continued to execute strategies and plans that have resulted in positive achievements in the areas of City infrastructure condition, planning and preparing for economic development, and strengthening revenue streams and operating efficiencies to improve financial condition and fiscal sustainability. These achievements include:

- Completed work on a new Public Library
- Completed work on the Eliana Chacon Memorial Park
- Completed work on revocations to the Administration Building
- Completed implementing new city-wide software
- Completed the Mt. Olive Street diet (reduction in lanes)
- Completed building renovations to the old police station
- Purchased 3 new firetrucks to be delivered in 2017
- Continued work on Basin 5
- Continued work on Simon Sager Avenue
- Continued work on Cheri Whitlock Overpass utility relocations

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, 2016

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Assets			
Cash and cash equivalents	\$ 4,265,373	\$ 11,104,046	\$ 15,369,419
Certificates of deposit	665,974	2,184,698	2,850,672
Accounts receivable, net of allowance for uncollectibles	2,700,254	4,981,034	7,681,288
Inventories	58,834	2,081,221	2,140,055
Prepays	233,465	71,830	305,295
Restricted assets			
Restricted cash and certificates of deposit	2,884,946	7,550,426	10,435,372
Accounts receivable	41,572	-	41,572
Internal balances	(636,094)	636,094	-
Capital assets - non-depreciable	11,396,000	2,583,780	13,979,780
Capital assets - depreciable, net	41,033,417	71,489,315	112,522,732
Total assets	<u>62,643,741</u>	<u>102,682,444</u>	<u>165,326,185</u>
Deferred Outflows of Resources			
Deferred outflows - pensions	2,091,275	-	2,091,275
Deferred outflows - pension contributions	830,071	-	830,071
Total deferred outflows of resources	<u>2,921,346</u>	<u>-</u>	<u>2,921,346</u>
Liabilities			
Accounts payable	208,218	1,897,362	2,105,580
Accrued expenses	476,073	248,008	724,081
Accrued interest payable	23,155	58,336	81,491
Customer deposits	-	646,095	646,095
Due to fiduciary funds	1,301	-	1,301
Due to other governments	13,714	-	13,714
Unearned revenues	17,660	-	17,660
Noncurrent liabilities			
Due within one year	1,748,123	2,286,299	4,034,422
Due in more than one year	11,236,172	8,618,048	19,854,220
Total liabilities	<u>13,724,416</u>	<u>13,754,148</u>	<u>27,478,564</u>
Deferred Inflows of Resources			
Deferred inflows - pensions	2,637	-	2,637
Total deferred inflows of resources	<u>2,637</u>	<u>-</u>	<u>2,637</u>
Net Position			
Net investment in capital assets	48,814,138	63,843,640	112,657,778
Restricted			
Expendable			
Capital projects	1,888,618	4,342,911	6,231,529
Debt service	399,017	3,207,515	3,606,532
Other	704,642	-	704,642
Unrestricted	31,619	17,534,230	17,565,849
Total net position	<u>\$ 51,838,034</u>	<u>\$ 88,928,296</u>	<u>\$ 140,766,330</u>

City of Siloam Springs, Arkansas
Statement of Activities
Year Ended December 31, 2016

	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	\$ 4,310,253	\$ 1,201,691	\$ 199,555	\$ -	\$ (2,909,007)	\$ -	\$ (2,909,007)
Public safety	9,497,651	1,807,096	194,691	-	(7,495,864)	-	(7,495,864)
Culture, parks, and recreation	1,845,232	169,812	2,133	-	(1,673,287)	-	(1,673,287)
Community development	683,474	190,017	5,000	-	(488,457)	-	(488,457)
Street department	3,402,377	54,202	18,923	-	(3,329,252)	-	(3,329,252)
Interest expense on long-term debt	63,795	-	-	-	(63,795)	-	(63,795)
Total governmental activities	<u>19,802,782</u>	<u>3,422,818</u>	<u>420,302</u>	<u>-</u>	<u>(15,959,662)</u>	<u>-</u>	<u>(15,959,662)</u>
Business-type Activities:							
Utilities	25,422,179	33,111,044	-	-	-	7,688,865	7,688,865
Airport	838,472	434,432	-	-	-	(404,040)	(404,040)
Total business-type activities	<u>26,260,651</u>	<u>33,545,476</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,284,825</u>	<u>7,284,825</u>
Total primary government	<u>\$ 46,063,433</u>	<u>\$ 36,968,294</u>	<u>\$ 420,302</u>	<u>\$ -</u>	<u>(15,959,662)</u>	<u>7,284,825</u>	<u>(8,674,837)</u>
General Revenues:							
Property taxes					1,495,245	-	1,495,245
Sales and use taxes					6,624,121	3,641,723	10,265,844
Franchise and public service taxes					82,523	-	82,523
Intergovernmental					2,048,400	-	2,048,400
Investment income					15,886	37,320	53,206
Miscellaneous					459,082	-	459,082
Transfers - internal activity, net					7,669,029	(7,669,029)	-
Total general revenues and transfers					<u>18,394,286</u>	<u>(3,989,986)</u>	<u>14,404,300</u>
Change in Net Position					<u>2,434,624</u>	<u>3,294,839</u>	<u>5,729,463</u>
Net Position - Beginning of Year					<u>49,403,410</u>	<u>85,633,457</u>	<u>135,036,867</u>
Net Position - End of Year					<u>\$ 51,838,034</u>	<u>\$ 88,928,296</u>	<u>\$ 140,766,330</u>

City of Siloam Springs, Arkansas
Balance Sheet – Governmental Funds
December 31, 2016

	General Fund	Street Fund	Debt Service Fund (Nonmajor)	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 4,265,013	\$ -	\$ -	\$ 4,265,013
Certificates of deposit	665,974	-	-	665,974
Taxes receivable, net of allowance for doubtful accounts of \$42,182, \$13,566 and \$0	1,677,053	562,552	41,572	2,281,177
Ambulance fees receivable, net allowance for doubtful accounts of \$1,624,402	245,576	-	-	245,576
Inventories	34,758	-	-	34,758
Due from other funds	-	350	-	350
Other receivables	215,073	-	-	215,073
Prepaid items	197,944	21,959	-	219,903
Restricted assets				
Cash and cash equivalents	704,642	1,789,246	391,058	2,884,946
Total assets	<u>\$ 8,006,033</u>	<u>\$ 2,374,107</u>	<u>\$ 432,630</u>	<u>\$ 10,812,770</u>
Liabilities				
Accounts payable	\$ 162,818	\$ 18,547	\$ -	\$ 181,365
Due to other funds	604,132	-	33,613	637,745
Due to other governments	13,714	-	-	13,714
Accrued liabilities	431,148	29,455	-	460,603
Unearned revenues - grants	17,660	-	-	17,660
Total liabilities	<u>1,229,472</u>	<u>48,002</u>	<u>33,613</u>	<u>1,311,087</u>
Deferred Inflows of Resources				
Unavailable revenues - property taxes	1,215,949	415,528	-	1,631,477
Total deferred inflows of resources	<u>1,215,949</u>	<u>415,528</u>	<u>-</u>	<u>1,631,477</u>
Fund Balances				
Nonspendable	232,702	21,959	-	254,661
Restricted	704,642	1,888,618	399,017	2,992,277
Assigned	515,169	-	-	515,169
Unassigned	4,108,099	-	-	4,108,099
Total fund balance	<u>5,560,612</u>	<u>1,910,577</u>	<u>399,017</u>	<u>7,870,206</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 8,006,033</u>	<u>\$ 2,374,107</u>	<u>\$ 432,630</u>	<u>\$ 10,812,770</u>

Total fund balances - governmental funds \$ 7,870,206

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds. 52,216,300

Amounts reported as deferred inflows of resources are not recognized at the fund level on the modified accrual basis but are reported as revenues on the full accrual basis in the governmental activities in the statement of net position. 1,631,477

Deferred inflows and outflows related to pensions are not due and payable in the current period and, therefore, are not reported in the funds. 2,918,709

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	(2,014,900)
Unamortized bond premiums	(5,701)
Accrued interest on bonds and notes	(23,155)
Capital lease payable	(1,594,678)
Postemployment benefits liability	(997,613)
Accrued compensated absences	(1,002,519)
Net pension liability	(7,368,884)

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 position. 208,792

Total net position - governmental activities \$ 51,838,034

City of Siloam Springs, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds
Year Ended December 31, 2016

	General Fund	Street Fund	Debt Service Fund (Nonmajor)	Total Governmental Funds
Revenues				
Property taxes	\$ 1,059,935	\$ 379,138	\$ -	\$ 1,439,073
Sales taxes	4,745,370	1,456,689	422,062	6,624,121
Licenses and permits	471,819	-	-	471,819
Intergovernmental	1,037,611	1,010,789	-	2,048,400
Charges for services	2,525,291	48,348	-	2,573,639
Fines and forfeitures	325,922	-	-	325,922
Grants and contributions	401,379	18,923	-	420,302
Investment income	10,794	4,701	391	15,886
Miscellaneous	169,944	174,413	-	344,357
Total revenues	<u>10,748,065</u>	<u>3,093,001</u>	<u>422,453</u>	<u>14,263,519</u>
Expenditures				
Current:				
General government				
Administration	2,764,099	-	-	2,764,099
Cemetery	172,679	-	-	172,679
Total general government	<u>2,936,778</u>	<u>-</u>	<u>-</u>	<u>2,936,778</u>
Public safety and judiciary				
Police	3,628,006	-	-	3,628,006
Fire	4,317,442	-	-	4,317,442
Municipal court	353,576	-	-	353,576
Animal control	364,976	-	-	364,976
Total public safety and judiciary	<u>8,664,000</u>	<u>-</u>	<u>-</u>	<u>8,664,000</u>
Transportation				
Streets	-	1,505,735	-	1,505,735
Cultural, parks and recreation				
Library	414,446	-	-	414,446
Parks	1,064,547	-	-	1,064,547
Total cultural, parks and recreation	<u>1,478,993</u>	<u>-</u>	<u>-</u>	<u>1,478,993</u>
Community development				
Building inspections	666,196	-	-	666,196
Debt service				
Principal retirement	-	-	445,025	445,025
Interest and other charges	-	-	64,936	64,936
Total debt service	<u>-</u>	<u>-</u>	<u>509,961</u>	<u>509,961</u>
Capital outlay	<u>5,187,709</u>	<u>3,444,681</u>	<u>-</u>	<u>8,632,390</u>
Total expenditures	<u>18,933,676</u>	<u>4,950,416</u>	<u>509,961</u>	<u>24,394,053</u>

City of Siloam Springs, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds (Continued)
Year Ended December 31, 2016

	<u>General Fund</u>	<u>Street Fund</u>	<u>Debt Service Fund (Nonmajor)</u>	<u>Total Governmental Funds</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (8,185,611)	\$ (1,857,415)	\$ (87,508)	\$ (10,130,534)
Other Financing Sources (Uses)				
Capital lease proceeds	1,689,053	-	-	1,689,053
Transfers in	11,322,251	321,341	67,226	11,710,818
Transfers out	(4,518,745)	-	-	(4,518,745)
Total other financing sources (uses)	<u>8,492,559</u>	<u>321,341</u>	<u>67,226</u>	<u>8,881,126</u>
Change in Fund Balances	306,948	(1,536,074)	(20,282)	(1,249,408)
Fund Balances, Beginning of Year	<u>5,253,664</u>	<u>3,446,651</u>	<u>419,299</u>	<u>9,119,614</u>
Fund Balances, End of Year	<u>\$ 5,560,612</u>	<u>\$ 1,910,577</u>	<u>\$ 399,017</u>	<u>\$ 7,870,206</u>

City of Siloam Springs, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds (Continued)
Year Ended December 31, 2016

Net change in net position – total governmental funds \$ (1,249,408)

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	8,632,390
Depreciation expense	(3,066,440)

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. 56,172

Deferred inflows/outflows related to the net pension liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These amounts are amortized into pension expense in future periods. This is the amount by which the deferred inflows/outflows changed during the current year. 1,909,559

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

Increase in net pension liabilities	(2,274,675)
Increase in OPEB liabilities	(52,787)
Increase in accrued long-term compensated absences	(315,937)

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

Principal repayments	445,025
Amortization of bond issue premiums	1,141
Proceeds from capital lease	(1,689,053)

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. 38,637

Change in net position of governmental activities \$ 2,434,624

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City of Siloam Springs, Arkansas
Statement of Net Position –
Proprietary Funds
December 31, 2016

Assets	Enterprise Funds			Governmental Activities
	Utilities	Airport (Nonmajor)	Totals	Internal Service Funds
Current Assets				
Cash	\$ 10,296,911	\$ 807,135	\$ 11,104,046	\$ 360
Certificates of deposit	2,184,698	-	2,184,698	-
Receivables				
Accounts, net of allowance for uncollectible accounts	4,667,774	3,447	4,671,221	-
Taxes	309,813	-	309,813	-
Inventory	2,041,639	39,582	2,081,221	24,076
Due from other funds	636,094	-	636,094	-
Prepaid items	64,773	7,057	71,830	13,562
Total currents assets	20,201,702	857,221	21,058,923	37,998
Noncurrent Assets				
Restricted cash	5,822,540	-	5,822,540	-
Certificates of deposit	1,727,886	-	1,727,886	-
Capital assets, net of accumulated depreciation				
Land and improvements	859,216	350,055	1,209,271	-
Construction in progress	1,351,351	23,158	1,374,509	-
Distribution and collection systems	63,412,391	-	63,412,391	-
Buildings and equipment	4,849,235	3,227,689	8,076,924	213,117
Total noncurrent assets	78,022,619	3,600,902	81,623,521	213,117
Total assets	98,224,321	4,458,123	102,682,444	251,115

Liabilities	Enterprise Funds			Governmental Activities
	Utilities	Airport (Nonmajor)	Totals	Internal Service Funds
Current Liabilities				
Accounts payable	\$ 1,860,499	\$ 36,863	\$ 1,897,362	\$ 26,853
Accrued expenses	243,396	4,612	248,008	15,470
Customer deposits	646,095	-	646,095	-
Current maturities of bonds payable	1,918,336	-	1,918,336	-
Compensated absences	362,906	5,057	367,963	-
Accrued interest payable	58,336	-	58,336	-
Total current liabilities	<u>5,089,568</u>	<u>46,532</u>	<u>5,136,100</u>	<u>42,323</u>
Noncurrent Liabilities				
Other postemployment benefits	293,160	13,769	306,929	-
Bonds payable, net	8,311,119	-	8,311,119	-
Total noncurrent liabilities	<u>8,604,279</u>	<u>13,769</u>	<u>8,618,048</u>	<u>-</u>
Total liabilities	<u>13,693,847</u>	<u>60,301</u>	<u>13,754,148</u>	<u>42,323</u>
Net Position				
Net investment in capital assets	60,242,738	3,600,902	63,843,640	213,117
Restricted				
Capital projects	4,342,911	-	4,342,911	-
Debt service	3,207,515	-	3,207,515	-
Unrestricted	16,737,310	796,920	17,534,230	(4,325)
Total net position	<u>\$ 84,530,474</u>	<u>\$ 4,397,822</u>	<u>\$ 88,928,296</u>	<u>\$ 208,792</u>

City of Siloam Springs, Arkansas
Statement of Revenues, Expenses and Changes in
Net Position – Proprietary Funds
Year Ended December 31, 2016

	Enterprise Funds			Governmental Activities
	Utilities	Airport (Nonmajor)	Totals	Internal Service Funds
Operating Revenues				
Charges for services				
Electric	\$ 20,728,431	\$ -	\$ 20,728,431	\$ -
Water	4,790,149	-	4,790,149	-
Wastewater	3,983,942	-	3,983,942	-
Sanitation	2,374,745	-	2,374,745	-
Fuel sales	-	368,002	368,002	-
Penalties	414,798	-	414,798	-
Miscellaneous	818,979	66,430	885,409	273,298
Total operating revenues	<u>33,111,044</u>	<u>434,432</u>	<u>33,545,476</u>	<u>273,298</u>
Operating Expenses				
Cost of goods sold				
Cost of power	12,643,146	-	12,643,146	-
Cost of fuel	-	255,692	255,692	-
Personal services	3,690,710	109,538	3,800,248	448,256
Contracted services	232,003	13,522	245,525	35,846
Maintenance and operating expenses	1,906,710	34,144	1,940,854	53,567
Other services and charges	2,177,384	46,502	2,223,886	137,424
Utilities	742,265	18,835	761,100	4,328
Depreciation and amortization	3,740,695	360,239	4,100,934	32,196
Total operating expenses	<u>25,132,913</u>	<u>838,472</u>	<u>25,971,385</u>	<u>711,617</u>
Operating Income (Loss)	<u>7,978,131</u>	<u>(404,040)</u>	<u>7,574,091</u>	<u>(438,319)</u>
Nonoperating Income (Expenses)				
Sales tax revenue	3,641,723	-	3,641,723	-
Interest income	37,320	-	37,320	-
Interest expense	(289,266)	-	(289,266)	-
Net non-operating revenues	<u>3,389,777</u>	<u>-</u>	<u>3,389,777</u>	<u>-</u>
Income (Loss) Before Transfers	<u>11,367,908</u>	<u>(404,040)</u>	<u>10,963,868</u>	<u>(438,319)</u>
Transfers In	-	541,192	541,192	476,956
Transfers Out	(8,210,221)	-	(8,210,221)	-
	<u>(8,210,221)</u>	<u>541,192</u>	<u>(7,669,029)</u>	<u>476,956</u>
Change in Net Position	3,157,687	137,152	3,294,839	38,637
Net Position, Beginning of Year	<u>81,372,787</u>	<u>4,260,670</u>	<u>85,633,457</u>	<u>170,155</u>
Net Position, End of Year	<u>\$ 84,530,474</u>	<u>\$ 4,397,822</u>	<u>\$ 88,928,296</u>	<u>\$ 208,792</u>

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City of Siloam Springs, Arkansas
Statement of Cash Flows –
Proprietary Funds
Year Ended December 31, 2016

	Enterprise Funds			Governmental Activities
	Utilities (Major Fund)	Airport (Nonmajor Fund)	Totals	Internal Service Funds
Operating Activities				
Cash received from customers	\$ 31,883,650	\$ 597,484	\$ 32,481,134	\$ -
Cash received from other funds for services	-	-	-	273,298
Cash payments to suppliers for goods and services	(17,412,865)	(414,734)	(17,827,599)	(214,575)
Cash payments to employees for services	(3,501,780)	(103,234)	(3,605,014)	(439,244)
Other operating receipts	786,491	-	786,491	-
	<u>11,755,496</u>	<u>79,516</u>	<u>11,835,012</u>	<u>(380,521)</u>
Net cash provided by (used in) operating activities				
Noncapital Financing Activities				
Interfund transfers	(8,210,221)	541,192	(7,669,029)	476,956
	<u>(8,210,221)</u>	<u>541,192</u>	<u>(7,669,029)</u>	<u>476,956</u>
Net cash provided by (used in) noncapital financing activities				
Capital and Related Financing Activities				
Sales tax revenue	3,608,515	-	3,608,515	-
Acquisition and construction of capital assets	(2,963,832)	(58,848)	(3,022,680)	(97,340)
Principal paid on debt	(1,873,761)	-	(1,873,761)	-
Interest and fees paid on debt	(305,459)	-	(305,459)	-
	<u>(1,534,537)</u>	<u>(58,848)</u>	<u>(1,593,385)</u>	<u>(97,340)</u>
Net cash used in capital and related financing activities				
Investing Activities				
Interest on cash and certificates of deposits	12,185	-	12,185	-
Purchase of certificates of deposit	(955,700)	-	(955,700)	-
Redemption of certificates of deposit	955,700	-	955,700	-
	<u>12,185</u>	<u>-</u>	<u>12,185</u>	<u>-</u>
Net cash provided by investing activities				
Increase (Decrease) in Cash and Cash Equivalents	2,022,923	561,860	2,584,783	(905)
Cash and Cash Equivalents, Beginning of Year	14,096,528	245,275	14,341,803	1,265
Cash and Cash Equivalents, End of Year	\$ 16,119,451	\$ 807,135	\$ 16,926,586	\$ 360

	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	\$ 10,296,911	\$ 807,135	\$ 11,104,046	\$ 360
Restricted cash - noncurrent	5,822,540	-	5,822,540	-
	<u>\$ 16,119,451</u>	<u>\$ 807,135</u>	<u>\$ 16,926,586</u>	<u>\$ 360</u>
Reconciliation of Operating Income to to Net Cash Provided By (Used In) Operating Activities				
Operating income (loss)	\$ 7,978,131	\$ (404,040)	\$ 7,574,091	\$ (438,319)
Adjustment to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization expense	3,740,695	360,239	4,100,934	32,196
Changes in assets and liabilities				
Accounts receivable	(502,988)	163,052	(339,936)	-
Inventory	(198,059)	(5,313)	(203,372)	(177)
Prepaid expenses	(8,975)	(1,164)	(10,139)	(6,969)
Accounts payable and accrued liabilities	675,632	(33,258)	642,374	32,748
Customer deposits	71,060	-	71,060	-
Net cash provided by (used in) operating activities	<u>\$ 11,755,496</u>	<u>\$ 79,516</u>	<u>\$ 11,835,012</u>	<u>\$ (380,521)</u>

City of Siloam Springs, Arkansas
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2016

	Pension Trust Fund	Private- purpose Trust Fund
	Firemen's Pension and Relief	Oak Hill Cemetery Trust
Assets		
Cash	\$ 81,087	\$ 102,970
Certificates of deposit	-	252,375
Investments		
U.S. government obligations	92,491	-
Mutual funds	3,104,450	-
Due from other funds	-	1,301
Property taxes receivable, net of allowance for doubtful accounts of \$3,970	128,378	-
Total assets	3,406,406	356,646
Deferred Inflows of Resources		
Unavailable revenue - property taxes	121,623	-
Net Position		
Net position restricted for pensions	3,284,783	-
Net position restricted for cemetery maintenance	-	356,646
Net position restricted for pensions and other purposes	\$ 3,284,783	\$ 356,646

City of Siloam Springs, Arkansas
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended December 31, 2016

	<u>Pension Trust Fund</u>	<u>Private- purpose Trust Fund</u>
	<u>Firemen's Pension and Relief</u>	<u>Oak Hill Cemetery Trust</u>
Additions		
Contributions		
Property taxes	\$ 107,191	\$ -
State insurance premium taxes	1,918	-
Future supplement	28,836	-
Intergovernmental	-	11,012
	<hr/>	<hr/>
Total contributions	137,945	11,012
	<hr/>	<hr/>
Investment income		
Interest and dividends	132,385	987
Net increase in fair value of investments	67,073	-
	<hr/>	<hr/>
Net investment income	199,458	987
	<hr/>	<hr/>
Total additions	337,403	11,999
	<hr/>	<hr/>
Deductions		
Benefits	332,716	-
Benefits - supplements	28,836	-
Administrative expenses	26,364	-
	<hr/>	<hr/>
Total deductions	387,916	-
	<hr/>	<hr/>
Change in Fiduciary Net Position	(50,513)	11,999
Net Position - Beginning of Year	<hr/> 3,335,296	<hr/> 344,647
Net Position - End of Year	<hr/> <u>\$ 3,284,783</u>	<hr/> <u>\$ 356,646</u>

City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2016

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 plan, being fiduciary in nature, was not evaluated as a potential component unit but instead was reported as a fiduciary fund.

Government-wide and Fund Financial Statements

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

Government-wide Financial Statements

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

City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2016

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. Plan trustees must act in accordance with the specific purposes and terms of the retirement plan. The pension trust fund is accounted for in essentially the same manner as proprietary funds.

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

Measurement Focus and Basis of Accounting

Government-wide, Proprietary and Fiduciary Funds

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

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

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

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

Governmental Fund Financial Statements

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

City of Siloam Springs, Arkansas
Notes to Financial Statements
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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, 2016, cash equivalents consisted primarily of money market accounts with brokers.

Investments and Investment Income

All investments in the City's Pension Trust Fund 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).

City of Siloam Springs, Arkansas
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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, 2016, property taxes receivable of \$1,775,379 and related deferred inflows of resources of \$1,631,477 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.

City of Siloam Springs, Arkansas
Notes to Financial Statements
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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 \$5,000 and an estimated useful life of greater than two years.

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

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

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

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

Long-term Obligations

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

City of Siloam Springs, Arkansas
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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/reduction of liability) until then. The government has five items that qualify for reporting in this category as of December 31, 2016. Each of the five items are related to pensions and include the amount of contributions made to the pension plans after the measurement date, the difference in investment experience between actual earnings and projected earnings on pension plan investments, the difference between expected and actual experience related to the plans, the amount related to any changes in assumptions or other inputs and the amount related to changes in proportion and differences between contributions recognized and proportionate share of contributions. Deferred outflows related to contributions made after the measurement date will be used in the next year to reduce net pension liability. The remaining amounts will be amortized to pension expense over future periods as shown within *Note 9*.

In addition to liabilities, the statement of financial position and balance sheet – governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify as deferred inflows of resources as of December 31, 2016. Accordingly, the items reported in the statements are unavailable revenues in the governmental funds balance sheet and deferred inflows - pensions. Unavailable revenue arises under the modified accrual basis of accounting and qualifies for reporting in this category. Accordingly, this item is only reported in the governmental funds balance sheet. Governmental funds report unavailable revenue from property taxes and grant receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item, deferred inflows - pensions, consists of the difference between the expected and actual experience related to the pension plans. This amount is amortized to pension expense over future periods as shown within *Note 9*.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

Pensions

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

Compensated Absences

The City provides all eligible full-time employees sick leave and vacation benefits. Sick leave benefits are accrued as a liability using the vesting method. Employees become 100% vested (up to the maximum) after 20 years of continuous service. For employees with at least 5 years of service, but less than 10, one-third of the allowable balance is considered vested. The cost of sick leave and vacation is accrued when earned in the government-wide and proprietary fund financial statements and reported as accrued expenses. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. In governmental activities, amounts accrued are expected to be liquidated with available financial resources, generally by the general fund.

Fund Balance - Governmental Funds

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

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

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

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

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

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

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

Net Position

Net position of the City is classified in three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and are reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net position includes noncapital assets that must be used for a particular purpose as specified by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation, reduced by the outstanding balances of any related borrowings. At December 31, 2016, net position restricted by enabling legislation was \$2,992,277 for governmental activities and \$7,550,426 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's Board of Directors prior to February 1 of each year. Approval of the budget by the City's Board of Directors results in 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 properly approved all budget overruns for the year ended December 31, 2016.

Adoption of Accounting Principles

GASB Statement No. 72 – Fair Value Measurement and Application

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, for 2016. The statement enhances 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. The Statement also enhances 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.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

Implementation of GASB 72 has resulted in more expanded disclosures as they relate to investments held by the City, however, the Statement had no impact on any amounts reported by the City within any of the basic financial statements as listed in the table of contents.

New GASB Pronouncements

The GASB has issued the following statements which the City has not yet adopted and which require adoption subsequent to December 31, 2016:

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

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

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

GASB Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73. GASB 68 addresses the presentation of payroll-related measures in RSI, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The pronouncement is effective for reporting periods beginning after June 15, 2016, except for certain requirements, which are effective for reporting periods on or after June 15, 2017.

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.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

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, 2016, the City had bank balances of \$28,387,790 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, 2016, was \$29,087,729.

Investments

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

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

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

Investments at December 31, 2016, consisted of the following:

Type	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. government obligations	\$ 92,491	\$ -	\$ -	\$ -	\$ 92,491
Bond mutual funds	1,987,061	-	647,100	559,190	780,771
		<u>\$ -</u>	<u>\$ 647,100</u>	<u>\$ 559,190</u>	<u>\$ 873,262</u>
Equity mutual funds	<u>1,117,389</u>				
	<u>\$ 3,196,941</u>				

In compliance with GASB 72, the City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of December 31, 2016:

- U.S. government obligations of \$92,491 are valued using the option-adjusted discounted cash flow model (Level 2 inputs).
- Equity and bond mutual funds of \$1,117,389 and \$1,987,061, respectively, are valued using quoted market prices (Level 1 inputs).

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

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

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

Investment Type	Rating Agency	Rating
Corporate bonds	S&P/Moody’s	A stable/A1

City of Siloam Springs, Arkansas
Notes to Financial Statements
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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.

Summary of Carrying Values

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

Carrying value	
Deposits	\$ 29,087,729
Cash on hand	4,166
Investments	<u>3,196,941</u>
	<u>\$ 32,288,836</u>
Balance sheet-governmental funds	
Cash and cash equivalents	\$ 4,265,013
Certificates of deposit	665,974
Restricted	
Cash and cash equivalents	2,884,946
Statement of fund net position - proprietary funds	
Cash	11,104,046
Certificates of deposit	2,184,698
Restricted	
Cash	5,822,540
Certificates of deposit	1,727,886
Statement of fund net position - internal service funds	
Cash	360
Statement of fiduciary net position	
Cash	184,057
Certificates of deposit	252,375
Investments	
U.S. governmental obligations	92,491
Mutual funds	<u>3,104,450</u>
	<u>\$ 32,288,836</u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

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	\$ 1,323,186	\$ 452,193	\$ -	\$ 1,775,379
Sales taxes	396,049	123,925	41,572	561,546
Ambulance	1,869,978	-	-	1,869,978
Other	215,073	-	-	215,073
Gross receivables	<u>3,804,286</u>	<u>576,118</u>	<u>41,572</u>	<u>4,421,976</u>
Less allowance for uncollectibles	<u>(1,666,584)</u>	<u>(13,566)</u>	<u>-</u>	<u>(1,680,150)</u>
Net total receivables	<u><u>\$ 2,137,702</u></u>	<u><u>\$ 562,552</u></u>	<u><u>\$ 41,572</u></u>	<u><u>\$ 2,741,826</u></u>
		Utilities	Airport	Total
Proprietary				
Accounts		\$ 6,457,009	\$ 3,447	\$ 6,460,456
Sales taxes		<u>309,813</u>	<u>-</u>	<u>309,813</u>
Gross receivables		<u>6,766,822</u>	<u>3,447</u>	<u>6,770,269</u>
Less allowance for uncollectibles		<u>(1,789,235)</u>	<u>-</u>	<u>(1,789,235)</u>
Net total receivables		<u><u>\$ 4,977,587</u></u>	<u><u>\$ 3,447</u></u>	<u><u>\$ 4,981,034</u></u>
Fiduciary				
Property taxes				<u>\$ 132,348</u>
Gross receivables				<u>132,348</u>
Less allowance for uncollectibles				<u>(3,970)</u>
Net total receivables				<u><u>\$ 128,378</u></u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

Note 4: Capital Assets

A summary of changes in capital assets for the year ended December 31, 2016, is presented below:

Governmental Activities	Balance, December 31, 2015	Additions and Transfers, Net	Retirements and Transfers, Net	Balance, December 31, 2016
Capital assets, non-depreciable				
Land	\$ 9,157,847	\$ 22,881	\$ -	\$ 9,180,728
Construction in progress	<u>3,406,600</u>	<u>3,796,867</u>	<u>(3,299,142)</u>	<u>2,215,272</u>
Total capital assets, non-depreciable	<u>12,564,447</u>	<u>3,819,748</u>	<u>(3,299,142)</u>	<u>11,396,000</u>
Capital assets, depreciable				
Buildings	19,286,413	2,777,133	3,299,142	25,362,688
Furniture, fixtures, & equipment	11,607,764	1,309,121	-	14,605,938
Infrastructure	<u>42,135,849</u>	<u>726,388</u>	<u>-</u>	<u>42,862,237</u>
Total capital assets, depreciable	<u>73,030,026</u>	<u>4,812,642</u>	<u>3,299,142</u>	<u>82,830,863</u>
Less accumulated depreciation				
Buildings	(7,669,927)	(641,197)	-	(8,311,124)
Furniture, fixtures, & equipment	(7,571,350)	(804,436)	-	(8,375,786)
Infrastructure	<u>(23,702,846)</u>	<u>(1,620,807)</u>	<u>-</u>	<u>(25,323,653)</u>
Total accumulated depreciation	<u>(38,944,123)</u>	<u>(3,066,440)</u>	<u>-</u>	<u>(42,010,563)</u>
Total governmental activities, net	<u>46,650,350</u>	<u>5,565,950</u>	<u>-</u>	<u>52,216,300</u>
Internal service funds				
Maintenance and engineering	590,142	97,340	-	687,482
Accumulated depreciation	<u>(442,169)</u>	<u>(32,196)</u>	<u>-</u>	<u>(474,365)</u>
Total internal service funds	<u>147,973</u>	<u>65,144</u>	<u>-</u>	<u>213,117</u>
Total governmental activities and internal service funds	<u>\$ 46,798,323</u>	<u>\$ 5,631,094</u>	<u>\$ -</u>	<u>\$ 52,429,417</u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

Business-type Activities	Balance, December 31, 2015	Additions and Transfers, Net	Retirements and Transfers, Net	Balance, December 31, 2016
Capital assets, non-depreciable				
Land	\$ 1,209,271	\$ -	\$ -	\$ 1,209,271
Construction in progress	<u>681,834</u>	<u>1,088,334</u>	<u>(395,659)</u>	<u>1,374,509</u>
Total capital assets, non-depreciable	<u>1,891,105</u>	<u>1,088,334</u>	<u>(395,659)</u>	<u>2,583,780</u>
Capital assets, depreciable				
Buildings	8,160,419	52,938	-	8,213,357
Furniture, fixtures, & equipment	10,289,254	1,259,423	(321,341)	11,227,336
Infrastructure	<u>107,033,770</u>	<u>1,338,985</u>	<u>-</u>	<u>108,372,755</u>
Total capital assets, depreciable	<u>125,483,443</u>	<u>2,651,346</u>	<u>(321,341)</u>	<u>127,813,448</u>
Less accumulated depreciation				
Buildings	(4,158,165)	(365,538)	-	(4,523,703)
Furniture, fixtures, & equipment	(6,326,804)	(513,262)	-	(6,840,066)
Infrastructure	<u>(41,738,230)</u>	<u>(3,222,134)</u>	<u>-</u>	<u>(44,960,364)</u>
Total accumulated depreciation	<u>(52,223,199)</u>	<u>(4,100,934)</u>	<u>-</u>	<u>(56,324,133)</u>
Total business-type activities, net	<u>\$ 75,151,349</u>	<u>\$ (361,254)</u>	<u>\$ (717,000)</u>	<u>\$ 74,073,095</u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

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

Governmental activities	
General government	\$ 328,973
Public safety and judiciary	
Police	156,394
Fire	300,880
Other	11,261
Transportation	1,921,254
Cultural, parks and recreation	339,122
Community development	8,556
Sub total	<u>3,066,440</u>
Internal service funds	<u>32,196</u>
Total depreciation expense	<u>3,098,636</u>
Business-type activities	
Electric	995,019
Water utilities	1,200,658
Wastewater utilities	1,310,152
Sanitation	234,866
Airport	360,239
Total depreciation expense	<u>4,100,934</u>
Total depreciation expense-primary government	<u>\$ 7,199,570</u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

Note 5: Long-term Liabilities

Changes in long-term liabilities for the year ended December 31, 2016, were as follows:

Governmental Activities	Balance December 31, 2015	Increases	Decreases	Balance December 31, 2016	Amounts Due in One Year
Bonds payable					
Sales & Use Tax Refunding Bonds, Series 2003	\$ 570,550	\$ -	\$ (280,650)	\$ 289,900	\$ 289,900
Sales & Use Tax Refunding Bonds, Series 2012	1,795,000	-	(70,000)	1,725,000	75,000
Unamortized bond premium	<u>6,842</u>	<u>-</u>	<u>(1,141)</u>	<u>5,701</u>	<u>-</u>
Bonds payable, net	2,372,392	-	(351,791)	2,020,601	364,900
Capital lease payable	-	1,689,053	(94,375)	1,594,678	380,704
Compensated absences	686,582	898,589	(582,652)	1,002,519	1,002,519
Other postemployment benefits ("OPEB") liability	944,826	52,787	-	997,613	-
Net pension liability	<u>5,094,209</u>	<u>2,274,675</u>	<u>-</u>	<u>7,368,884</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 9,098,009</u>	<u>\$ 4,915,104</u>	<u>\$ (1,028,818)</u>	<u>\$ 12,984,295</u>	<u>\$ 1,748,123</u>
Business-type Activities	Balance December 31, 2015	Increases	Decreases	Balance December 31, 2016	Amounts Due in One Year
Bonds payable					
Revolving Loan Fund	\$ 6,165,258	\$ -	\$ (1,209,600)	\$ 4,955,658	\$ 1,240,028
Revolving Loan Fund	3,053,241	-	(279,162)	2,774,079	288,308
Utility System Refunding Revenue Bonds, Series 2012	2,855,000	-	(385,000)	2,470,000	390,000
Unamortized bond premium	<u>36,794</u>	<u>-</u>	<u>(7,076)</u>	<u>29,718</u>	<u>-</u>
Bonds payable, net	12,110,293	-	(1,880,838)	10,229,455	1,918,336
Compensated absences	319,800	303,601	(255,438)	367,963	367,963
Other postemployment benefits ("OPEB") liability	<u>287,626</u>	<u>19,303</u>	<u>-</u>	<u>306,929</u>	<u>-</u>
Total business-type activities long-term liabilities	<u>\$ 12,717,719</u>	<u>\$ 322,904</u>	<u>\$ (2,136,276)</u>	<u>\$ 10,904,347</u>	<u>\$ 2,286,299</u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

Bonds outstanding at December 31, 2016, 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
Notes to Financial Statements
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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, 2016.

Fiscal Year	Governmental Activities	
	Principal	Interest
2017	\$ 364,900	\$ 42,761
2018	455,000	35,463
2019	465,000	26,363
2020	475,000	17,063
2021	255,000	6,375
	<u>\$ 2,014,900</u>	<u>\$ 128,025</u>

Fiscal Year	Business-type Activities		
	Principal	Interest	Fees
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	1,873,790	86,670	28,059
2021	752,990	55,276	14,816
2022 - 2025	1,669,932	67,997	25,096
	<u>\$ 10,199,737</u>	<u>\$ 675,130</u>	<u>\$ 247,757</u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

The following is a summary of pledged revenues for the City for the year ended December 31, 2016.

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	\$ 422,062	\$ 280,650	66.5%	\$ 295,698	Until 2017
Sales and Use Tax Refunding Bonds - Series 2012	Sales and Use Taxes	422,062	70,000	16.6%	1,847,225	Until 2021
					2,142,923	
Business-Type Activities:						
Revolving Loan Fund #00618-CWRLF-L	5/8 Cent City Sales Tax	2,276,077	1,209,600	53.1%	5,249,569	Until 2020
Revolving Loan Fund #00254-CWRLF-L	Revenues of the Enterprise Fund	36,790,087	279,162	0.8%	3,197,206	Until 2025
Utility System Refunding Revenue Bonds - Series 2012	Revenues of the Enterprise Fund	36,790,087	385,000	1.0%	2,675,848	Until 2022
					11,122,623	

Note 6: Capital Lease Obligations

This year, the government entered into a lease agreement as lessee for financing the acquisition of a new firetruck valued at \$1,689,053. As of December 31, 2016, the firetruck has not been placed into service, but will have a five-year estimated useful life once it is. This year, there was no depreciation expense recorded, as it was not in service as of December 31, 2016. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2016, were as follows:

Year ending December 31	Governmental Activities
2017	\$ 403,358
2018	403,357
2019	403,358
2020	403,358
2021	35,727
Total minimum lease payments	1,649,158
Less: amount representing interest	(54,480)
Present value of minimum lease payments	\$ 1,594,678

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

Note 7: Interfund Receivables and Payables

Interfund receivables and payables as of December 31, 2016, are as follows:

	Interfund Receivables	Interfund Payables
Governmental funds		
General fund	\$ -	\$ 604,132
Street fund	350	-
Debt service fund (nonmajor)	-	33,613
Total governmental funds	350	637,745
Proprietary funds to/from nonfiduciary funds		
Utilities	636,094	-
Oak Hill Cemetery Trust	1,301	-
Total	\$ 637,745	\$ 637,745

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

Note 8: Interfund Transfers

Amount of interfund transfers between funds are summarized as follows:

	Transfers In	Transfers Out
Governmental funds		
General fund	\$ 11,322,251	\$ 4,518,745
Street fund	321,341	-
Other nonmajor governmental funds	67,226	-
Proprietary funds		
Utilities	-	8,210,221
Other nonmajor enterprise funds	541,192	-
Internal service funds	476,956	-
Total	\$ 12,728,966	\$ 12,728,966

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

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

Note 9: Pension Plans

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

	<u>FRPF</u>	<u>LOPFI</u>	<u>Total</u>
Net pension liability	\$ 683,279	\$ 6,685,605	\$ 7,368,884
Deferred outflows of resources	89,421	2,001,854	2,091,275
Deferred outflows of resources - contributions	-	830,071	830,071
Deferred inflows of resources	-	2,637	2,637
Pension expense	64,430	1,239,728	1,304,158

Firefighters' Relief and Pension Fund ("FRPF")

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

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

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

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

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

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

Contributions. Contributions to the FRPF are set forth in Arkansas statute. The City's contribution to the FRPF consists of one half of a mill of real and personal property tax collections and an insurance premium tax turnback collected by the State Insurance Commissioner. Administrative costs are financed by the FRPF. Total 2016 contributions to the FRPF were \$137,945. The City's share of contributions was \$109,109 and included \$107,191 in property taxes and \$1,918 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:

Franklin Convertible	\$ 651,453
Jhancock Strategic Income	347,599
Loomis Sayles Senior Floating Rate	294,669
Principal Global Diverse Income Institutional	221,362
Principal Preferred Securities Fund Institutional Class	471,978
MFS Value Fund Class I	533,809
T. Rowe Price Institutional Large Cap Growth Fund	508,172

The plan has elected to participate in the DROP effective December 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, 2016, the DROP accounts had no active members and did not have an outstanding balance.

Update Procedures. The December 31, 2016 actuarial valuation was not available in time for use in the preparation of the City's financials. As an alternative, the City applied certain update procedures to the total pension liability to roll forward the total pension liability from December 31, 2015 to December 31, 2016. For the purposes of these procedures, all actuarial methods and assumptions described below were assumed to remain unchanged.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

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

The State of Arkansas Fire and Police Pension Review Board is responsible for the coordination of the actuarial valuations performed on the FPRF. Actuarial valuations are performed annually and the last evaluation was as of December 31, 2015. The actuarial assumptions used in evaluating the fund were based on an experience study conducted from 2007 to 2012 and are as follows:

Actuarial cost method	Entry age normal	Salary increases	4.20% to 8.00%
Asset valuation	Five-year smoothed market	Inflation	3.00%
Amortization method	Level percent open	Mortality table	1983 Group Annuity Table
Amortization period	5 years	Actuarial value of assets	Market value of investments
Investment rate of return	5.00%, net of pension plan investment expense, including inflation	UAAL amortization	Level dollar of projected payroll on a closed basis, 5 year period

Membership Information

Membership of the FPRF consisted of the following at December 31, 2016:

Retirees and beneficiaries receiving benefits	21
Active plan members	-
Members participating in DROP	-
	-
Total	21

Net Pension Liability

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

Measurement Date	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability
December 31, 2016	\$ 3,968,062	\$ 3,284,783	\$ 683,279	82.78%

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

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

Long-term Expected Real Rate of Return		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Fixed Income	80%	2.25%
Domestic Equity	10%	4.75%
Cash	10%	0.25%
Total	100.00%	

Discount Rate

In the December 31, 2015 actuarial valuation, a single discount rate of 5.0% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 5.0%. The projection of cash flows, based on the assumptions made, found that the pension plan's net position was available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	Sensitivity of the Net Position Liability to the Single Discount Rate Assumption		
	1% Decrease 4.00%	Current Single Rate Assumption 5.00%	1% Increase 6.00%
City's net pension liability	\$ 1,057,026	\$ 683,279	\$ 367,568

City of Siloam Springs, Arkansas
Notes to Financial Statements
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Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2016	<u>\$ 4,103,901</u>	<u>\$ 3,335,296</u>	<u>\$ 768,605</u>
Changes for the year:			
Interest	196,877	-	196,877
Contributions - employer	-	109,109	(109,109)
Contributions - other	-	28,836	(28,836)
Net investment income	-	199,458	(199,458)
Benefit payments, including refunds of employee contributions	(332,716)	(332,716)	-
Benefit payments - supplements	-	(28,836)	28,836
Administrative expense	-	(26,364)	26,364
Net changes	<u>(135,839)</u>	<u>(50,513)</u>	<u>(85,326)</u>
Balances at December 31, 2016	<u><u>\$ 3,968,062</u></u>	<u><u>\$ 3,284,783</u></u>	<u><u>\$ 683,279</u></u>

Money-weighted Rate of Return

The annual money-weighted rate of return on pension plan investments is calculated as the internal rate of return on pension plan investments net of pension plan investment expense and adjusted for the changing amounts actually invested. The money-weighted rate of return for 2016 was 5.34%.

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

Pension Expense and Deferred Outflows of Resources related to Pensions

For the year ended December 31, 2016, the City recognized pension expense from the FRPF Plan of \$64,430. At December 31, 2016, the City reported deferred outflows of resources related to pensions from the following source:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 89,421
Total	\$ 89,421

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,		
2017	\$	30,502
2018		30,502
2019		30,502
2020		(2,085)
Total	\$	89,421

Local Police and Fire Retirement System (“LOPFI”)

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

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

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

Contributions. Contributions to LOPFI are made by both the members and employers. Member contribution rates are established by the LOPFI Board of Trustees. The employer contributions are actuarially determined on an annual basis. The current employee contribution rate is 2.50% of covered payroll for police officers and 8.50% of covered payroll for firefighters. The City contributed 22.00% of covered employee's salaries to the plan for police officers and 21.78% of covered employees' salaries to the Plan for firefighters for the year ended December 31, 2016. Contributions made to the Plan by employees and the City for the year ended December 31, 2016 amounted to \$229,516 and \$830,071, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016, the City reported a liability of \$6,685,605 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the ratio of the City's actual contributions to the Plan during the measurement period to the total employer contributions to the Plan of the group for the measurement period. At December 31, 2015, the City's proportion was 1.2740%, which was an increase of .0791% from the December 31, 2014 proportion of 1.1949%.

For the year ended December 31, 2016, the City recognized pension expense related to the LOPFI plan of \$1,239,728. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 70,723	\$ 2,637
Changes in assumptions or other inputs	522,324	-
Difference between projected and actual investment earnings on pension plan investments	1,193,228	-
Changes in proportion	215,579	-
Contributions subsequent to the measurement date	830,071	-
Total	<u>\$ 2,831,925</u>	<u>\$ 2,637</u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
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The amount reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$830,071 will be recognized as a reduction of the net pension liability for the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Plan will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>		
2017	\$	514,305
2018		514,305
2019		514,448
2020		<u>456,159</u>
Total	\$	<u><u>1,999,217</u></u>

Actuarial Assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Price inflation	2.75 percent (3.00 percent in prior year)
Wage inflation	3.75 percent (4.00 percent in prior year)
Salary increases	4.25 to 18.75 percent, including inflation (4.50 to 19.0 percent, including inflation, in prior year)
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation (8.00 percent in prior year)

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2008 to December 31, 2011. As a result of the 2011 actuarial experience study, the expectation of life after disability was adjusted in the December 31, 2015 actuarial evaluation to more closely reflect actual experience.

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

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

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

Discount Rate

In the December 31, 2015 actuarial valuation, a single discount rate of 7.75% (8.00% in prior year) was used to measure the total pension liability based on the expected rate of return on pension plan investments of 7.75%. The projection of cash flows, based on the assumptions made, found that the pension plan's net position was available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Siloam Springs, Arkansas
Notes to Financial Statements
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Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption		
	1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
City's proportionate share of the net pension liability	\$ 10,520,354	\$ 6,685,605	\$ 3,473,539

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued LOPFI financial report.

Deferred Compensation Plan

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

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 2016, the City’s contributions totaled \$575,742.

City of Siloam Springs, Arkansas
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December 31, 2016

Note 10: Other Postemployment Benefits (OPEB)

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

Funding Policy: The contribution requirements of plan members are established by City ordinance and may be amended as needed. Retiree coverage is the same as the coverage provided to active City employees. Retirees pay premiums ranging from \$146.46 per month to \$578.08 per month depending on the coverage elected. The City’s policy maintains that retirees who retire after age 62 must pay 100% of the extra cost of premiums for dependent coverage and the City pays 100% of the contribution for the retiree. Employees who leave employment due to disability receive the same benefit for 2 years. Retirees with 20 years of service retiring before age 62 pay 60% of the entire premium cost. All retirees become ineligible for City insurance once they become eligible for Medicare. The cost of retiree healthcare benefits is financed on a pay-as-you-go basis and is recorded as an expense in the applicable fund as liabilities are incurred. There were 15 retirees covered under this plan at December 31, 2016. Dependent coverage was provided for eight of the retirees. Total benefits paid by the City for retirees during the fiscal year were \$108,336. Retirees contributed \$39,310 of the total current year cost.

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

ARC	\$ 201,304
Interest on net OPEB obligation	55,460
Adjustment to ARC	<u>(44,389)</u>
Annual OPEB cost	212,375
Total annual employer contribution (pay-as-you-go)	<u>(140,285)</u>
Increase in net OPEB obligation	72,090
Net OPEB Obligation - beginning of year	<u>1,232,452</u>
Net OPEB Obligation - end of year	<u><u>\$ 1,304,542</u></u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

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

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

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	\$ 239,860	59%	\$ 1,125,600
12/31/2015	247,705	57%	1,232,452
12/31/2016	212,375	68%	1,304,542

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

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

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

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

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

Note 11: Concentration of Credit Risk

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

Note 12: Risk Management

The City has various insurance policies to cover its potential liability risk areas (*e.g.*, automobile, personal property, contents and outside structures and worker's compensation). Coverage is provided both commercially and through the Arkansas Municipal League (AML), which is an association of local governments. The AML provides the City with automobile and legal defense coverage and sets annual fixed premiums based on such factors as claims experience, employee class multipliers and population. For risks covered by the AML, the City pays no deductible; however, the City pays a \$3,000 fee to the AML for each legal matter it handles. There have been no significant reductions in coverage from 2015 to 2016; nor have settlement amounts exceeded insurance coverage for the current year or the three prior years.

Note 13: Contingencies

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

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

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2016

Note 14: Fund Balance

The City classified governmental fund balances as follows:

	General Fund	Street Fund	Debt Service Fund	Total
Fund balances				
Nonspendable				
Prepaid expenses	\$ 197,944	\$ 21,959	\$ -	\$ 219,903
Inventories	34,758	-	-	34,758
Spendable				
Restricted				
Capital outlay and debt service	704,642	1,888,618	399,017	2,992,277
Assigned				
Capital outlay	515,169	-	-	515,169
Unassigned				
General fund	4,108,099	-	-	4,108,099
Total fund balances	<u>\$ 5,560,612</u>	<u>\$ 1,910,577</u>	<u>\$ 399,017</u>	<u>\$ 7,870,206</u>

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Required Supplementary Information

City of Siloam Springs, Arkansas
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property taxes	\$ 1,050,000	\$ 1,050,000	\$ 1,059,935	\$ 9,935
Sales taxes	5,033,845	5,859,974	4,745,370	(1,114,604)
Licenses and permits	352,550	262,949	471,819	208,870
Intergovernmental	706,220	722,259	1,037,611	315,352
Charges for services	2,640,116	2,243,768	2,525,291	281,523
Fines and forfeitures	279,000	279,000	325,922	46,922
Grants and contributions	173,896	1,324,796	401,379	(923,417)
Investment income	2,627	7,672	10,794	3,122
Miscellaneous	84,475	107,475	169,944	62,469
Total revenues	10,322,729	11,857,893	10,748,065	(1,109,828)
Expenditures				
Current:				
General government				
Administration	2,800,217	3,838,717	2,764,099	(1,074,618)
Cemetery	-	-	172,679	172,679
Total general government	2,800,217	3,838,717	2,936,778	(901,939)
Public safety and judiciary				
Police	4,041,145	4,041,145	3,628,006	(413,139)
Fire	4,353,560	4,353,560	4,317,442	(36,118)
Municipal court	353,924	353,924	353,576	(348)
Animal control	-	-	364,976	364,976
Total public safety and judiciary	8,748,629	8,748,629	8,664,000	(84,629)
Cultural, parks and recreation				
Library	458,564	458,564	414,446	(44,118)
Parks	1,222,641	1,222,641	1,064,547	(158,094)
Total cultural, parks and recreation	1,681,205	1,681,205	1,478,993	(202,212)
Community development				
Building inspections	1,059,340	1,059,340	666,196	(393,144)
Capital outlay	1,898,358	4,042,956	5,187,709	1,144,753
Total expenditures	16,187,749	19,370,847	18,933,676	(437,171)
Excess (Deficiency) of Revenues Over Expenditures	(5,865,020)	(7,512,954)	(8,185,611)	(672,657)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Other Financing Sources (Uses)				
Capital lease proceeds	\$ -	\$ -	\$ 1,689,053	\$ 1,689,053
Transfers in	110,683	5,260,683	11,322,251	6,061,568
Transfers out	<u>(9,500)</u>	<u>(76,652)</u>	<u>(4,518,745)</u>	<u>(4,442,093)</u>
Total other financing sources (uses)	<u>101,183</u>	<u>5,184,031</u>	<u>8,492,559</u>	<u>3,308,528</u>
Change in Fund Balances	(5,763,837)	(2,328,923)	306,948	2,635,871
Fund Balances, Beginning of Year	<u>5,253,664</u>	<u>5,253,664</u>	<u>5,253,664</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ (510,173)</u></u>	<u><u>\$ 2,924,741</u></u>	<u><u>\$ 5,560,612</u></u>	<u><u>\$ 2,635,871</u></u>

City of Siloam Springs, Arkansas
Budgetary Comparison Schedule –
Street Fund
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property taxes	\$ 350,000	\$ 350,000	\$ 379,138	\$ 29,138
Sales taxes	1,323,300	1,323,300	1,456,689	133,389
Intergovernmental	976,800	976,800	1,010,789	33,989
Charges for services	-	-	48,348	48,348
Grants and contributions	-	-	18,923	18,923
Investment income	4,080	4,080	4,701	621
Miscellaneous	1,000	1,000	174,413	173,413
Total revenues	<u>2,655,180</u>	<u>2,655,180</u>	<u>3,093,001</u>	<u>437,821</u>
Expenditures				
Current:				
Transportation				
Streets	1,802,775	1,802,775	1,505,735	(297,040)
Capital outlay	<u>3,343,238</u>	<u>3,456,291</u>	<u>3,444,681</u>	<u>(11,610)</u>
Total expenditures	<u>5,146,013</u>	<u>5,259,066</u>	<u>4,950,416</u>	<u>(308,650)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,490,833)</u>	<u>(2,603,886)</u>	<u>(1,857,415)</u>	<u>746,471</u>
Other Financing Sources				
Transfers in	<u>-</u>	<u>-</u>	<u>321,341</u>	<u>321,341</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>321,341</u>	<u>321,341</u>
Change in Fund Balances	(2,490,833)	(2,603,886)	(1,536,074)	1,067,812
Fund Balances, Beginning of Year	<u>3,446,651</u>	<u>3,446,651</u>	<u>3,446,651</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 955,818</u>	<u>\$ 842,765</u>	<u>\$ 1,910,577</u>	<u>\$ 1,067,812</u>

City of Siloam Springs, Arkansas

Required Supplementary Information

Defined Benefit Pension Plan

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

Fiscal year ended December 31,	2016	2015	2014
Total Pension Liability			
Interest	\$ 196,877	\$ 211,213	\$ 212,376
Difference Between Actual & Expected Experience	-	(129,297)	90,082
Benefit Payments	(332,716)	(335,228)	(384,400)
Net Change in Total Pension Liability	(135,839)	(253,312)	(81,942)
Total Pension Liability - Beginning	4,103,901	4,357,213	4,439,155
Total Pension Liability - Ending (a)	<u>\$ 3,968,062</u>	<u>\$ 4,103,901</u>	<u>\$ 4,357,213</u>
Plan Fiduciary Net Position			
Contributions - Member	\$ 109,109	\$ 108,483	\$ 113,539
Contributions - Other	28,836	25,200	22,230
Net Investment Income	199,458	37,293	232,132
Benefit Payments	(332,716)	(335,228)	(384,400)
Supplements	(28,836)	(25,200)	(22,230)
Administrative Expense	(26,364)	(28,402)	(29,104)
Net Change in Plan Fiduciary Net Position	(50,513)	(217,854)	(67,833)
Plan Fiduciary Net Position - Beginning	3,335,296	3,553,150	3,620,983
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,284,783</u>	<u>\$ 3,335,296</u>	<u>\$ 3,553,150</u>
City's Net Pension Liability (a) - (b)	\$ 683,279	\$ 768,605	\$ 804,063
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.78%	81.27%	81.55%
Covered Employee Payroll	\$ -	\$ -	\$ -
City's Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	N/A	N/A

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

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

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

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

Key Assumptions for ADC:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

City of Siloam Springs, Arkansas
Required Supplementary Information
Other Postemployment Benefit Plan
Schedule of Funding Progress
Year Ended December 31, 2016

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

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

City of Siloam Springs, Arkansas
Notes to Required Supplementary Information
December 31, 2016

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 2016, 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).

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Combining Financial Statements and Schedules

City of Siloam Springs, Arkansas
Combining Schedule of Revenues, Expenses and Changes in Net Position –
Enterprise Fund Departments
Year Ended December 31, 2016

	Enterprise Fund Departments				
	Electric	Water	Wastewater	Sanitation	Totals
Operating Revenues					
Charges for services	\$ 21,261,983	\$ 4,869,484	\$ 4,070,255	\$ 2,909,322	\$ 33,111,044
Operating Expenses					
Cost of goods sold					
Cost of power	12,643,146	-	-	-	12,643,146
Personal services	1,792,675	687,593	384,130	826,312	3,690,710
Contracted services	43,021	105,725	75,398	7,859	232,003
Maintenance and operating expenses	662,323	513,052	388,361	342,974	1,906,710
Other services and charges	440,913	186,616	216,856	1,332,999	2,177,384
Utilities	23,424	221,675	485,847	11,319	742,265
Depreciation	995,019	1,200,658	1,310,152	234,866	3,740,695
Total operating expenses	16,600,521	2,915,319	2,860,744	2,756,329	25,132,913
Operating Income	4,661,462	1,954,165	1,209,511	152,993	7,978,131
Nonoperating Income (Expenses)					
Sales tax revenue	1,365,646	-	2,276,077	-	3,641,723
Interest income	30,829	1,018	5,009	464	37,320
Interest expense	-	(40,305)	(235,597)	(13,364)	(289,266)
Net non-operating revenues (expenses)	1,396,475	(39,287)	2,045,489	(12,900)	3,389,777
Income Before Capital Contributions and Transfers	6,057,937	1,914,878	3,255,000	140,093	11,367,908
Transfers Out	(5,941,341)	(1,474,700)	(794,180)	-	(8,210,221)
Change in Net Position	\$ 116,596	\$ 440,178	\$ 2,460,820	\$ 140,093	3,157,687
Net Position, Beginning of Year					81,372,787
Net Position, End of Year					\$ 84,530,474

City of Siloam Springs, Arkansas
Combining Statement of Net Position –
Internal Service Funds
December 31, 2016

Assets	Maintenance	Engineering	Totals
Current Assets			
Cash	\$ 341	\$ 19	\$ 360
Inventory	24,076	-	24,076
Prepaid items	4,407	9,155	13,562
Total currents assets	<u>28,824</u>	<u>9,174</u>	<u>37,998</u>
Noncurrent Assets			
Capital assets			
Buildings and equipment	473,547	213,932	687,479
Less accumulated depreciation	<u>335,139</u>	<u>139,223</u>	<u>474,362</u>
Total noncurrent assets	<u>138,408</u>	<u>74,709</u>	<u>213,117</u>
Total assets	<u>167,232</u>	<u>83,883</u>	<u>251,115</u>
Liabilities			
Current Liabilities			
Accounts payable	16,898	9,955	26,853
Accrued expenses	<u>7,558</u>	<u>7,912</u>	<u>15,470</u>
Total current liabilities	<u>24,456</u>	<u>17,867</u>	<u>42,323</u>
Net Position			
Net investment in capital assets	138,408	74,709	213,117
Unrestricted	<u>4,368</u>	<u>(8,693)</u>	<u>(4,325)</u>
Total net position	<u>\$ 142,776</u>	<u>\$ 66,016</u>	<u>\$ 208,792</u>

City of Siloam Springs, Arkansas
Combining Statement of Revenues, Expenses and Changes in Net Position –
Internal Service Funds
Year Ended December 31, 2016

	<u>Maintenance</u>	<u>Engineering</u>	<u>Totals</u>
Operating Revenues			
Repairs and services for other departments	\$ 187,146	\$ 86,152	\$ 273,298
Total operating revenues	<u>187,146</u>	<u>86,152</u>	<u>273,298</u>
Operating Expenses			
Personal services	188,556	202,059	390,615
Payroll taxes	13,930	15,638	29,568
Employee retirement	11,771	16,302	28,073
Materials and supplies	21,216	20,269	41,485
Uniforms	4,402	125	4,527
Dues and training	-	3,571	3,571
Small tools	39,575	4,710	44,285
Vehicle and equipment operation	912	674	1,586
Vehicle and equipment maintenance	818	-	818
Office supplies and postage	-	582	582
Telephone	726	2,624	3,350
Utilities	4,328	-	4,328
Insurance	40,872	25,132	66,004
Lease	-	1,389	1,389
Professional fees	-	34,457	34,457
Miscellaneous expense	527	1,508	2,035
Administrative department charges	13,494	2,517	16,011
Maintenance department charges	6,714	23	6,737
Depreciation	8,673	23,523	32,196
Total operating expenses	<u>356,514</u>	<u>355,103</u>	<u>711,617</u>
Operating Loss Before Operating Transfers	(169,368)	(268,951)	(438,319)
Operating Transfers In	<u>239,591</u>	<u>237,365</u>	<u>476,956</u>
Change in Net Position	70,223	(31,586)	38,637
Net Position, Beginning of Year	<u>72,553</u>	<u>97,602</u>	<u>170,155</u>
Net Position, End of Year	<u>\$ 142,776</u>	<u>\$ 66,016</u>	<u>\$ 208,792</u>

City of Siloam Springs, Arkansas
Combining Statement of Cash Flows –
Internal Service Funds
Year Ended December 31, 2016

	<u>Maintenance</u>	<u>Engineering</u>	<u>Totals</u>
Operating Activities			
Cash received from other funds for services	\$ 187,146	\$ 86,152	\$ 273,298
Cash payments to suppliers for goods and services	(119,815)	(94,760)	(214,575)
Cash payments to employees for services	<u>(209,885)</u>	<u>(229,359)</u>	<u>(439,244)</u>
Net cash used in operating activities	<u>(142,554)</u>	<u>(237,967)</u>	<u>(380,521)</u>
Noncapital Financing Activities			
Interfund transfers	<u>239,591</u>	<u>237,365</u>	<u>476,956</u>
Net cash provided by noncapital financing activities	<u>239,591</u>	<u>237,365</u>	<u>476,956</u>
Capital and Related Financing Activities			
Acquisition and construction of capital assets	<u>(97,016)</u>	<u>(324)</u>	<u>(97,340)</u>
Net cash used in capital and related financing activities	<u>(97,016)</u>	<u>(324)</u>	<u>(97,340)</u>
Increase (Decrease) in Cash	21	(926)	(905)
Cash, Beginning of Year	<u>320</u>	<u>945</u>	<u>1,265</u>
Cash, End of Year	<u>\$ 341</u>	<u>\$ 19</u>	<u>\$ 360</u>
Reconciliation of Operating Loss to Net Cash Used By Operating Activities			
Operating loss	\$ (169,368)	\$ (268,951)	\$ (438,319)
Adjustment to reconcile operating loss to net cash used by operating activities			
Depreciation expense	8,673	23,523	32,196
Changes in assets and liabilities			
Inventory	(177)	-	(177)
Prepaid expenses	(1,208)	(5,761)	(6,969)
Accounts payable and accrued liabilities	<u>19,526</u>	<u>13,222</u>	<u>32,748</u>
Net cash used by operating activities	<u>\$ (142,554)</u>	<u>\$ (237,967)</u>	<u>\$ (380,521)</u>

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Other Information

City of Siloam Springs, Arkansas
Schedules of Bonds Outstanding
December 31, 2016

Sales and Use Tax Refunding Bonds, Series 2003

<u>Maturity Year</u>	<u>Interest Rate</u>	<u>Interest Payments</u>	<u>Serial Bond Maturities</u>	<u>Total Payments</u>
2017	4.00%	\$ 5,798	\$ 289,900	\$ 295,698
		<u>\$ 5,798</u>	<u>\$ 289,900</u>	<u>\$ 295,698</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, 2016

Sales and Use Tax Refunding Bonds, Series 2012

<u>Maturity Year</u>	<u>Interest Rate</u>	<u>Interest Payments</u>	<u>Serial Bond Maturities</u>	<u>Total Payments</u>
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>\$ 122,225</u>	<u>\$ 1,725,000</u>	<u>\$ 1,847,225</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, 2016

Revolving Loan Fund #00618-CWRLF-L

Maturity Year	Interest Rate	Interest Payments	1.00% Service Fee	Principal Payments	Total Payments
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	1,141,205	1,166,307
		<u>\$ 176,346</u>	<u>\$ 117,565</u>	<u>\$ 4,955,658</u>	<u>\$ 5,249,569</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, 2016

Revolving Loan Fund #00254-CWRLF-L

Maturity Year	Interest Rate	Interest Payments	1.00% Service Fee	Principal Payments	Total Payments
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	924	185,064	188,070
		<u>\$ 292,936</u>	<u>\$ 130,191</u>	<u>\$ 2,774,079</u>	<u>\$ 3,197,206</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, 2016

Utility System Refunding Revenue Bonds, Series 2012

<u>Maturity Year</u>	<u>Interest Rate</u>	<u>Interest Payments</u>	<u>Serial Bond Maturities</u>	<u>Total Payments</u>
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>\$ 205,848</u>	<u>\$ 2,470,000</u>	<u>\$ 2,675,848</u>

Paying Agent: BancorpSouth Bank
Stuttgart, Arkansas

Principal Payment Date: October 1

Interest Payment Dates: April 1
October 1

Other Required Reports

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 19, 2017.

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

BKD, LLP

Rogers, Arkansas
June 19, 2017

City of Siloam Springs, Arkansas
Schedule of Findings and Responses
Year Ended December 31, 2016

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding
	No matters are reportable.