

**City of Siloam Springs, Arkansas**

Independent Auditor's Reports and Financial Statements

For the Year Ended December 31, 2018

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# City of Siloam Springs, Arkansas

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## Independent Auditors' Report

Honorable Mayor and Board of Directors  
City of Siloam Springs  
Siloam Springs, Arkansas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Siloam Springs, Arkansas, as of and for the year ended December 31, 2018, 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on this financial statement 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 auditors' 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.

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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Siloam Springs as of December 31, 2018 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of a Matter**

As described in Note 15 to the financial statements, the City of Siloam Springs restated its beginning net position in the government-wide financial statements to reflect the effects of intercompany transfers and implementation of GASB. 75 related to OPEB at year end 2018. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis starting on page i and pension information will be presented to supplement the basic financial statements. Such information, although not a 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 supplemental 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 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2019 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result 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.

*Hill & Company, PC*

Tulsa, Oklahoma  
October 11, 2019



# **City of Siloam Springs, Arkansas**

## **Management's Discussion and Analysis**

### **Year Ended December 31, 2018**

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, 2018. This analysis focuses on the 2018 and 2017 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 3 and 4 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**  
**Year Ended December 31, 2018**

**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, 2018 and 2017 is as follows:

**Net Position**  
**(Amounts in Millions)**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
	<i>as restated</i>		<i>as restated</i>		<i>as restated</i>	
Cash and investments	\$17.5	\$ 16.5	\$20.1	\$ 19.1	\$ 37.6	\$ 35.6
Other assets	3.3	2.6	7.5	7.5	10.8	10.1
Capital assets (net)	54.7	52.1	70.4	72.5	125.1	124.6
Total assets	<u>75.5</u>	<u>71.2</u>	<u>98.0</u>	<u>99.1</u>	<u>173.5</u>	<u>170.3</u>
Deferred outflows of resources	<u>5.6</u>	<u>2.9</u>	<u>-</u>	<u>-</u>	<u>5.6</u>	<u>2.9</u>
Current liabilities	3.7	1.1	3.5	3.0	7.2	4.1
Long-term liabilities	13.3	13.0	3.8	9.2	17.1	22.2
Total Liabilities	<u>17.0</u>	<u>14.1</u>	<u>7.3</u>	<u>12.2</u>	<u>24.3</u>	<u>26.3</u>
Deferred inflows of resources	<u>1.3</u>	<u>0.3</u>	<u>-</u>	<u>-</u>	<u>1.3</u>	<u>0.3</u>
Net investment in capital assets	52.7	49.2	67.2	64.2	119.9	113.4
Restricted	6.3	4.3	3.8	8.7	10.1	13.0
Unrestricted	3.8	6.2	19.7	14.0	23.5	20.2
Total net position	<u>\$62.8</u>	<u>\$ 59.7</u>	<u>\$90.7</u>	<u>\$ 86.9</u>	<u>\$153.5</u>	<u>\$ 146.6</u>

**City of Siloam Springs, Arkansas**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2018**

The City's combined net position increased from \$147.4 million to \$153.5 million, a 4.1% increase in 2018. 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 \$2.4 million, from a balance of \$6.2 million to \$3.8 million. The driver for this decrease is an increase in pension liability of \$2.5 million and a restatement of beginning balance due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75 for other post-employment benefits, retiree healthcare, of \$0.5 million.

Net position of the business-type activities reflects a \$3.8 million or 4.4% increase (\$86.9 million compared to \$90.7 million). This increase is mainly due to reduced transfers to the general fund.

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

**Changes in Net Position**  
**(Amounts in Millions)**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
	<i>as restated</i>		<i>as restated</i>		<i>as restated</i>	
Revenues						
<i>Program revenues</i>						
Charges for Services	\$ 3.6	\$ 3.9	\$37.1	\$ 35.2	\$ 40.7	\$ 39.1
Grants and contributions	0.2	1.5	-	-	0.2	1.5
<i>General revenues</i>						
Taxes	10.9	10.2	2.3	2.4	13.2	12.6
Investment	0.7	0.1	0.1	-	0.8	0.1
Intergovernmental	3.2	2.1	-	-	3.2	2.1
Other	0.4	0.7	-	-	0.4	0.7
Total revenues	<u>19.0</u>	<u>18.5</u>	<u>39.5</u>	<u>37.6</u>	<u>58.5</u>	<u>56.1</u>
Expenses						
General government	8.2	5.1	-	-	8.2	5.1
Public safety and judiciary	9.6	10.0	-	-	9.6	10.0
Transportation	1.4	3.1	-	-	1.4	3.1
Cultural, parks and recreation	1.8	2.2	-	-	1.8	2.2
Community development	1.5	1.7	-	-	1.5	1.7
Interest on long-term debt	-	0.1	-	-	-	0.1
Utilities	-	-	28.2	27.2	28.2	27.2
Airport	-	-	1.0	0.8	1.0	0.8
Total expenses	<u>22.5</u>	<u>22.2</u>	<u>29.2</u>	<u>28.0</u>	<u>51.7</u>	<u>50.2</u>
Increase (decrease) in net position before transfers	(3.5)	(3.7)	10.3	9.6	6.8	5.9
Transfers	<u>6.5</u>	<u>11.6</u>	<u>(6.5)</u>	<u>(11.6)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	3.0	7.9	3.8	(2.0)	6.8	5.9
Net position - beginning of year	59.7	51.8	86.9	88.9	146.6	140.7
Net position - end of year	<u>\$62.7</u>	<u>\$ 59.7</u>	<u>\$90.7</u>	<u>\$ 86.9</u>	<u>\$ 153.4</u>	<u>\$ 146.6</u>

# **City of Siloam Springs, Arkansas**

## **Management's Discussion and Analysis**

### **Year Ended December 31, 2018**

The City's total revenue of \$58.5 million in 2018 reflects a \$2.4 million, or 4.3%, increase over total revenue of \$56.1 million in 2017. This increase in total revenue in 2018 is primarily due to increased utility sales and increased city and county sales tax from retail sales. The total operating expense, or cost of all programs and services provided by the City, increased 3% (to \$51.7 million, from a total cost of \$50.2 million). This increase in total cost was a combination of higher administration costs in utilities and pension expense 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 2018 came in at \$19 million which is approximately a \$0.5 million dollar increase from 2017. There were several drivers for this increase including interest income and sales taxes. Investment income was approximately \$0.6 million higher than 2017 and sales taxes increased by \$0.7 million. In the context of total revenue versus total expense, the City's governmental activities ran a \$3.5 million deficit before transfers from the business-type activities funds of \$6.5 million.

Governmental activities total expenses increased \$0.3 million in 2018 from 2017, a 1.4% increase. The expense included \$0.6 million more in pension expenses offset by decreased grant expenses (\$1M) and reduced gains on sales of \$0.6 million.

#### **Business-type Activities**

Revenues of the City's business-type activities or enterprise funds increased by \$1.9 million or 5% (\$39.5 million in 2018 compared to \$37.6 million in 2017). This increase in business activity revenue can be attributed to an increase in utility sales and transfer of 3/8<sup>th</sup> cent tax to the fund.

Business-type activities revenue represents 67.5% of total City revenues in 2018. Electric revenues and other income are equal to 66% of the business-type operating revenue and 41% of the total City revenue. As noted above, the cost or expenses of all business-type activities in 2018 compared to 2017 were up \$1.2 million with the primary driver being the increased activity within utilities. Power cost for electric service increased \$0.5 million over 2017.

#### **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 2018 to balance the general fund budget were equal to \$6.5 million.

#### **Capital Assets and Debt Administration**

##### *Capital Assets*

At December 31, 2018, the City had \$125.1 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 \$0.5 million or 0.4% (\$125.1 million compared to \$124.6 million). Significant capital asset projects and capital asset additions during the year by fund net of accumulated depreciation and adjustments included:



# City of Siloam Springs, Arkansas

## Management's Discussion and Analysis

### Year Ended December 31, 2018

#### Capital Assets and Debt Administration (continued)

- General Fund – \$288,311 for building renovations to the Museum  
\$445,006 for building a training tower for the Fire Department  
\$2,011,875 for the Memorial Park  
\$267,635 for the new dog park
- Street Fund – \$543,859 for the Kenwood Widening project  
\$525,647 for downtown improvements

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

#### *Debt Outstanding*

At year-end 2018, the City had \$5.9 million in bonds, notes and capital lease obligations outstanding. The City paid down approximately \$5.3 million in principal on debt outstanding in 2018.

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 a 26.2% increase in 2018 over the previous three-year period average. The City issued 212 building permits in 2018 compared to 184 issued in 2017, 198 issued in 2016 and 121 issued in 2015.

The City sales tax revenue stream increased in 2018 with a year-over-year increase of 4.9% after reflecting an increase of 5.2% in 2017. The City share of County sales tax revenue increased in 2018 with an increase of 2.9% after reflecting an increase in 2017 of 10.7%. 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 3.3% increase in 2019 and through six months of 2019 these projections appear to be higher than actual receipts for City and lower than actual for County. However, the City continues to experience expansion in our industrial customer market base and commercial retail markets in 2019.

In 2018, 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 the new dog park
- Completed downtown street improvements

**City of Siloam Springs, Arkansas**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2018**

**Economic Factors and Management Strategies (continued)**

- Continued work on the Memorial Park
- Continued work on the Kenwood Widening project
- Continued work on the City Lake trail system
- Began work on the Fire Department Training Tower
- Began work on the engineering for the new water plant
- Began a collection system study for wastewater

**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.

# City of Siloam Springs, Arkansas

## Statement of Net Position

December 31, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 7,930,875	\$ 16,088,935	\$ 24,019,810
Certificates of deposit	3,227,247	-	3,227,247
Accounts receivable, net of allowance for uncollectibles	3,785,387	4,696,981	8,482,368
Inventories	63,256	2,146,117	2,209,373
Prepays	172,153	80,840	252,993
Restricted assets			
Restricted cash and certificates of deposit	6,312,223	3,974,604	10,286,827
Internal balances	(623,219)	623,219	-
Capital Assets, <i>non-depreciable</i>	9,248,970	1,209,271	10,458,241
Capital Assets, <i>net of accumulated depreciation</i>	45,467,260	69,182,307	114,649,567
Total Assets	\$ 75,584,152	\$ 98,002,274	\$ 173,586,426
<b>Deferred Outflows of Resources</b>			
Deferred outflows - pensions	\$ 4,546,488	\$ -	\$ 4,546,488
Deferred outflows - pension contributions	1,049,727	-	1,049,727
Total Deferred Outflows of Resources	\$ 5,596,215	\$ -	\$ 5,596,215
<b>Liabilities</b>			
Accounts payable	\$ 954,372	\$ 1,474,429	\$ 2,428,801
Accrued liabilities	591,838	184,725	776,563
Accrued interest payable	23,155	24,607	47,762
Customer deposits	9,084	715,963	725,047
Due to other governments	50	-	50
Unearned revenues	294,568	-	294,568
Noncurrent liabilities			
Due within one year	1,866,504	1,136,216	3,002,720
Due in more than one year	13,308,502	3,770,057	17,078,559
Total Liabilities	\$ 17,048,073	\$ 7,305,997	\$ 24,354,070
<b>Deferred Inflows of Resources</b>			
Deferred inflows - pensions	\$ 1,338,914	\$ -	\$ 1,338,914
Total Deferred Inflows of Resources	\$ 1,338,914	\$ -	\$ 1,338,914
<b>Net Position</b>			
Net investment in capital assets	\$ 52,664,774	\$ 67,219,090	\$ 119,883,864
Restricted			
Expendable			
Capital projects	4,192,033	1,943,140	6,135,173
Debt service	523,630	203,785	727,415
Other	1,583,749	1,646,660	3,230,409
Unrestricted	3,829,194	19,683,602	23,512,796
Total Net Position	\$ 62,793,380	\$ 90,696,277	\$ 153,489,657

**City of Siloam Springs, Arkansas**  
Statement of Activities  
For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
<i>Governmental Activities</i>							
General government	\$ 8,183,895	\$ 403,998	\$ -	\$ -	\$ (7,779,897)	\$ -	\$ (7,779,897)
Public safety	9,593,868	2,432,420	39,086	-	(7,122,362)	-	(7,122,362)
Culture, parks and recreation	1,755,106	211,236	207,716	-	(1,336,154)	-	(1,336,154)
Community development	1,500,403	509,756	2,283	-	(988,364)	-	(988,364)
Street department	1,445,517	-	-	-	(1,445,517)	-	(1,445,517)
Interest on long-term debt	48,482	-	-	-	(48,482)	-	(48,482)
<b>Total Governmental Activities</b>	<b>22,527,271</b>	<b>3,557,410</b>	<b>249,085</b>	<b>-</b>	<b>(18,720,776)</b>	<b>-</b>	<b>(18,720,776)</b>
<i>Business-Type Activities</i>							
Utilities	28,233,161	36,363,214	-	-	-	8,130,053	8,130,053
Airport	971,845	756,833	-	-	-	(215,012)	(215,012)
<b>Total Business-Type Activities</b>	<b>29,205,006</b>	<b>37,120,047</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,915,041</b>	<b>7,915,041</b>
<b>Total Primary Government</b>	<b>\$ 51,732,277</b>	<b>\$ 40,677,457</b>	<b>\$ 249,085</b>	<b>\$ -</b>	<b>(18,720,776)</b>	<b>7,915,041</b>	<b>(10,805,735)</b>
<b>General Revenues</b>							
Property taxes					2,289,383	-	2,289,383
Sales and use taxes					8,666,241	2,277,536	10,943,777
Intergovernmental					3,212,022	-	3,212,022
Investment income					711,821	110,243	822,064
Miscellaneous					419,119	-	419,119
<b>Transfers</b>					<b>6,485,631</b>	<b>(6,485,631)</b>	<b>-</b>
<b>Total General Revenues and Transfers</b>					<b>21,784,217</b>	<b>(4,097,852)</b>	<b>17,686,365</b>
<b>Change in Net Position</b>					<b>3,063,441</b>	<b>3,817,189</b>	<b>6,880,630</b>
<b>Net Position, Beginning of year, as restated</b>					<b>59,729,939</b>	<b>86,879,088</b>	<b>146,609,027</b>
<b>Net Position, End of year</b>					<b>\$ 62,793,380</b>	<b>\$ 90,696,277</b>	<b>\$ 153,489,657</b>

# City of Siloam Springs, Arkansas

## Balance Sheet

### Governmental Funds

December 31, 2018

	General	Street Fund	Non-Major Debt Service Fund	Total Governmental Funds
<b>Assets</b>				
Cash and Cash Equivalents	\$ 7,930,875	\$ -	\$ -	\$ 7,930,875
Certificates of Deposits	3,227,247	-	-	3,227,247
Taxes receivable, net of allowance for doubtful accounts of \$65,563, \$19,748 and \$0	2,784,810	769,544	41,705	3,596,059
Ambulance fees receivable, net of allowance for doubtful accounts of \$2,038,482	189,328	-	-	189,328
Inventories	63,256	-	-	63,256
Due from Other Funds	-	666	-	666
Prepaid items	160,344	11,810	-	172,154
Restricted cash and cash equivalents	1,583,749	4,212,936	515,538	6,312,223
<b>Total assets</b>	<b>\$ 15,939,609</b>	<b>\$ 4,994,956</b>	<b>\$ 557,243</b>	<b>\$ 21,491,808</b>
<b>Liabilities</b>				
Accounts Payable	\$ 767,018	\$ 153,744	\$ 33,613	\$ 954,375
Due to other funds	623,885	-	-	623,885
Due to other governments	50	-	-	50
Accrued Liabilities	577,151	23,770	-	600,921
Unearned revenues - grants	294,568	-	-	294,568
<b>Total Liabilities</b>	<b>2,262,672</b>	<b>177,514</b>	<b>33,613</b>	<b>2,473,799</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenues - property taxes	1,801,807	613,599	-	2,415,406
<b>Total deferred inflows of resources</b>	<b>1,801,807</b>	<b>613,599</b>	<b>-</b>	<b>2,415,406</b>
<b>Fund Balance</b>				
Non-Spendable	223,600	11,810	-	235,410
Restricted	1,583,749	4,192,033	523,630	6,299,412
Assigned	-	-	-	-
Unassigned	10,067,781	-	-	10,067,781
<b>Total Fund Balance</b>	<b>11,875,130</b>	<b>4,203,843</b>	<b>523,630</b>	<b>16,602,603</b>
<b>Total Liabilities, deferred inflows of resources and fund balance</b>	<b>\$ 15,939,609</b>	<b>\$ 4,994,956</b>	<b>\$ 557,243</b>	<b>\$ 21,491,808</b>

## City of Siloam Springs, Arkansas

### Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position Governmental Funds December 31, 2018

#### Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Total Fund Balance of the Governmental Fund	\$	16,602,603
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		54,716,230
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.		2,415,407
Deferred inflows and outflows related to pensions are not due and payable in the current period and, therefore, are not reported in the funds.		4,257,301
Long-term liabilities and related items are not due and payable in the current year and, therefore, are not reported in governmental funds:		
Bonds payable		(1,195,000)
Unamortized bond premiums		-
accrued interest on bonds and notes		(23,155)
Capital lease payable		(856,456)
Postemployment benefits liability		(1,615,647)
Accrued compensated absences		(1,015,633)
Net pension liability		(10,492,270)
<b>Total net position - governmental activities</b>	<b>\$</b>	<b>62,793,380</b>

**City of Siloam Springs, Arkansas**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended December 31, 2018**

	General	Street Fund	Non-major Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 1,191,972	\$ 407,691	\$ -	\$ 1,599,663
Sales taxes	6,567,409	1,608,156	490,676	8,666,241
Licenses and permits	469,528	-	-	469,528
Intergovernmental	1,740,118	1,068,547	403,358	3,212,023
Charges for services	2,708,472	-	-	2,708,472
Fines and forfeitures	379,409	-	-	379,409
Grants and contributions	249,086	-	-	249,086
Investment income	704,587	3,451	3,783	711,821
Miscellaneous	357,033	62,087	-	419,120
<b>Total Revenues</b>	<b>14,367,614</b>	<b>3,149,932</b>	<b>897,817</b>	<b>18,415,363</b>
<b>Expenditures</b>				
General government				
Administration	1,062,061	-	-	1,062,061
Finance	1,402,000	-	-	1,402,000
Construction	472,899	-	-	472,899
Maintenance	323,742	-	-	323,742
Total general government	3,260,702	-	-	3,260,702
Public safety and judiciary				
Police	3,978,035	-	-	3,978,035
Fire	5,289,116	-	-	5,289,116
Municipal court	326,717	-	-	326,717
Total public safety and judiciary	9,593,868	-	-	9,593,868
Transportation				
Streets	-	1,445,517	-	1,445,517
Cultural, parks and recreation				
Library	450,707	-	-	450,707
Parks	1,304,399	-	-	1,304,399
Total cultural, parks and recreation	1,755,106	-	-	1,755,106
Community development				
Building inspections	1,500,403	-	-	1,500,403
Debt service				
Principal retirement	-	-	842,188	842,188
Interest and other charges	-	-	48,484	48,484
Total debt service	-	-	890,672	890,672
Capital outlay	4,203,863	1,876,519	-	6,080,382
<b>Total Expenditures</b>	<b>20,313,942</b>	<b>3,322,036</b>	<b>890,672</b>	<b>24,526,650</b>
<b>Excess Revenues Over (Under) Expenditures</b>	<b>(5,946,328)</b>	<b>(172,104)</b>	<b>7,145</b>	<b>(6,111,287)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers In	6,675,969	-	-	6,675,969
Transfers Out	(190,338)	-	-	(190,338)
Total Other Financing Sources (Uses)	6,485,631	-	-	6,485,631
<b>Net Change in Fund Balance</b>	<b>539,303</b>	<b>(172,104)</b>	<b>7,145</b>	<b>374,344</b>
<b>Fund Balance, Beginning of year, As restated</b>	<b>11,335,827</b>	<b>4,375,947</b>	<b>516,485</b>	<b>16,228,259</b>
<b>Fund Balance, End of year</b>	<b>\$ 11,875,130</b>	<b>\$ 4,203,843</b>	<b>\$ 523,630</b>	<b>\$ 16,602,603</b>

## City of Siloam Springs, Arkansas

### Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities For the Year Ended December 31, 2018

#### Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Net Change in Fund Balance of the Governmental Fund	\$ 374,344
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>	
Capital outlay	6,508,048
Depreciation expense	(3,902,973)
<p>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.</p>	
	689,720
<p>Deferred inflows/outflows related to the net pension liabilities not due and payable in the current period that are not reported in the funds. These amounts are amortized into pension expense in future periods. This is the amount by which the deferred inflows/outflows changed during the current year.</p>	
	1,626,201
<p>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.</p>	
Increase in net pension liabilities	(3,000,740)
Increase in OPEB liabilities	(28,025)
Increase in accrued long-term compensated absences	(49,479)
<p>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.</p>	
Principal repayments	841,785
Amortization of bond issue premiums	4,560
	<hr/>
Change in Net Position of Governmental Activities	<u>\$ 3,063,441</u>



# City of Siloam Springs, Arkansas

## Statement of Net Position

### Proprietary Funds

December 31, 2018

	Enterprise Funds		
	Utilities	Airport Non-major	Totals
<b>Assets</b>			
<i>Current Assets</i>			
Cash	\$ 15,441,413	\$ 647,522	\$ 16,088,935
Receivables			
Accounts receivable, net of allowance for uncollectible accounts	4,436,172	56,072	4,492,244
Taxes	204,737	-	204,737
Inventory	2,104,901	41,216	2,146,117
Due from other funds	623,219	-	623,219
Prepaid items	73,743	7,097	80,840
Total current assets	22,884,185	751,907	23,636,092
<i>Noncurrent Assets</i>			
Restricted cash	3,974,604	-	3,974,604
Capital assets, net of accumulated depreciation			
Land and improvements	859,216	350,055	1,209,271
Construction in progress	477,917	29,275	507,192
Distribution and collection systems	60,414,624	-	60,414,624
Buildings and equipment	5,283,052	2,977,439	8,260,491
Total noncurrent assets	71,009,413	3,356,769	74,366,182
Total assets	\$ 93,893,598	\$ 4,108,676	\$ 98,002,274
<b>Liabilities</b>			
<i>Current Liabilities</i>			
Accounts Payable	\$ 1,470,007	\$ 4,422	\$ 1,474,429
Accrued expenses	153,441	31,284	184,725
Customer deposits	715,963	-	715,963
Current maturities of bonds payable	712,510	6,722	719,232
Compensated absences	416,984	-	416,984
Accrued interest payable	24,607	-	24,607
Total current liabilities	3,493,512	42,428	3,535,940
<i>Noncurrent Liabilities</i>			
Other postemployment benefits	575,437	22,132	597,569
Bonds payable, net	3,172,488	-	3,172,488
Total noncurrent liabilities	3,747,925	22,132	3,770,057
Total liabilities	7,241,437	64,560	7,305,997
<b>Net Position</b>			
Net Investment in Capital Assets	63,862,321	3,356,769	67,219,090
Restricted			
Capital projects	1,943,140	-	1,943,140
Debt service	203,785	-	203,785
Other	1,646,660	-	1,646,660
Unrestricted	18,996,255	687,347	19,683,602
Total Net Position	\$ 86,652,161	\$ 4,044,116	\$ 90,696,277

**City of Siloam Springs, Arkansas**  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
For the Year Ended December 31, 2018

	Enterprise Funds		
	Utilities	Airport Non-major	Totals
<b>Operating Revenues</b>			
Charges for Services			
Electric	\$ 23,871,614	\$ -	\$ 23,871,614
Water	4,982,265	-	4,982,265
Wastewater	3,752,391	-	3,752,391
Sanitation	3,265,325	-	3,265,325
Fuel sales	-	482,466	482,466
Penalties	344,783	-	344,783
Miscellaneous	146,836	274,366	421,202
	<u>36,363,214</u>	<u>756,832</u>	<u>37,120,046</u>
Total Operating Revenues			
<b>Operating Expenses</b>			
Cost of goods sold			
Cost of power	14,687,696	-	14,687,696
Cost of fuel	-	352,553	352,553
Personal services	4,451,127	121,968	4,573,095
Contracted services	72,584	-	72,584
Maintenance and operating expenses	4,113,592	93,693	4,207,285
Other services and charges	277,310	44,328	321,638
Utilities	484,760	21,000	505,760
Depreciation and amortization	4,024,160	338,303	4,362,463
	<u>28,111,229</u>	<u>971,845</u>	<u>29,083,074</u>
Total Operating Expenses			
<b>Net Operating Loss</b>	<u>8,251,985</u>	<u>(215,013)</u>	<u>8,036,972</u>
Nonoperating Income (Expenses)			
Sales tax revenue	2,277,536	-	2,277,536
Interest income	110,243	-	110,243
Interest expense	(121,931)	-	(121,931)
	<u>2,265,848</u>	<u>-</u>	<u>2,265,848</u>
Net nonoperating revenues			
<b>Income (Loss) Before Transfers</b>	<u>10,517,833</u>	<u>(215,013)</u>	<u>10,302,820</u>
<b>Transfers</b>			
Transfers In	-	-	-
Transfer Out	(6,485,631)	-	(6,485,631)
	<u>(6,485,631)</u>	<u>-</u>	<u>(6,485,631)</u>
<b>Change in Net Position</b>	<u>4,032,202</u>	<u>(215,013)</u>	<u>3,817,189</u>
<b>Net Position, Beginning of year, as restated</b>	<u>82,619,959</u>	<u>4,259,129</u>	<u>86,879,088</u>
<b>Net Position, End of year</b>	<u>\$ 86,652,161</u>	<u>\$ 4,044,116</u>	<u>\$ 90,696,277</u>

**City of Siloam Springs, Arkansas**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended December 31, 2018**

	<b>Enterprise Funds</b>		
	<b>Utilities</b>	<b>Airport Non-major</b>	<b>Totals</b>
<b>Cash Flows From Operating Activities</b>			
Cash Received from Customers	\$ 35,955,794	\$ 521,316	\$ 36,477,110
Cash payments to suppliers for goods and services	(20,056,161)	(586,441)	(20,642,602)
Cash payments to employees for services	(4,415,917)	(129,629)	(4,545,546)
Other operating receipts	146,836	274,366	421,202
Net Cash Provided (Used) by Operating Activities	<u>11,630,552</u>	<u>79,612</u>	<u>11,710,164</u>
<b>Cash Flows From Noncapital and Related Financing Activities</b>			
Interfund transfers	(6,485,631)	-	(6,485,631)
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>(6,485,631)</u>	<u>-</u>	<u>(6,485,631)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Sales tax revenue	2,384,946	-	2,384,946
Acquisition and construction of capital assets	(2,046,959)	(167,220)	(2,214,179)
Principal paid on debt	(4,419,045)	6,722	(4,412,323)
Interest and fees paid on debt	(121,931)	-	(121,931)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(4,202,989)</u>	<u>(160,498)</u>	<u>(4,363,487)</u>
<b>Cash Flows from Investing Activities</b>			
Interest on cash and certificates of deposit	110,243	-	110,243
Purchase of certificates of deposit	3,944,923	-	3,944,923
Net Cash Provided by Investing Activities	<u>4,055,166</u>	<u>-</u>	<u>4,055,166</u>
<b>Net Change in Cash</b>	4,997,098	(80,886)	4,916,212
<b>Cash, Beginning of year</b>	14,418,919	728,408	15,147,327
<b>Cash, End of year</b>	<u>\$ 19,416,017</u>	<u>\$ 647,522</u>	<u>\$ 20,063,539</u>
<b>Presented on the "Statement of Net Position - Proprietary Funds" as follows:</b>			
Cash	\$ 15,441,413	\$ 647,522	\$ 16,088,935
Restricted cash - noncurrent	3,974,604	-	3,974,604
	<u>\$ 19,416,017</u>	<u>\$ 647,522</u>	<u>\$ 20,063,539</u>
<b>Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities</b>			
Operating income (loss)	\$ 8,251,985	\$ (215,013)	\$ 8,036,972
Adjustments to Reconcile Net Operating income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	4,024,160	338,303	4,362,463
Changes in Assets and Liabilities			
Accounts receivable	(260,584)	38,850	(221,734)
Inventory	(122,536)	(1,879)	(124,415)
Prepaid expenses	(6,310)	(165)	(6,475)
Accounts payable and accrued liabilities	(280,896)	(80,484)	(361,380)
Customer deposits	24,733	-	24,733
Net Cash Provided (Used) by Operating Activities	<u>\$ 11,630,552</u>	<u>\$ 79,612</u>	<u>\$ 11,710,164</u>

# City of Siloam Springs, Arkansas

## Statement of Net Position

### Fiduciary Funds

December 31, 2018

	<b>Pension Trust Fund</b>	<b>Private- Purpose Trust Fund</b>
	<b>Firemen's Pension and Relief</b>	<b>Oak Hill Cemetery Trust</b>
<b>Assets</b>		
Cash	\$ 145,773	\$ 116,104
Certificates of deposit	-	264,565
Investments		
Mutual Funds	3,100,953	-
Property taxes receivable, net of allowance for doubtful accounts of \$	187,494	-
Total assets	3,434,220	380,669
 <b>Deferred Inflows of Resources</b>		
Unavailable revenue - property taxes	180,210	-
 <b>Net Position</b>		
Net position restricted for pensions	3,254,010	-
Net position restricted for cemetery maintenance	-	380,669
 Net position restricted for pensions and other purposes	\$ 3,254,010	\$ 380,669

## City of Siloam Springs, Arkansas

### Statement of Activities

#### Fiduciary Funds

December 31, 2018

	<b>Pension Trust Fund</b>	<b>Private- Purpose Trust Fund</b>
	<b>Firemen's Pension and Relief</b>	<b>Oak Hill Cemetery Trust</b>
<b>Additions</b>		
Contributions		
Property taxes	\$ 100,362	\$ -
Future supplement	42,476	-
Intergovernmental	-	9,613
Total contributions	142,838	9,613
Investment income		
Interest and dividends	182,599	2,191
Net increase in fair value of investments	(234,992)	-
Net investment income	(52,393)	2,191
Total additions	90,445	11,804
<b>Deductions</b>		
Benefits	321,002	-
Benefits - supplements	42,476	-
Administrative expenses	30,781	-
Total deductions	394,259	-
<b>Change in Fiduciary Net Position</b>	(303,814)	11,804
<b>Net Position - Beginning of Year</b>	3,557,824	368,865
<b>Net Position - End of Year</b>	\$ 3,254,010	\$ 380,669

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### **Note 1: Summary of Significant Accounting Policies**

#### **Organization**

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 the state and local governments as defined by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting and reporting policies of the City:

#### **Reporting Entity**

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

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

#### **Government-wide and Fund Financial Statements**

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

Government-wide financial statements report information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the year. These aggregated statements consist of the Statement of Net Position and the Statement of Activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business type activity. Taxes and other items not included among program revenues are reported instead as general revenues.

**City of Siloam Springs, Arkansas**  
Notes to Financial Statements  
December 31, 2018

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

**Government-wide and Fund Financial Statements** (Continued)

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified as governmental, proprietary, and fiduciary. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column in the financial section of the basic financial statements

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 account for resources related to street operations, including new projects and maintenance activities.

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

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. Then 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, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as is the proprietary fund in the fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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.

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### Note 1: Summary of Significant Accounting Policies (Continued)

#### **Measurement Focus, Basis of Accounting and Financial Statement Presentation** (Continued)

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, entitlement 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. Amount paid before all eligibility requirements have been met are reported as prepaid items.

Governmental fund financial statements report using the “current financial resources” measurement focus and the modified accrual basis of accounting. Under the current financial resources focus, only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Sales and use taxes, franchise taxes, hotel/motel taxes, court fines and interest are considered susceptible to accrual. Expenditures (including capital outlay) are recorded when the related fund liability is incurred. All other revenue items are considered to be measurable and available only when cash is received by the City.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as investment earnings, result from non-exchange transactions.



# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Use of Estimates**

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

#### **Cash and Cash Equivalents**

Cash includes demand deposits, savings accounts and cash on hand. In order to facilitate cash management, the operating cash of certain funds is pooled into a common bank account. The City considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018, cash equivalents consisted primarily of money market accounts with brokers.

#### **Investments and Investment Income**

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

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

#### **Accounts Receivables**

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

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

**City of Siloam Springs, Arkansas**  
Notes to Financial Statements  
December 31, 2018

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

**Accounts Receivables** (Continued)

In the governmental funds, property taxes are measurable when levied even though not available. As a result, at December 31, 2018, property taxes receivable of \$3,596,059 and related deferred inflows of resources of \$2,415,407 have been recorded in the governmental funds. In the government-wide statements, property taxes are considered earned at the time levied. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible. The appraised value of taxable property upon which the property tax is levied is determined by the county assessor. The assessor estimates full market value of the property and applies the statutory rate of 20% to arrive at assessed value.

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

**Unbilled Revenue**

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

**Inventories**

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

**Prepaid Items**

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

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### Note 1: Summary of Significant Accounting Policies (Continued)

#### Capital Assets

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

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

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

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

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

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.

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.

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### Note 1: Summary of Significant Accounting Policies (Continued)

#### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows 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, 2018. Each of the five items are related to pensions and include:

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

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

In addition to liabilities, the statement of financial position and balance sheet - governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow outsources (revenue) until that time. The government has two items that qualify as deferred inflows of resources as of December 31, 2018. Accordingly, the items reported in the statements are unavailable revenues in the governmental funds balance sheet and deferred inflows - pensions. 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*.

#### **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.

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Compensated Absences**

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

#### **Fund Balance – Governmental Funds**

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

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

*Restricted* – Restricted fund balance 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 Board of Directors. Commitments may be changed or lifted only by issuance of a resolution by the Board of Directors. 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.

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.

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### Note 1: Summary of Significant Accounting Policies (Continued)

#### **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, 2018 net position restricted by enabling legislation was \$6,299,412 for governmental activities and \$3,793,585 for business-type activities. Unrestricted net position is the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted.

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

#### **New GASB Pronouncements**

The GASB has issued the following statements which the City has not yet adopted and which require adoption subsequent to December 31, 2018:

GASB Statement No. 91, Conduit Debt Obligations (GASB 91): GASB 91 clarifies the existing definition of a conduit debt obligation, establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This statement is effective for reporting periods beginning after December 15, 2020, with earlier application encouraged. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89): GASB 89 enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This statement is effective for reporting periods beginning after December 15, 2019, with early application encouraged. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

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

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### Note 1: Summary of Significant Accounting Policies (Continued)

#### New GASB Pronouncements (Continued)

The GASB has issued the following statements which the City has adopted as of December 31, 2018:

GASB Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61* (GASB 90): GASB 90 improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement is effective for reporting periods beginning after December 15, 2018, with earlier application encouraged. As of December 31, 2018, there was no effect on the financial presentation as a result of this implementation.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75): GASB 75 replace the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employees 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

The City implemented the required disclosures under GASB 75 during the current year in the basic notes to the financial statements and the required supplementary information.

GASB Statement No. 83 – *Certain Asset Retirement Obligations* (GASB 83): GASB 83 addresses issues in accounting and financial reporting for certain asset retirement obligations (AROs), including establishing criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement is effective for periods beginning after June 15, 2018, with earlier application encouraged. As of December 31, 2018, there was no effect on the financial presentation as a result of this implementation.

**City of Siloam Springs, Arkansas**  
Notes to Financial Statements  
December 31, 2018

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

**New GASB Pronouncements** (Continued)

GASB Statement No. 84 – *Fiduciary Activities* (GASB 84): GASB 84 provides for greater consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. This statement is effective for periods beginning after December 15, 2018, with earlier application encouraged. As of December 31, 2018, there was no effect on the financial presentation as a result of this implementation.

GASB Statement No. 85 – *Omnibus 2017* (GASB 85): GASB 85 addresses practice issues that have been identified during implementation and application of certain GASB standards and addresses a variety of topics, including issues related to blending component units, goodwill, fair value measurement and postemployment benefits. The recommendations related to OEB disclosures are reflected in the notes to the basic financial statements.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues* (GASB 86): GASB 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement is effective for periods beginning after June 15, 2017, with earlier application encouraged. As of December 31, 2018, there was no effect on the financial presentation as a result of this implementation.

GASB Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* (GASB 88): GASB 88 improves the information disclosed in notes to the governmental financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liability governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date of the contraction obligation is established. This Statement requires additional essential information related to debt be disclosed in notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. This statement is effective for periods beginning after June 15, 2018, with earlier application encouraged. As of December 31, 2018, there was no effect on the financial presentation as a result of this implementation.

**Subsequent Events**

Subsequent events have been evaluated through October 11, 2019, which is the date of the financial statements were available to be issued.



# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### **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, 2018, the City had bank balances of \$37,179,372. The balances were all insured (FDIC) or collateralized with securities held by the City or the City's agent in the City's name. The carrying value of these deposits as of December 31, 2018, was \$38,056,042.

#### **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, 2018

**Note 2: Deposits and Investments** (Continued)

**Investments** (Continued)

Investments at December 31, 2018, consisted of the following:

Type	Fair Value	Maturities in Year			
		Less than 1	1-5	6-10	More than 10
Bond mutual funds	\$ 2,004,715	\$ -	\$ 1,000,723	\$ 555,875	\$ 448,117
		\$ -	\$ 1,000,723	\$ 555,875	\$ 448,117
Equity mutual funds	\$ 1,096,238				
	<u>\$ 3,100,953</u>				

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, 2018:

- Bond and equity mutual funds of \$2,004,715 and \$1,096,238, respectively, are valued using quoted market prices (Level 1 inputs).

***Interest Rate Risk***

The City's investment policy does not specifically address interest rate risk. The Pension Fund investment policy does not specifically address interest rate risk.

***Credit Risk***

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

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

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

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### Note 2: Deposits and Investments (Continued)

#### Investments (Continued)

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	\$ 38,056,042
Cash on hand	4,284
Investments	3,100,953
	<u>\$ 41,161,279</u>
Balance sheet-governmental funds	
Cash and cash equivalents	\$ 7,930,875
Certificates of deposit	3,227,247
Restricted cash and cash equivalents	6,312,223
Statement of fund net position - proprietary funds	
Cash	16,088,935
Certificates of deposit	-
Restricted	
Cash	3,974,604
Statement of fiduciary net position	
Cash	261,877
Certificates of deposit	264,565
Investments	
Mutual funds	3,100,953
	<u>\$ 41,161,279</u>

**City of Siloam Springs, Arkansas**  
Notes to Financial Statements  
December 31, 2018

**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:

	<u>General Fund</u>	<u>Street Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Governmental				
Property taxes	\$ 2,360,007	\$ 789,292	\$ -	\$ 3,149,299
Sales taxes	131,031	-	41,705	172,736
Ambulance	2,227,811	-	-	2,227,811
Other	355,921	-	-	355,921
Gross receivables	<u>5,074,770</u>	<u>789,292</u>	<u>41,705</u>	<u>5,905,767</u>
Less allowance for uncollectibles	<u>(2,100,632)</u>	<u>(19,748)</u>	<u>-</u>	<u>(2,120,380)</u>
Net total receivables	<u>\$ 2,974,138</u>	<u>\$ 769,544</u>	<u>\$ 41,705</u>	<u>\$ 3,785,387</u>
		<u>Utilities</u>	<u>Airport</u>	<u>Total</u>
Proprietary				
Accounts		\$ 6,775,932	\$ 60,604	\$ 6,836,536
Sales taxes		204,737	-	204,737
Gross receivables		<u>6,980,669</u>	<u>60,604</u>	<u>7,041,273</u>
Less allowance for uncollectibles		<u>(2,339,760)</u>	<u>(4,532)</u>	<u>(2,344,292)</u>
Net total receivables		<u>\$ 4,640,909</u>	<u>\$ 56,072</u>	<u>\$ 4,696,981</u>
Fiduciary				
Property taxes				\$ 193,293
Less allowance for uncollectibles				<u>(5,799)</u>
Net total receivables				<u>\$ 187,494</u>

**City of Siloam Springs, Arkansas**  
Notes to Financial Statements  
December 31, 2018

**Note 4: Capital Assets**

A summary of changes in capital assets for the year ended December 31, 2018, is presented below:

<b>Governmental Activities</b>	<b>Balance, December 31, 2017</b>	<b>Additions and Transfers, Net</b>	<b>Retirements and Transfers, Net</b>	<b>Balance, December 31, 2018</b>
Capital assets, non-depreciable				
Land	\$ 9,201,430	\$ 47,540	\$ -	\$ 9,248,970
Construction in progress	299,622	2,900,529	(134,164)	3,065,987
Total capital assets, non-depreciable	<u>9,501,052</u>	<u>2,948,069</u>	<u>(134,164)</u>	<u>12,314,957</u>
Capital assets, depreciable				
Buildings	26,814,270	742,306	103,161	27,659,737
Furniture, fixtures and equipment	16,384,857	1,278,533	(62,916)	17,600,474
Infrastructure	45,392,867	1,552,434	31,003	46,976,304
Total capital assets, depreciable	<u>88,591,994</u>	<u>3,573,273</u>	<u>71,248</u>	<u>92,236,515</u>
Less accumulated depreciation				
Buildings	(9,230,143)	(819,931)	-	(10,050,074)
Furniture, fixtures and equipment	(9,800,436)	(1,362,691)	62,916	(11,100,211)
Infrastructure	(26,951,312)	(1,733,645)	-	(28,684,957)
Total accumulated depreciation	<u>(45,981,891)</u>	<u>(3,916,267)</u>	<u>62,916</u>	<u>(49,835,242)</u>
Total governmental activities, net	<u>\$ 52,111,155</u>	<u>\$ 2,605,075</u>	<u>\$ -</u>	<u>\$ 54,716,230</u>

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### Note 4: Capital Assets (Continued)

<u>Business-type Activities</u>	<u>Balance, December 31, 2017</u>	<u>Additions and Transfers, Net</u>	<u>Retirements and Transfers, Net</u>	<u>Balance, December 31, 2018</u>
Capital assets, non-depreciable				
Land	\$ 1,209,271	\$ -	\$ -	\$ 1,209,271
Construction in progress	434,979	1,517,657	(1,445,444)	507,192
Total capital assets, non-depreciable	<u>1,644,250</u>	<u>1,517,657</u>	<u>(1,445,444)</u>	<u>1,716,463</u>
Capital assets, depreciable				
Buildings	8,366,065	314,048	-	8,680,113
Furniture, fixtures and equipment	12,110,595	775,328	-	12,885,923
Infrastructure	110,929,614	1,052,446	-	111,982,060
Total capital assets, depreciable	<u>131,406,274</u>	<u>2,141,822</u>	<u>-</u>	<u>133,548,096</u>
Less accumulated depreciation				
Buildings	(4,850,967)	(339,891)	-	(5,190,858)
Furniture, fixtures and equipment	(7,439,881)	(674,805)	-	(8,114,686)
Infrastructure	(48,219,814)	(3,347,623)	-	(51,567,437)
Total accumulated depreciation	<u>(60,510,662)</u>	<u>(4,362,319)</u>	<u>-</u>	<u>(64,872,981)</u>
Total business-type activities, net	<u>\$ 72,539,862</u>	<u>\$ (702,840)</u>	<u>\$ (1,445,444)</u>	<u>\$ 70,391,578</u>

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

Governmental activities	
General government	\$ 513,278
Public safety and judiciary	
Police	205,830
Fire	677,830
Other	10,532
Transportation	1,903,285
Cultural, parks and recreation	436,608
Community development	168,904
Total depreciation expense	<u>3,916,267</u>
Business-type activities	
Electric	1,149,571
Water utilities	1,233,672
Wastewater utilities	1,378,217
Sanitation	262,556
Airport	338,303
Total depreciation expense	<u>4,362,319</u>
Total depreciation expense-primary government	<u>\$ 8,278,586</u>

**City of Siloam Springs, Arkansas**  
Notes to Financial Statements  
December 31, 2018

**Note 5: Long-term Liabilities**

Changes in long-term liabilities for the year ended December 31, 2018, were as follows:

<b>Governmental Activities</b>	<b>Balance December 31, 2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2018</b>	<b>Amounts Due In One Year</b>
Bonds payable					
Sales & Use Tax Refunding Bonds, Series 2012	\$ 1,650,000	\$ -	\$ (455,000)	\$ 1,195,000	\$ 465,000
Unamortized bond premium	4,560	-	(4,560)	-	-
Bonds payable, net	1,654,560	-	(459,560)	1,195,000	465,000
Capital lease payable	1,243,141	-	(386,685)	856,456	385,871
Compensated absences	966,154	49,479	-	1,015,633	1,015,633
Other postemployment benefits liability	1,050,480	565,167	-	1,615,647	-
Net pension liability	7,491,530	3,000,740	-	10,492,270	-
Total governmental activities long-term liabilities	<u>\$ 12,405,865</u>	<u>\$ 3,615,386</u>	<u>\$ (846,245)</u>	<u>\$ 15,175,006</u>	<u>\$ 1,866,504</u>

<b>Business-type Activities</b>	<b>Balance December 31, 2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2018</b>	<b>Amounts Due In One Year</b>
Bonds payable					
Revolving Loan Fund	\$ 3,715,630	\$ -	\$ (3,715,630)	\$ -	\$ -
Revolving Loan Fund	2,485,771	1,612	(299,366)	2,188,017	307,510
Utility System Refunding Revenue Bonds, Series 2012	2,080,000	-	(400,000)	1,680,000	405,000
Unamortized bond premium	22,642	-	(5,661)	16,981	-
Bonds payable, net	8,304,043	1,612	(4,420,657)	3,884,998	712,510
Compensated absences	397,405	26,301	-	423,706	423,706
Other postemployment benefits liability	326,154	271,415	-	597,569	-
Total business-type activities long-term liabilities	<u>\$ 9,027,602</u>	<u>\$ 299,328</u>	<u>\$ (4,420,657)</u>	<u>\$ 4,906,273</u>	<u>\$ 1,136,216</u>

Bonds outstanding as December 31, 2018, were as follows:

**Governmental Activities**

**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.

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### Note 5: Long-term Liabilities (Continued)

#### 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. The note was paid in full during fiscal year 2018.

**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 2.50% 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.

#### 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, 2018.

Fiscal Year	Governmental Activities	
	Principal	Interest
2019	\$ 465,000	\$ 26,363
2020	475,000	17,063
2021	255,000	6,375
	\$ 1,195,000	\$ 49,801

Fiscal Year	Business-type Activities		
	Principal	Interest	Fees
2019	\$ 712,510	\$ 86,684	\$ 21,118
2020	732,585	71,610	18,018
2021	752,991	55,276	14,816
2022	773,736	37,424	11,509
2023	349,835	18,212	8,094
2024 - 2025	546,360	-	-
	\$ 3,868,017	\$ 269,206	\$ 73,555



**City of Siloam Springs, Arkansas**  
Notes to Financial Statements  
December 31, 2018

**Note 5: Long-term Liabilities (Continued)**

The following is a summary of pledged revenues for the City for the year ended December 31, 2018.

Debt	Revenue Pledged	Total Pledged Revenue	Portion of Pledged Revenue Stream	Percentages Portion of Pledged Revenue Stream	Remaining Principal, Interest and Fees	Period Revenue Will Not Be Available For Other Purposes
<u>Governmental Activities:</u>						
Sales and Use Tax Refunding Bonds - Series 2012	Sales & Use Taxes	\$ 490,676	\$ 455,000	93%	\$ 1,244,800	Until 2021
					<u>1,244,800</u>	
<u>Business -type Activities</u>						
Revolving Loan Fund #00254-CWRLF-L	Revenues of the Enterprise Fund	37,230,290	297,754	1%	2,444,923	Until 2025
Utility System Refunding Revenue Bonds - Series 2012	Revenues of the Enterprise Fund	37,230,290	400,000	1%	1,783,708	Until 2022
					<u>\$ 4,228,631</u>	

**Note 6: Capital Lease Obligations**

During 2016, the government entered into a lease agreement as lessee for financing the acquisition of a new firetruck valued at \$1,689,053. The firetruck was placed into service during 2017 and has a five-year estimated useful life. During 2018, depreciation expense of \$337,811 was recorded in association with the firetruck. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the net present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2018, were as follows:

Year ending December 31	<u>Governmental Activities</u>
2019	\$ 403,358
2020	403,358
2021	67,227
Total minimum lease payments	<u>873,943</u>
Less: amount representing interest	<u>(17,487)</u>
Present value of minimum lease payments	<u>\$ 856,456</u>

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### Note 7: Interfund Receivables and Payables

Interfund receivables and payables as of December 31, 2018, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Government funds		
General fund	\$ -	\$ 623,885
Street fund	666	-
Total governmental funds	<u>666</u>	<u>623,885</u>
Proprietary funds to/from nonfiduciary funds		
Utilities	<u>623,219</u>	<u>-</u>
Total	<u>\$ 623,885</u>	<u>\$ 623,885</u>

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

### Note 8: Interfund Transfers

Amount of interfund transfers between funds are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Government funds		
General fund	\$ 6,675,969	\$ 190,338
Proprietary funds		
Utilities	-	6,485,631
Total	<u>\$ 6,675,969</u>	<u>\$ 6,675,969</u>

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, 2018

### 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	\$ 716,064	9,776,206	\$ 10,492,270
Deferred outflows of resources	\$ 235,622	4,310,866	\$ 4,546,488
Deferred outflows of resources - contributions	\$ -	1,049,727	\$ 1,049,727
Deferred inflows of resources	\$ 203,921	1,134,993	\$ 1,338,914
Pension expense	\$ 280,595	1,195,647	\$ 1,476,242

#### **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, 2018

### Note 9: Pension Plans (Continued)

**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 2018 contributions to the FRPF were \$203,198. The City's share of contributions was \$119,801 and consisted entirely of property taxes. On behalf payments (state insurance premium taxes) are recognized as revenues and expenditures in the appropriate fund.

**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, 2017. The actuarial assumptions used in evaluating the fund were based on an experience study conducted from 2007 to 2012 and are as follows:

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

## City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2018

### Note 9: Pension Plans (Continued)

#### Membership Information

Membership of the FPRF consisted of the following at December 31, 2018:

Retirees and beneficiaries receiving benefits	17
Active plan members	-
Total	17

#### Components of the Net Pension Liability

<u>Measurement Date</u>	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>	<u>Plan Net Position as a % of Total Pension Liability</u>
December 31, 2018	\$ 3,989,359	\$ 3,273,295	\$ 716,064	82.05%

#### 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Fixed Income	80%	2.25%
Domestic Equity	10%	4.75%
Foreign Equity	0%	6.25%
Cash & Equivalents	10%	0.25%
Total	100%	
Expected inflation		2.50%

#### Discount Rate

In the December 31, 2018 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.

## City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2018

### Note 9: Pension Plans (Continued)

#### ***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:

	1% Decrease 4.00%	Current Rate 5.00%	1% Increase 6.00%
Total Pension Liability	\$ 4,379,042	\$ 2,213,215	\$ 2,011,775
Net Pension Liability	\$ 1,105,747	\$ 716,064	\$ 384,127

#### **Changes in the Net Pension Liability**

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2017	\$ 3,894,448	\$ 3,578,307	\$ 316,141
Changes for the Year			
a. Service Cost	-	-	-
b. Interest on TPL	186,211	-	186,211
c. Differences between Expected and Actual Experience	(82,332)	-	(82,332)
d. Employee Contributions	-	-	-
e. Employer Contributions	-	119,801	(119,801)
f. Net Investment Income	-	(80,530)	80,530
g. Benefits and Refunds	(340,437)	(340,437)	-
h. Administrative Expenses	-	(5,400)	5,400
i. Benefit Changes	331,469	-	331,469
j. Assumption Changes	-	-	-
k. Other/Reconciliation	-	1,554	(1,554)
Net Changes	94,911	(305,012)	399,923
Balances at December 31, 2018	\$ 3,989,359	\$ 3,273,295	\$ 716,064

#### **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 2018 was -2.32%.

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

**Note 9: Pension Plans** (Continued)

**Pension Expense and Deferred Inflows of Resources related to Pensions**

For the year ended December 31, 2018, the City recognized pension expense from the FRPF Plan of \$280,595. At December 31, 2018, the City reported deferred inflows of resources related to pensions from the following source:

	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual earnings on pension plan investments	\$ 203,921
Total	\$ 203,921

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

Year Ending December 31	Net Deferred Outflow/(Inflow) Of Resources
2019	\$ 14,666
2020	(17,921)
2021	(15,803)
2022	50,759
2023	-
Total thereafter	-
Total	\$ 31,701

**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.

**City of Siloam Springs, Arkansas**  
Notes to Financial Statements  
December 31, 2018

**Note 9: Pension Plans** (Continued)

**Local Police and Fire Retirement System (“LOPFI”)** (Continued)

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

**Contributions.** Contributions to LOPFI are made by both the members and employers. Member contribution rates are established by the LOPFI Board of Trustees. The employer contributions are actuarially determined on an annual basis. The current employee contribution rate is 2.5% of covered payroll for police officers and 8.50% of covered payroll for firefighters. The City contributed 23.50% of covered employee’s salaries to the Plan for police officers and 23.50% of covered employee’s salaries to the Plan for firefighters for the year ended December 31, 2018. Contributions made to the Plan by employees and the City for the year ended December 31, 2018 amounted to \$268,276 and \$1,049,727, respectively.

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

At December 31, 2018, the City reported a liability of \$9,776,206 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, 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, 2017, the City’s proportion was 1.3758%, which was a decrease of .1148% from the December 31, 2016 proportion of 1.2610%.

For the year ended December 31, 2018, the City recognized pension expense related to the LOPFI plan of \$1,195,647. At December 31, 2018, 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	\$ 489,436	\$ 806
Changes in assumptions or other inputs	2,499,380	-
Difference between projected and actual investment earnings on pension plan investments	846,052	1,074,342
Changes in proportion	475,998	59,845
Contributions subsequent to the measurement date	1,049,727	-
Total	\$ 5,360,593	\$ 1,134,993



# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### Note 9: Pension Plans (Continued)

#### Local Police and Fire Retirement System ("LOPFI") (Continued)

The amount reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$1,049,727 will be recognized as a reduction of the net pension liability for the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Plan will be recognized in pension expense as follows:

<u>Year Ending December 31</u>		
2019	\$	1,051,504
2020		579,616
2021		30,148
2022		-
Total	\$	<u>1,661,268</u>

#### Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.50 percent
Wage inflation	3.25 percent
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation
Actuarial cost method	Entry age normal

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

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

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### Note 9: Pension Plans (Continued)

#### Local Police and Fire Retirement System ("LOPFI") (Continued)

##### 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	27%	0.78%
Domestic Equity	42%	5.58%
Foreign Equity	18%	7.38%
Alternative Investments	10%	6.23%
Cash	3%	0.00%
Total	100%	

##### Discount Rate

In the December 31, 2017 actuarial valuation, a single discount rate of 7.00% was used to measure the total pension liability based on the expected rate of return on pension plan investments of 7.00%. The projection of cash flows, based on the assumptions made, found that the pension plan's net position was available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, 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 (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	<b>Sensitivity of the Net Position Liability</b>		
	Current Single		
	1% decrease	Rate Assumption	1% increase
	6.00%	7.00%	8.00%
City's proportionate share of the net pension liability	\$ 15,398,076	\$ 9,776,206	\$ 5,245,399

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### **Note 9: Pension Plans** (Continued)

#### **Local Police and Fire Retirement System (“LOPFI”)** (Continued)

##### **Pension Plan Fiduciary Net Position**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued LOPFI financial report which can be obtained from the LOPFI website, [lofpi-prb.com](http://lofpi-prb.com).

##### ***Deferred Compensation Plan***

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

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 2018, the City’s contributions totaled \$563,817.

### **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.

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### Note 10: Other Postemployment Benefits (OPEB) (Continued)

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

The amount of benefit payments during fiscal year June 30, 2018 were \$149,618.

#### **Employees Covered by Benefit Terms:**

Active employees	240
Inactive not yet receiving benefits	0
Inactive or beneficiaries receiving benefits	<u>16</u>
	256

**Total OPEB Liability:** The total OPEB liability was determined based on an alternative measurement method valuation performed as of December 31, 2018 which is also the measurement date.

**Actuarial Assumptions:** The total OPEB liability in the December 31, 2018 valuation, was determined using the following assumptions:

- Actuarial Cost Method – Entry Age Normal Cost Method
- Discount Rate - 4.10% based on the Bond Buyer GO Bond 20 Index
- Retirement Age – 62 with 20 years of service,
- Medical Trend Rates

<u>Year</u>	<u>Rate</u>
2018	6.05%
2019	6.02%
2020	5.99%
2025	5.86%
2030	5.99%
2035	5.87%
2040	5.33%
2045+	5.15%

## City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2018

### Note 10: Other Postemployment Benefits (OPEB) (Continued)

#### Changes in Total OPEB Liability:

	<b>Total OPEB Liability</b>
Balances at Beginning of Year	\$ 2,183,696
Changes for the Year:	
Service cost	60,085
Interest expense	89,533
Change in assumptions	-
Benefits paid	(120,099)
Net Changes	29,519
 Balances End of Year	 \$ 2,213,215

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:** For the year ended December 31, 2018, the City recognized OPEB expense of \$149,618. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	\$ -
City Contributions subsequent to the measurement date	120,099	-
Total	\$ 120,099	\$ -

**Sensitivity of the City's total OPEB liability to changes in the discount rate:** The following presents the City's net OPEB liability, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.10% percent) or 1-percentage-point higher (5.10% percent) than the current discount rate:

	1% Decrease (3.10%)	Current Discount Rate (4.10%)	1% Increase (5.10%)
Employers' total OPEB liability	\$ 2,441,824	\$ 2,213,215	\$ 2,011,775

# City of Siloam Springs, Arkansas

## Notes to Financial Statements

December 31, 2018

### Note 10: Other Postemployment Benefits (OPEB) (Continued)

**Sensitivity of the City's OPEB liability to changes in the healthcare cost trend rates:** The following presents the City's net OPEB liability, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%) than the current healthcare cost trend rates:

	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
Employers' total OPEB liability	\$ 2,483,517	\$ 2,213,215	\$ 1,985,577

### 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 2017 to 2018; 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.

**City of Siloam Springs, Arkansas**  
Notes to Financial Statements  
December 31, 2018

**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	\$ 160,344	\$ 11,810	\$ -	\$ 172,154
Inventories	63,256	-	-	63,256
Spendable				
Restricted				
Capital outlay and debt service	1,583,749	4,192,033	523,630	6,299,412
Assigned				
Capital outlay	-	-	-	-
Unassigned				
General fund	10,067,781	-	-	10,067,781
Total fund balances	<u>\$ 11,875,130</u>	<u>\$ 4,203,843</u>	<u>\$ 523,630</u>	<u>\$ 16,602,603</u>

**Note 15: Prior Period Restatement**

Net position was restated as follows:

	Fund Level					Government-wide Level	
	Governmental Funds			Proprietary Funds		Governmental Activities	Business-type Activities
	General	Street Fund	Non-Major Debt Service Fund	Utilities	Airport		
Beginning fund balance/Net position as previously reported at December 31, 2017	\$ 12,872,983	\$ 2,838,791	\$ 516,485	\$ 82,875,901	\$ 4,266,632	\$ 60,267,081	\$ 87,142,533
Prior period adjustment:							
Intercompany transfer	(1,537,156)	1,537,156	-	-	-	-	-
Implementation of GASB 75							
Recognition of an OPEB liability	-	-	-	(255,942)	(7,503)	(537,142)	(263,445)
Fund Balance/Net position as restated 12/31/2017	<u>\$ 11,335,827</u>	<u>\$ 4,375,947</u>	<u>\$ 516,485</u>	<u>\$ 82,619,959</u>	<u>\$ 4,259,129</u>	<u>\$ 59,729,939</u>	<u>\$ 86,879,088</u>

## **Required Supplementary Information**



**City of Siloam Springs, Arkansas**  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
Property taxes	\$ 1,060,000	\$ 1,060,000	\$ 1,191,972	\$ 131,972
Sales taxes	6,716,513	6,716,513	6,567,409	(149,104)
Licenses and permits	443,350	443,350	469,528	26,178
Intergovernmental	1,990,118	1,990,118	1,740,118	(250,000)
Charges for services	2,861,140	2,861,140	2,708,472	(152,668)
Fines and forfeitures	332,753	332,753	379,409	46,656
Grants and contributions	44,650	305,038	249,086	(55,952)
Investment income	477,834	477,834	704,587	226,753
Miscellaneous	155,727	155,727	357,033	201,306
Total Revenues	<u>14,082,085</u>	<u>14,342,473</u>	<u>14,367,614</u>	<u>25,141</u>
<b>Expenditures</b>				
General government				
Administration	1,224,211	1,224,211	1,062,061	(162,150)
Finance	1,451,290	1,451,290	1,402,000	(49,290)
Construction	500,127	500,127	472,899	(27,228)
Maintenance	348,704	348,704	323,742	(24,962)
Total general government	<u>3,524,332</u>	<u>3,524,332</u>	<u>3,260,702</u>	<u>(263,630)</u>
Public safety and judiciary				
Police	4,246,353	4,255,853	3,978,035	(277,818)
Fire	5,154,404	5,154,404	5,289,116	134,712
Municipal court	337,951	337,951	326,717	(11,234)
Total public safety and judiciary	<u>9,738,708</u>	<u>9,748,208</u>	<u>9,593,868</u>	<u>(154,340)</u>
Cultural, parks and recreation				
Library	492,970	492,970	450,707	(42,263)
Parks	1,418,215	1,418,215	1,304,399	(113,816)
Total cultural, parks and recreation	<u>1,911,185</u>	<u>1,911,185</u>	<u>1,755,106</u>	<u>(156,079)</u>
Community development				
Building inspections	1,537,652	1,537,652	1,500,403	(37,249)
Total community development	<u>1,537,652</u>	<u>1,537,652</u>	<u>1,500,403</u>	<u>(37,249)</u>
Capital outlay	6,532,019	7,555,090	4,203,863	(3,351,227)
Total Expenditures	<u>23,243,896</u>	<u>24,276,467</u>	<u>20,313,942</u>	<u>(3,962,525)</u>
<b>Excess Revenues Over (Under) Expenditures</b>	(9,161,811)	(9,933,994)	(5,946,328)	3,987,666
<b>Other Financing Sources (Uses)</b>				
Transfers In	6,203,200	6,203,200	6,675,969	472,769
Transfers Out	403,358	403,358	(190,338)	(593,696)
Total Other Financing Sources (Uses)	<u>6,606,558</u>	<u>6,606,558</u>	<u>6,485,631</u>	<u>(120,927)</u>
<b>Net Change in Fund Balance</b>	(2,555,253)	(3,327,436)	539,303	3,866,739
<b>Fund Balance, Beginning of year</b>	5,560,612	5,560,612	11,335,827	-
<b>Fund Balance, End of year</b>	<u>\$ 3,005,359</u>	<u>\$ 2,233,176</u>	<u>\$ 11,875,130</u>	<u>\$ 3,866,739</u>

# City of Siloam Springs, Arkansas

## Budgetary Comparison Schedule

### Street Fund

For the Year Ended December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
Property taxes	\$ 370,000	\$ 370,000	\$ 407,691	\$ 37,691
Sales taxes	1,570,592	1,570,592	1,608,156	37,564
Intergovernmental	1,039,000	1,039,000	1,068,547	29,547
Investment Income	2,200	2,200	3,451	1,251
Miscellaneous	13,800	13,800	62,087	48,287
	<u>2,995,592</u>	<u>2,995,592</u>	<u>3,149,932</u>	<u>154,340</u>
<b>Expenditures</b>				
Current:				
Transportation				
Streets	1,579,977	1,579,977	1,445,517	(134,460)
Capital outlay	2,233,400	2,989,840	1,876,519	(1,113,321)
	<u>3,813,377</u>	<u>4,569,817</u>	<u>3,322,036</u>	<u>(1,247,781)</u>
<b>Excess Revenues Over (Under) Expenditures</b>	(817,785)	(1,574,225)	(172,104)	1,402,121
<b>Other Financing Sources (uses)</b>				
Transfers in	212,700	212,700	-	(212,700)
	<u>212,700</u>	<u>212,700</u>	<u>-</u>	<u>(212,700)</u>
<b>Net Change in Fund Balance</b>	(605,085)	(1,361,525)	(172,104)	1,189,421
<b>Fund Balance, Beginning of year</b>	(791,597)	(791,597)	4,375,947	-
<b>Fund Balance, End of year</b>	<u>\$ (1,396,682)</u>	<u>\$ (2,153,122)</u>	<u>\$ 4,203,843</u>	<u>\$ 1,189,421</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,	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>					
Interest	\$ 186,211	\$ 190,095	\$ 196,877	\$ 209,522	\$ 212,376
Difference between actual and expected experience	(82,332)	29,167	-	(129,297)	88,933
Benefit changes	331,468	-	-	-	-
Benefit payments	(340,436)	(332,312)	(332,716)	(333,537)	(383,251)
<b>Net Change in Total Pension Liability</b>	94,911	(113,050)	(135,839)	(253,312)	(81,942)
<b>Total Pension Liability - Beginning</b>	<u>3,855,012</u>	<u>3,968,062</u>	<u>4,103,901</u>	<u>4,357,213</u>	<u>4,439,155</u>
<b>Total Pension Liability - Ending (a)</b>	<u><u>\$ 3,949,923</u></u>	<u><u>\$ 3,855,012</u></u>	<u><u>\$ 3,968,062</u></u>	<u><u>\$ 4,103,901</u></u>	<u><u>\$ 4,357,213</u></u>
<b>Plan Fiduciary Net Position</b>					
Contributions - Employer	\$ 119,801	\$ 113,166	\$ 108,897	\$ 107,204	\$ 114,685
State insurance turnback - supplements	42,476	29,533	28,836	25,200	22,230
Net investment income	(80,530)	517,968	172,776	10,113	204,312
Benefit payments	(340,436)	(330,191)	(331,227)	(333,537)	(383,251)
Supplements	(42,476)	(29,533)	(28,836)	(25,200)	(22,230)
Administrative expense	(5,400)	(27,902)	(22,028)	(2,912)	(2,359)
Other/reconciliation	(17,400)	-	-	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	(323,965)	273,041	(71,582)	(219,132)	(66,613)
<b>Plan Fiduciary Net Position - Beginning</b>	<u>3,557,824</u>	<u>3,284,783</u>	<u>3,356,365</u>	<u>3,575,497</u>	<u>3,642,110</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u><u>\$ 3,233,859</u></u>	<u><u>\$ 3,557,824</u></u>	<u><u>\$ 3,284,783</u></u>	<u><u>\$ 3,356,365</u></u>	<u><u>\$ 3,575,497</u></u>
<b>City's Net Pension Liability (a) - (b)</b>	\$ 716,064	\$ 297,188	\$ 683,279	\$ 747,536	\$ 781,716
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	81.87%	92.29%	82.78%	81.78%	82.06%
<b>Covered Payroll</b>	\$ -	\$ -	\$ -	\$ -	\$ -
<b>City's Net Pension Liability as a Percentage of Covered Payroll</b>	N/A	N/A	N/A	N/A	N/A

## 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	\$ 66,175	\$ -	N/A
2015	\$ 176,258	\$ 108,483	\$ 67,775	\$ -	N/A
2016	\$ 168,551	\$ 109,109	\$ 59,442	\$ -	N/A
2017	\$ 163,838	\$ 113,166	\$ 50,672	\$ -	N/A
2018	\$ 71,282	\$ 119,801	\$ (48,519)	\$ -	N/A

#### Key Assumptions for ADC:

Cost Method	Entry Age Normal
Amortized 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

<b>FY Ended December 31,</b>	<b>Annual Return</b>
<b>2014</b>	5.83%
<b>2015</b>	0.29%
<b>2016</b>	5.34%
<b>2017</b>	15.28%
<b>2018</b>	-2.32%

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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	1.38%	1.2610%	1.2740% <sup>(1)</sup>	1.1949%
City's proportionate share of the net pension liability	\$ 9,776,206	\$ 7,194,342	\$ 6,685,605	\$ 4,325,604
City's covered payroll	\$ 5,061,610	\$ 4,304,318	\$ 3,795,488	\$ 3,718,254
City's proportionate share of the net pension liability as a percentage of its covered payroll	193.14%	167.14%	176.15%	116.33%
Plan fiduciary net position as a percentage of the total pension liability	71.48%	72.87%	72.92%	79.14%

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

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

**(1)** Assumption changes for 2017 include a decrease in price inflation from 2.75 to 2.50 percent; a decrease in wage inflation from 3.75 to 3.25 percent; and a decrease in the investment rate of return from 7.75 to 7.00%.

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

<b>Fiscal year ended December 31,</b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Statutorily required contribution	\$ 1,049,727	\$ 984,507	\$ 830,071	\$ 790,948
Contributions in relation to the statutorily required contribution	\$(1,049,727)	\$ (984,507)	\$ (830,071)	\$ (790,948)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 5,061,610	\$ 4,304,318	\$ 3,795,488	\$ 3,718,254
Contributions as a percentage of covered payroll	20.74%	22.87%	21.87%	21.27%

**City of Siloam Springs, Arkansas**  
Combining Schedule of Revenues, Expenses and Changes in Net Position -  
Enterprise Fund Departments  
Year Ended December 31, 2018

	<b>Enterprise Fund Departments</b>				
	<b>Electric</b>	<b>Water</b>	<b>Wastewater</b>	<b>Sanitation</b>	<b>Totals</b>
<b>Operating Revenues</b>					
Charges for Services	\$ 24,326,456	\$ 4,993,218	\$ 3,764,404	\$ 3,279,136	\$ 36,363,214
<b>Operating Expenses</b>					
Cost of goods sold					
Cost of Power	14,687,696	-	-	-	14,687,696
Personal services	2,070,006	823,457	775,666	781,998	4,451,127
Contracted services	40,122	6,783	25,679	-	72,584
Maintenance and operating expenses	1,019,359	718,212	717,687	1,658,334	4,113,592
Other services and charges	82,196	67,521	47,210	80,383	277,310
Utilities	23,266	212,015	228,416	21,063	484,760
Depreciation	1,149,716	1,233,672	1,378,216	262,556	4,024,160
Total operating expenses	<u>19,072,361</u>	<u>3,061,660</u>	<u>3,172,874</u>	<u>2,804,334</u>	<u>28,111,229</u>
<b>Operating Income</b>	<u>5,254,095</u>	<u>1,931,558</u>	<u>591,530</u>	<u>474,802</u>	<u>8,251,985</u>
<b>Nonoperating Income (Expenses)</b>					
Sales tax revenue	416,873	-	1,860,663	-	2,277,536
Interest income	83,489	6,720	16,656	3,378	110,243
Interest expense	-	(29,573)	(82,421)	(9,937)	(121,931)
Net non-operating revenues (expenses)	<u>500,362</u>	<u>(22,853)</u>	<u>1,794,898</u>	<u>(6,559)</u>	<u>2,265,848</u>
<b>Income Before Capital Contributions and Transfers</b>	<u>5,754,457</u>	<u>1,908,705</u>	<u>2,386,428</u>	<u>468,243</u>	<u>10,517,833</u>
Transfers Out	<u>(4,229,247)</u>	<u>(1,150,000)</u>	<u>(1,006,384)</u>	<u>(100,000)</u>	<u>(6,485,631)</u>
<b>Change in Net Position</b>	<u>\$ 1,525,210</u>	<u>\$ 758,705</u>	<u>\$ 1,380,044</u>	<u>\$ 368,243</u>	<u>4,032,202</u>
<b>Net Position, Beginning of Year</b>					<u>82,619,959</u>
<b>Net Position, End of Year</b>					<u>\$ 86,652,161</u>





**HINKLE &  
COMPANY**  
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Business Advisors

**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 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 (the City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 11, 2019.

**Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 Matters**

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

**Purpose of this Report**

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

Hill & Company, PC

Tulsa, Oklahoma  
October 11, 2019



**City of Siloam Springs, Arkansas**  
Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2018

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Total Federal Expenditures</b>
<b>US Department of Agriculture</b>				
Arkansas Agriculture Department				
Firewise USA Project	10.664		\$ -	\$ 17
<b>Total US Department of Agriculture</b>			-	17
<b>US Department of Housing</b>				
Arkansas Department of Economic Development				
Arkansas Community and Economic Development	14.228	794-00241-08	5,766	5,766
Arkansas Community and Economic Development	14.228	790-08940-13	3,589	3,589
<b>Total Department of Housing and Urban Development Programs</b>			9,355	9,355
<b>US Department of Transportation</b>				
Arkansas Department of Aeronautics				
Airport Improvement Grant	20.106	3-05-0058-014-2017	129,496	129,496
Airport Improvement Program	20.106	3-05-0058-015-2018	23,817	23,817
			153,313	153,313
Arkansas State Highway and Transportation				
TAP Grant	20.205		-	67,705
			-	67,705
Arkansas State Police				
State & Community Highway Safety	20.600		-	10,564
State & Community Highway Safety	20.600		-	3,977
National Priority Safety Program	20.616		-	6,441
National Priority Safety Program	20.616		-	3,422
			-	24,404
<b>Total US Department of Transportation</b>			153,313	245,422
<b>Total Expenditures of Federal Awards</b>			\$ 162,668	\$ 254,794