

City of Siloam Springs, Arkansas

Independent Auditor's Reports and Financial Statements

For the Year Ended December 31, 2019

Prepared by:

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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, 2019, 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, 2019 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 August 18, 2020 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.

Tulsa, Oklahoma
August 18, 2020

Hill & Company, PC



City of Siloam Springs, Arkansas

Management's Discussion and Analysis

Year Ended December 31, 2019

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, 2019. This analysis focuses on the 2019 and 2018 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, 2019

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 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, 2019 and 2018 is as follows:

Net Position (Amounts in Millions)

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Cash and investments	\$19.3	\$ 17.5	\$21.3	\$ 20.1	\$ 40.6	\$ 37.6
Other assets	2.0	3.3	9.9	7.5	11.9	10.8
Capital assets (net)	58.5	54.7	68.7	70.4	127.2	125.1
Total assets	<u>79.8</u>	<u>75.5</u>	<u>99.9</u>	<u>98.0</u>	<u>179.7</u>	<u>173.5</u>
Deferred outflows of resources	6.1	5.6	-	-	6.1	5.6
Current liabilities	3.5	3.7	3.5	3.5	7.0	7.2
Long-term liabilities	14.3	13.3	3.0	3.8	17.3	17.1
Total Liabilities	<u>17.8</u>	<u>17.0</u>	<u>6.5</u>	<u>7.3</u>	<u>24.3</u>	<u>24.3</u>
Deferred inflows of resources	1.4	1.3	-	-	1.4	1.3
Net investment in capital assets	57.3	52.7	65.5	67.2	122.8	119.9
Restricted	5.9	6.3	6.7	3.8	12.6	10.1
Unrestricted	3.5	3.8	21.2	19.7	24.7	23.5
Total net position	<u>\$66.7</u>	<u>\$ 62.8</u>	<u>\$93.4</u>	<u>\$ 90.7</u>	<u>\$160.1</u>	<u>\$ 153.5</u>

City of Siloam Springs, Arkansas
Management's Discussion and Analysis
Year Ended December 31, 2019

Net Position (Amounts in Millions) (Continued)

The City's combined net position increased from \$153.5 million to \$160.1 million, a 4.3% increase in 2019. 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 \$0.3 million, from a balance of \$3.8 million to \$3.5 million. The driver for this decrease is an increase in pension liability of \$1.8 million.

Net position of the business-type activities reflects a \$2.7 million or 3.0% increase (\$93.4 million compared to \$90.7 million). The increase in net position before transfers remained about the same as 2018. Transfers increased from prior year resulting in a net increase of \$2.7 million vs. \$3.8 million for 2018.

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	
	2019	2018	2019	2018	2019	2018
Revenues						
<i>Program revenues</i>						
Charges for Services	\$ 3.2	\$ 3.6	\$35.6	\$ 37.1	\$ 38.8	\$ 40.7
Grants and contributions	0.3	0.2	0.2	-	0.5	0.2
<i>General revenues</i>						
Taxes	11.3	11.0	3.0	2.3	14.3	13.3
Investment	0.8	0.7	0.1	0	0.9	0.8
Intergovernmental	2.9	3.2	-	-	2.9	3.2
Other	0.5	0.4	-	-	0.5	0.4
Total revenues	<u>19.0</u>	<u>19.1</u>	<u>38.9</u>	<u>39.5</u>	<u>57.9</u>	<u>58.6</u>
Expenses						
General government	8.7	8.2	-	-	8.7	8.2
Public safety and judiciary	9.1	9.6	-	-	9.1	9.6
Transportation	1.6	1.4	-	-	1.6	1.4
Cultural, parks and recreation	1.8	1.8	-	-	1.8	1.8
Community development	1.6	1.5	-	-	1.6	1.5
Interest on long-term debt	-	-	-	-	-	-
Utilities	-	-	27.5	28.2	27.5	28.2
Airport	-	-	1.0	1.0	1.0	1.0
Total expenses	<u>22.8</u>	<u>22.5</u>	<u>28.5</u>	<u>29.2</u>	<u>51.3</u>	<u>51.7</u>
Increase (decrease) in net position before transfers	(3.8)	(3.4)	10.4	10.3	6.6	6.9
Transfers	<u>7.7</u>	<u>6.5</u>	<u>(7.7)</u>	<u>(6.5)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	3.9	3.1	2.7	3.8	6.6	6.9
Net position - beginning of year	62.8	59.7	90.7	86.9	153.5	146.6
Net position - end of year	<u>\$66.7</u>	<u>\$ 62.8</u>	<u>\$93.4</u>	<u>\$ 90.7</u>	<u>\$ 160.1</u>	<u>\$ 153.5</u>

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

Year Ended December 31, 2019

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

The City's total revenue of \$57.9 million in 2019 reflects a \$0.7 million, or 1.2%, decrease over total revenue of \$58.5 million in 2018. This decrease in total revenue in 2019 is primarily due to decreased utility sales. The total operating expense, or cost of all programs and services provided by the City, decreased 0.8% (to \$51.3 million, from a total cost of \$51.7 million). This decrease in total cost was a combination of an increase in depreciation in general government offset by lower bad debt expense in public safety and a decrease in power cost (cost of goods sold) in utilities. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenue for the City's governmental activities in 2019 came in at \$19 million which is approximately a \$0.1 million dollar decrease from 2018. Sales taxes increased by \$0.3 million; however, ambulance fees decreased by \$0.4 million. The main driver for that decrease is a decrease in the size of service area in Benton County. In the context of total revenue versus total expense, the City's governmental activities ran a \$3.8 million deficit before transfers from the business-type activities funds of \$7.7 million.

Governmental activities total expenses increased \$0.3 million in 2019 from 2018, a 1.3% increase. The expense included an increase of \$0.5 million in general government operations related to depreciation, a decrease of \$0.5 million in public safety of which bad debts made up \$.03 million, an increase of \$0.2 million in transportation operations and a \$0.1 million increase in community development personnel.

Business-type Activities

Revenues of the City's business-type activities or enterprise funds decreased by \$0.6 million or 2% (\$38.9 million in 2019 compared to \$39.5 million in 2018). This decrease in business activity revenue results from lower utility sales partly offset by increased sales tax and an Airport grant.

Business-type activities revenue represents 67.2% of total City revenues in 2019. Electric revenues and other income are equal to 64% of the business-type operating revenue and 39% of the total City revenue. As noted above, the cost or expenses of all business-type activities in 2019 compared to 2018 were down \$0.7 million with the primary driver being the decreased activity within utilities. Power cost for electric service decreased \$1.4 million over 2018 while operational costs increased due to recovery from severe storm damage.

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. Beginning in 2019, the City's Board set a limit on the amount that can be transferred from utilities based on sales. The general fund budget is required to function within the anticipated revenue from all sources.

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

Year Ended December 31, 2019

Capital Assets and Debt Administration

Capital Assets

At December 31, 2019, the City had \$127.2 million invested in capital assets net of depreciation. These assets include police and fire equipment, park and recreation facilities, buildings and utility infrastructure, street infrastructure and land. This balance represents a net increase of \$2.1 million or 1.7% (\$127.2 million compared to \$125.1 million). Significant capital asset projects and capital asset additions during the year by fund net of accumulated depreciation and adjustments included:

- General Fund – \$1,773,779 Renovation of Fire Station 2
\$1,528,469 AWIN Project (City-wide radio system)
- Street Fund – \$246,825 Lake Francis Rebuild
- Electric Fund – \$333,810 Digger Derrick Truck purchased

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

Debt Outstanding

At year-end 2019, the City had \$4.3 million in bonds, notes and capital lease obligations outstanding. The City paid down approximately \$1.6 million in principal on debt outstanding in 2019.

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 continued uptick in the economy from a residential and commercial development and industrial activity perspective. Siloam Springs building permit activity reflected a 29.3% increase in 2019 over the previous three-year period average. The City issued 256 building permits in 2019 compared to 212 issued in 2018, 184 issued in 2017 and 198 issued in 2016.

The City sales tax revenue stream remained flat in 2019 with a year-over-year increase of 0.4% after reflecting an increase of 4.9% in 2018. The City share of County sales tax revenue increased in 2019 with an increase of 10.1% after reflecting an increase in 2018 of 2.9%. This revenue stream is primarily allocated to funding governmental activities operations and, therefore, a critical line item that is closely monitored by City leaders. The City and County sales tax revenue streams were budgeted for a 3% decrease and 1% increase in 2020, respectively. Through six months of 2020 these projections appear to be lower than actual receipts for City and County. The City continues to experience expansion in our industrial customer market base and commercial retail markets in 2020.

City of Siloam Springs, Arkansas

Management's Discussion and Analysis

Year Ended December 31, 2019

Economic Factors and Management Strategies (Continued)

In 2019, the City continued to execute strategies and plans that have resulted in positive achievements in the areas of City infrastructure condition, planning and preparing for economic development, and strengthening revenue streams and operating efficiencies to improve financial condition and fiscal sustainability. These achievements include:

- Completed work on the Fire Department Training Tower
- Completed work on the renovations at Fire Station 2
- Completed a collection system study for wastewater
- Completed work on the Kenwood Street Widening project
- Completed the Taxi Lane Extension project at the Airport
- Continued work on the engineering for the new water treatment plant
- Began work on the Lake Francis Drive rebuild
- Began work upgrading the electrical Poles and Wire for the South Feeder Loop
- Began upgrading the City-wide radio system for AWIN

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, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,659,370	\$ 14,580,564	\$ 17,239,934
Certificates of deposit	3,298,474	-	3,298,474
Investments	7,371,269	-	7,371,269
Accounts receivable, net of allowance for uncollectibles	4,570,247	4,583,515	9,153,762
Inventories	62,232	2,428,688	2,490,920
Prepays	338,145	90,452	428,597
Restricted assets			
Restricted cash and certificates of deposit	5,927,231	6,756,113	12,683,344
Internal balances	(2,897,823)	2,897,823	-
Capital assets, <i>non-depreciable</i>	9,252,181	1,209,271	10,461,452
Capital assets, <i>net of accumulated depreciation</i>	49,260,711	67,442,294	116,703,005
Total Assets	<u>\$ 79,842,037</u>	<u>\$ 99,988,720</u>	<u>\$ 179,830,757</u>
Deferred Outflows of Resources			
Deferred outflows - pensions	\$ 5,107,003	\$ -	\$ 5,107,003
Deferred outflows - pension contributions	1,040,563	-	1,040,563
Total Deferred Outflows of Resources	<u>\$ 6,147,566</u>	<u>\$ -</u>	<u>\$ 6,147,566</u>
Liabilities			
Accounts payable	\$ 500,071	\$ 1,308,532	\$ 1,808,603
Accrued liabilities	610,709	213,159	823,868
Accrued interest payable	4,883	20,500	25,383
Customer deposits	17,340	783,836	801,176
Unearned revenues	450,818	-	450,818
Noncurrent liabilities			
Due within one year	1,914,935	1,153,782	3,068,717
Due in more than one year	14,292,974	3,060,182	17,353,156
Total Liabilities	<u>\$ 17,791,730</u>	<u>\$ 6,539,991</u>	<u>\$ 24,331,721</u>
Deferred Inflows of Resources			
Deferred inflows - pensions	\$ 1,448,776	\$ -	\$ 1,448,776
Total Deferred Inflows of Resources	<u>\$ 1,448,776</u>	<u>\$ -</u>	<u>\$ 1,448,776</u>
Net Position			
Net investment in capital assets	\$ 57,316,865	\$ 65,484,737	\$ 122,801,602
Restricted			
Expendable			
Capital projects	4,421,568	1,943,140	6,364,708
Debt service	508,718	2,903,726	3,412,444
Other	1,037,297	1,909,247	2,946,544
Unrestricted	3,464,649	21,207,879	24,672,528
Total Net Position	<u>\$ 66,749,097</u>	<u>\$ 93,448,729</u>	<u>\$ 160,197,826</u>

City of Siloam Springs, Arkansas
Statement of Activities
For the Year Ended December 31, 2019

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
Primary Government							
<i>Governmental Activities</i>							
General government	\$ 8,692,487	\$ 585,271	\$ -	\$ -	\$ (8,107,216)	\$ -	\$ (8,107,216)
Public safety	9,058,777	1,789,441	230,559	-	(7,038,777)	-	(7,038,777)
Culture, parks and recreation	1,824,433	221,012	96,302	-	(1,507,119)	-	(1,507,119)
Community development	1,608,130	633,110	38,149	-	(936,871)	-	(936,871)
Street department	1,557,824	-	-	-	(1,557,824)	-	(1,557,824)
Interest on long-term debt	38,081	-	-	-	(38,081)	-	(38,081)
Total Governmental Activities	22,779,732	3,228,834	365,010	-	(19,185,888)	-	(19,185,888)
<i>Business-Type Activities</i>							
Utilities	27,519,819	35,027,411	-	-	-	7,507,592	7,507,592
Airport	966,211	534,598	-	-	-	(431,613)	(431,613)
Total Business-Type Activities	28,486,030	35,562,009	-	-	-	7,075,979	7,075,979
Total Primary Government	\$ 51,265,762	\$ 38,790,843	\$ 365,010	\$ -	(19,185,888)	7,075,979	(12,109,909)
General Revenues							
Property taxes					2,376,140	-	2,376,140
Sales and use taxes					8,922,159	2,999,589	11,921,748
Government grants					-	191,410	191,410
Intergovernmental					2,903,867	-	2,903,867
Investment income					789,795	162,415	952,210
Miscellaneous					472,703	-	472,703
Transfers					7,676,941	(7,676,941)	-
Total General Revenues and Transfers					23,141,605	(4,323,527)	18,818,078
Change in Net Position					3,955,717	2,752,452	6,708,169
Net Position, Beginning of year					62,793,380	90,696,277	153,489,657
Net Position, End of year					\$ 66,749,097	\$ 93,448,729	\$ 160,197,826

City of Siloam Springs, Arkansas

Balance Sheet

Governmental Funds

December 31, 2019

	General	Street Fund	Non-Major Debt Service Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 2,659,370	\$ -	\$ -	\$ 2,659,370
Certificates of deposit	3,298,474	-	-	3,298,474
Investments	7,371,269	-	-	7,371,269
Taxes receivable, net of allowance for doubtful accounts of \$204,873, \$65,563 and \$19,748	3,281,829	1,033,765	21,781	4,337,375
Ambulance fees receivable, net of allowance for doubtful accounts of \$2,146,367	232,872	-	-	232,872
Inventories	62,232	-	-	62,232
Due from other funds	-	245	-	245
Prepaid items	324,529	13,616	-	338,145
Restricted cash and cash equivalents	1,037,297	4,364,501	525,433	5,927,231
Total Assets	\$ 18,267,872	\$ 5,412,127	\$ 547,214	\$ 24,227,213
Liabilities				
Accounts payable	\$ 316,395	\$ 150,063	\$ 33,613	\$ 500,071
Due to other funds	2,898,068	-	-	2,898,068
Accrued liabilities	603,355	24,694	4,883	632,932
Unearned revenues - grants	450,818	-	-	450,818
Total Liabilities	4,268,636	174,757	38,496	4,481,889
Deferred Inflows of Resources				
Unavailable revenues - property taxes	2,353,098	802,186	-	3,155,284
Total Deferred Inflows of Resources	2,353,098	802,186	-	3,155,284
Fund Balance				
Non-spendable	386,761	13,616	-	400,377
Restricted	1,037,297	4,421,568	508,718	5,967,583
Unassigned	10,222,080	-	-	10,222,080
Total Fund Balance	11,646,138	4,435,184	508,718	16,590,040
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 18,267,872	\$ 5,412,127	\$ 547,214	\$ 24,227,213

City of Siloam Springs, Arkansas
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Position
 Governmental Funds
 December 31, 2019

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

Total fund balance of the governmental fund	\$ 16,590,040
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	58,512,892
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.	3,155,284
Deferred inflows and outflows related to pensions are not due and payable in the current period and, therefore, are not reported in the funds.	4,698,790
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	(730,000)
Accrued interest on bonds and notes	-
Capital lease payable	(466,027)
Postemployment benefits liability	(1,638,079)
Accrued compensated absences	(1,036,577)
Net pension liability	<u>(12,337,226)</u>
Total Net Position - Governmental Activities	<u><u>\$ 66,749,097</u></u>

City of Siloam Springs, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2019

	General	Street Fund	Non-major Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 1,219,312	\$ 416,950	\$ -	\$ 1,636,262
Sales taxes	6,834,195	1,615,126	472,839	8,922,160
Licenses and permits	547,942	-	-	547,942
Intergovernmental	1,740,118	1,163,749	-	2,903,867
Charges for services	2,364,050	-	-	2,364,050
Fines and forfeitures	316,842	-	-	316,842
Grants and contributions	365,010	-	-	365,010
Investment income	779,731	4,819	5,244	789,794
Miscellaneous	435,123	14,425	-	449,548
Total Revenues	<u>14,602,323</u>	<u>3,215,069</u>	<u>478,083</u>	<u>18,295,475</u>
Expenditures				
General government				
Administration	1,002,839	-	-	1,002,839
Finance	1,499,637	-	-	1,499,637
Construction	497,331	-	-	497,331
Maintenance	258,454	-	-	258,454
Total General Government	<u>3,258,261</u>	<u>-</u>	<u>-</u>	<u>3,258,261</u>
Public safety and judiciary				
Police	3,915,732	-	-	3,915,732
Fire	4,808,713	-	-	4,808,713
Municipal court	334,332	-	-	334,332
Total Public Safety and Judiciary	<u>9,058,777</u>	<u>-</u>	<u>-</u>	<u>9,058,777</u>
Transportation				
Streets	-	1,557,824	-	1,557,824
Cultural, parks and recreation				
Library	493,162	-	-	493,162
Parks	1,331,271	-	-	1,331,271
Total Cultural, Parks and Recreation	<u>1,824,433</u>	<u>-</u>	<u>-</u>	<u>1,824,433</u>
Community development				
Building inspections	1,608,130	-	-	1,608,130
Debt service				
Principal retirement	-	-	858,272	858,272
Interest and other charges	-	-	38,081	38,081
Total Debt Service	<u>-</u>	<u>-</u>	<u>896,353</u>	<u>896,353</u>
Capital outlay	6,375,724	1,405,477	-	7,781,201
Total Expenditures	<u>22,125,325</u>	<u>2,963,301</u>	<u>896,353</u>	<u>25,984,979</u>
Excess Revenues Over (Under) Expenditures	(7,523,002)	251,768	(418,270)	(7,689,504)
Other Financing Sources (Uses)				
Transfers in	7,919,811	-	403,358	8,323,169
Transfers out	(625,801)	(20,427)	-	(646,228)
Total Other Financing Sources (Uses)	<u>7,294,010</u>	<u>(20,427)</u>	<u>403,358</u>	<u>7,676,941</u>
Net Change in Fund Balance	(228,992)	231,341	(14,912)	(12,563)
Fund Balance, Beginning of year	11,875,130	4,203,843	523,630	16,602,603
Fund Balance, End of year	\$ 11,646,138	\$ 4,435,184	\$ 508,718	\$ 16,590,040

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, 2019

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

Net change in fund balance of the governmental fund \$ (12,563)

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:

Capital outlay	7,781,201
Depreciation expense	(3,984,539)

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. 739,878

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. 441,489

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

Increase in net pension liabilities	(1,844,956)
Increase in OPEB liabilities	(22,432)
Increase in accrued long-term compensated absences	(20,944)

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

Principal repayments	855,429
Amortization of bond issue premiums	23,154

Change in Net Position of Governmental Activities \$ 3,955,717

City of Siloam Springs, Arkansas

Statement of Net Position

Proprietary Funds

December 31, 2019

	Enterprise Funds		
	Utilities	Airport Non-major	Totals
Assets			
<i>Current Assets</i>			
Cash	\$ 14,021,579	\$ 558,985	\$ 14,580,564
Receivables			
Accounts receivable, net of allowance for uncollectible accounts	4,319,561	40,037	4,359,598
Taxes	223,917	-	223,917
Inventory	2,380,644	48,044	2,428,688
Due from other funds	2,897,823	-	2,897,823
Prepaid items	82,802	7,650	90,452
Total Current Assets	23,926,326	654,716	24,581,042
<i>Noncurrent Assets</i>			
Restricted cash	6,756,113	-	6,756,113
Capital assets, net of accumulated depreciation			
Land and improvements	859,216	350,055	1,209,271
Construction in progress	1,232,801	-	1,232,801
Distribution and collection systems	58,208,530	-	58,208,530
Buildings and equipment	5,106,332	2,894,631	8,000,963
Total Noncurrent Assets	72,162,992	3,244,686	75,407,678
Total Assets	\$ 96,089,318	\$ 3,899,402	\$ 99,988,720
Liabilities			
<i>Current Liabilities</i>			
Accounts payable	\$ 1,285,381	\$ 23,151	\$ 1,308,532
Accrued expenses	174,481	38,678	213,159
Customer deposits	783,836	-	783,836
Current maturities of bonds payable	712,510	11,220	723,730
Compensated absences	430,052	-	430,052
Accrued interest payable	20,500	-	20,500
Total Current Liabilities	3,406,760	73,049	3,479,809
<i>Noncurrent Liabilities</i>			
Other postemployment benefits	583,425	22,439	605,864
Bonds payable, net	2,454,318	-	2,454,318
Total Noncurrent Liabilities	3,037,743	22,439	3,060,182
Total Liabilities	6,444,503	95,488	6,539,991
Net Position			
Net Investment in Capital Assets	62,240,051	3,244,686	65,484,737
Restricted			
Capital projects	1,943,140	-	1,943,140
Debt service	2,903,726	-	2,903,726
Other	1,909,247	-	1,909,247
Unrestricted	20,648,651	559,228	21,207,879
Total Net Position	\$ 89,644,815	\$ 3,803,914	\$ 93,448,729

City of Siloam Springs, Arkansas
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2019

	Enterprise Funds		
	Utilities	Airport Non-major	Totals
Operating Revenues			
Charges for Services			
Electric	\$ 22,850,808	\$ -	\$ 22,850,808
Water	4,552,844	-	4,552,844
Wastewater	3,802,144	-	3,802,144
Sanitation	3,266,357	-	3,266,357
Fuel sales	-	467,903	467,903
Penalties	343,554	-	343,554
Miscellaneous	211,705	66,696	278,401
	<hr/>	<hr/>	<hr/>
Total Operating Revenues	35,027,412	534,599	35,562,011
	<hr/>	<hr/>	<hr/>
Operating Expenses			
Cost of goods sold			
Cost of power	13,273,088	-	13,273,088
Cost of fuel	-	325,031	325,031
Personal services	4,622,351	126,477	4,748,828
Contracted services	201,662	-	201,662
Maintenance and operating expenses	4,448,047	96,616	4,544,663
Other services and charges	279,444	50,861	330,305
Utilities	446,782	21,401	468,183
Depreciation and amortization	4,152,286	345,825	4,498,111
	<hr/>	<hr/>	<hr/>
Total Operating Expenses	27,423,660	966,211	28,389,871
	<hr/>	<hr/>	<hr/>
Net Operating Loss	7,603,752	(431,612)	7,172,140
	<hr/>	<hr/>	<hr/>
Nonoperating Income (Expenses)			
Sales tax revenue	2,999,589	-	2,999,589
Government grants	-	191,410	191,410
Interest income	162,415	-	162,415
Interest expense	(96,161)	-	(96,161)
	<hr/>	<hr/>	<hr/>
Net Nonoperating Revenues	3,065,843	191,410	3,257,253
	<hr/>	<hr/>	<hr/>
Income (Loss) Before Transfers	10,669,595	(240,202)	10,429,393
	<hr/>	<hr/>	<hr/>
Transfers			
Transfers in	-	-	-
Transfers out	(7,676,941)	-	(7,676,941)
	<hr/>	<hr/>	<hr/>
	(7,676,941)	-	(7,676,941)
	<hr/>	<hr/>	<hr/>
Change in Net Position	2,992,654	(240,202)	2,752,452
	<hr/>	<hr/>	<hr/>
Net Position, Beginning of year	86,652,161	4,044,116	90,696,277
	<hr/>	<hr/>	<hr/>
Net Position, End of year	\$ 89,644,815	\$ 3,803,914	\$ 93,448,729
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

City of Siloam Springs, Arkansas
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2019

	Enterprise Funds		
	Utilities	Airport Non-major	Totals
Cash Flows From Operating Activities			
Cash received from customers	\$ 34,932,318	\$ 483,938	\$ 35,416,256
Cash payments to suppliers for goods and services	(21,308,249)	(475,167)	(21,783,416)
Cash payments to employees for services	(4,601,295)	(126,170)	(4,727,465)
Other operating receipts	211,705	66,696	278,401
Net Cash Provided (Used) by Operating Activities	<u>9,234,479</u>	<u>(50,703)</u>	<u>9,183,776</u>
Cash Flows From Noncapital and Related Financing Activities			
Interfund transfers	(7,676,941)	-	(7,676,941)
Net Cash Provided (Used) By Noncapital and Related Financing Activities	<u>(7,676,941)</u>	<u>-</u>	<u>(7,676,941)</u>
Cash Flows From Capital and Related Financing Activities			
Sales tax revenue	2,980,409	-	2,980,409
Government grants	-	191,410	191,410
Acquisition and construction of capital assets	(2,524,356)	(233,742)	(2,758,098)
Principal paid on debt	(718,170)	4,498	(713,672)
Interest and fees paid on debt	(96,161)	-	(96,161)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(358,278)</u>	<u>(37,834)</u>	<u>(396,112)</u>
Cash Flows from Investing Activities			
Interest on cash and certificates of deposit	162,415	-	162,415
Net Cash Provided by Investing Activities	<u>162,415</u>	<u>-</u>	<u>162,415</u>
Net Change in Cash	1,361,675	(88,537)	1,273,138
Cash, Beginning of year	19,416,017	647,522	20,063,539
Cash, End of year	<u>\$ 20,777,692</u>	<u>\$ 558,985</u>	<u>\$ 21,336,677</u>
Presented on the "Statement of Net Position - Proprietary Funds" as follows:			
Cash	\$ 14,021,579	\$ 558,985	\$ 14,580,564
Restricted cash - noncurrent	6,756,113	-	6,756,113
	<u>\$ 20,777,692</u>	<u>\$ 558,985</u>	<u>\$ 21,336,677</u>
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ 7,603,752	\$ (431,612)	\$ 7,172,140
Adjustments to Reconcile Net Operating income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation expense	4,152,286	345,825	4,498,111
Changes in Assets and Liabilities			
Accounts receivable	116,611	16,035	132,646
Inventory	(275,743)	(6,828)	(282,571)
Prepaid expenses	(9,059)	(553)	(9,612)
Accounts payable and accrued liabilities	(2,421,241)	26,430	(2,394,811)
Customer deposits	67,873	-	67,873
Net Cash Provided (Used) by Operating Activities	<u>\$ 9,234,479</u>	<u>\$ (50,703)</u>	<u>\$ 9,183,776</u>

City of Siloam Springs, Arkansas

Statement of Net Position

Fiduciary Funds

December 31, 2019

	Pension Trust Fund	Private- Purpose Trust Fund
	Firemen's Pension and Relief	Oak Hill Cemetery Trust
Assets		
Cash	\$ 121,788	\$ 122,308
Certificates of deposit	-	271,987
Investments		
Mutual funds	3,527,770	-
Property taxes receivable, net of allowance for doubtful accounts of \$7,513	242,927	-
Total Assets	3,892,485	394,295
Deferred Inflows of Resources		
Unavailable revenue - property taxes	235,350	-
Net Position		
Net position restricted for pensions	3,657,135	-
Net position restricted for cemetery maintenance	-	394,295
Net Position Restricted for Pensions and Other Purposes	\$ 3,657,135	\$ 394,295

City of Siloam Springs, Arkansas

Statement of Activities

Fiduciary Funds

December 31, 2019

	Pension Trust Fund	Private- Purpose Trust Fund
	Firemen's Pension and Relief	Oak Hill Cemetery Trust
Additions		
Contributions		
Property taxes	\$ 79,439	\$ -
Future supplement	42,476	-
Miscellaneous	25,200	-
Intergovernmental	-	8,504
	147,115	8,504
Total Contributions		
Investment income		
Interest and dividends	186,216	5,122
Net Increase in Fair Value of Investments	448,539	-
	634,755	5,122
Net Investment Income		
Total Additions	781,870	13,626
Deductions		
Benefits	309,310	-
Benefits - supplement	42,476	-
Administrative expenses	26,959	-
	378,745	-
Total Deductions		
Change in Fiduciary Net Position	403,125	13,626
Net Position - Beginning of Year	3,254,010	380,669
Net Position - End of Year	\$ 3,657,135	\$ 394,295

City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2019

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, 2019

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, 2019

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. Amounts 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, 2019

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, 2019, 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, 2019

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, 2019, property taxes receivable of, \$4,337,375 and related deferred inflows of resources of \$3,155,284 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, 2019

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, 2019

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, 2019. 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, 2019. 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, 2019

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, 2019

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, 2019 net position restricted by enabling legislation was \$5,967,583 for governmental activities and \$6,756,113 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, 2019:

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. 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, 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.

City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2019

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, 2019:

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 determined the statement has no impact on the financial statements as no interest was incurred on construction.

Subsequent Events

Subsequent events have been evaluated through August 18, 2020, which is the date of the financial statements were available to be issued.

Subsequent to year-end, the United States of America and the State of Arkansas have declared an emergency associated with the COVID-19 pandemic. The City has been economically impacted by the event, however, the full effect has yet to be determined.

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, 2019, the City had bank balances of \$33,737,835. 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, 2019, was \$33,827,387.

City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2019

Note 2: Deposits and Investments (Continued)

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, 2019

Note 2: Deposits and Investments (Continued)

Investments (Continued)

Investments at December 31, 2019, consisted of the following:

Type	Fair Value	Maturities in Year			
		Less than 1	1-5	6-10	More than 10
Bond mutual funds	\$ 2,172,350	\$ -	\$ 1,065,129	\$ 610,904	\$ 495,317
		<u>\$ -</u>	<u>\$ 1,065,129</u>	<u>\$ 610,904</u>	<u>\$ 495,317</u>
Fixed income	7,371,269				
Equity mutual funds	\$ 1,355,420				
	<u>\$ 10,899,039</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, 2019:

- Fixed income, bond and equity mutual funds 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, 2019

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 United States Treasury bonds.

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	\$ 33,733,001
Cash on hand	4,834
Investments	10,899,039
	<u>\$ 44,636,874</u>
Balance sheet - governmental funds	
Cash and cash equivalents	\$ 2,659,370
Certificates of deposit	3,298,474
Restricted cash and cash equivalents	5,927,231
Investment	
United States Treasury bonds	7,371,269
Statement of fund net position - proprietary funds	
Cash	14,580,564
Restricted cash	6,756,113
Statement of fiduciary net position	
Cash	244,096
Certificates of deposit	271,987
Investments	
Mutual and equity funds	3,527,770
	<u>\$ 44,636,874</u>

City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2019

Note 3: Receivables

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

	General Fund	Street Fund	Debt Service Fund	Total
Governmental				
Property taxes	\$ 3,139,855	\$ 997,017	\$ -	\$ 4,136,872
Sales taxes	-	-	21,781	21,781
Ambulance	2,379,240	-	-	2,379,240
Other	321,235	62,359	-	383,594
Gross receivables	<u>5,840,330</u>	<u>1,059,376</u>	<u>21,781</u>	<u>6,921,487</u>
Less allowance for uncollectibles	<u>(2,325,629)</u>	<u>(25,611)</u>	<u>-</u>	<u>(2,351,240)</u>
Net Total Receivables	<u>\$ 3,514,701</u>	<u>\$ 1,033,765</u>	<u>\$ 21,781</u>	<u>\$ 4,570,247</u>
		Utilities	Airport	Total
Proprietary				
Accounts		\$ 6,757,868	\$ 44,456	\$ 6,802,324
Sales taxes		223,917	-	223,917
Gross receivables		<u>6,981,785</u>	<u>44,456</u>	<u>7,026,241</u>
Less allowance for uncollectibles		<u>(2,438,307)</u>	<u>(4,419)</u>	<u>(2,442,726)</u>
Net Total Receivables		<u>\$ 4,543,478</u>	<u>\$ 40,037</u>	<u>\$ 4,583,515</u>
Fiduciary				
Property taxes				\$ 250,440
Less allowance for uncollectibles				<u>(7,513)</u>
Net Total Receivables				<u>\$ 242,927</u>

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2019

Note 4: Capital Assets

A summary of changes in capital assets for the year ended December 31, 2019, is presented below:

Governmental Activities	Balance, December 31, 2018	Additions	Retirements	Retirements	Balance, December 31, 2019
Capital assets, non-depreciable					
Land	\$ 9,248,970	\$ 3,211	\$ -	\$ -	\$ 9,252,181
Construction in progress	3,065,987	2,106,283	-	(3,025,682)	2,146,588
Total Capital Assets, Non-Depreciable	12,314,957	2,109,494	-	(3,025,682)	11,398,769
Capital assets, depreciable					
Buildings	27,659,737	3,821,661	-	3,025,683	34,507,081
Furniture, fixtures and equipment	17,600,474	1,201,756	(178,146)	344,476	18,968,560
Infrastructure	46,976,304	478,270	-	-	47,454,574
Total Capital Assets, Depreciable	92,236,515	5,501,687	(178,146)	3,370,159	100,930,215
Less accumulated depreciation					
Buildings	(10,050,074)	(839,607)	-	-	(10,889,681)
Furniture, fixtures and equipment	(11,100,211)	(1,379,777)	178,146	(174,457)	(12,476,299)
Infrastructure	(28,684,957)	(1,765,155)	-	-	(30,450,112)
Total Accumulated Depreciation	(49,835,242)	(3,984,539)	178,146	(174,457)	(53,816,092)
Total Governmental Activities, Net	\$ 54,716,230	\$ 3,626,642	\$ -	\$ 170,020	\$ 58,512,892

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2019

Note 4: Capital Assets (Continued)

Business-type Activities	Balance, December 31, 2018	Additions	Retirements	Retirements	Balance, December 31, 2019
Capital assets, non-depreciable					
Land	\$ 1,209,271	\$ -	\$ -	\$ -	\$ 1,209,271
Construction in progress	507,192	725,609	-	-	1,232,801
Total Capital Assets, Non-Depreciable	1,716,463	725,609	-	-	2,442,072
Capital assets, depreciable					
Buildings	8,680,113	327,261	-	-	9,007,374
Furniture, fixtures and equipment	12,885,923	691,220	-	(344,477)	13,232,666
Infrastructure	111,982,060	1,184,025	-	-	113,166,085
Total Capital Assets, Depreciable	133,548,096	2,202,506	-	(344,477)	135,406,125
Less accumulated depreciation					
Buildings	(5,190,858)	(350,513)	-	-	(5,541,371)
Furniture, fixtures and equipment	(8,114,686)	(757,477)	-	174,457	(8,697,706)
Infrastructure	(51,567,435)	(3,390,120)	-	-	(54,957,555)
Total Accumulated Depreciation	(64,872,979)	(4,498,110)	-	174,457	(69,196,632)
Total Business-Type Activities, Net	\$ 70,391,580	\$ (1,569,995)	\$ -	\$ (170,020)	\$ 68,651,565

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

Governmental activities	
General government	\$ 262,813
Public safety and judiciary	
Police	256,388
Fire	595,461
Other	11,244
Transportation	1,958,968
Cultural, parks and recreation	463,831
Community development	435,834
Total Depreciation Expense	3,984,539
Business-type activities	
Electric	1,169,416
Water utilities	1,239,029
Wastewater utilities	1,410,216
Sanitation	333,624
Airport	345,825
Total Depreciation Expense	4,498,110
Total Depreciation Expense-Primary Government	\$ 8,482,649

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2019

Note 5: Long-term Liabilities

Changes in long-term liabilities for the year ended December 31, 2019, were as follows:

Governmental Activities	Balance December 31, 2018	Increases	Decreases	Balance December 31, 2019	Amounts Due In One Year
Bonds payable					
Sales & Use Tax Refunding Bonds, Series 2012	\$ 1,195,000	\$ -	\$ (465,000)	\$ 730,000	\$ 475,000
Bonds payable, net	1,195,000	-	(465,000)	730,000	475,000
Capital lease payable	856,456	-	(390,429)	466,027	403,358
Compensated absences	1,015,633	20,944	-	1,036,577	1,036,577
Other postemployment benefits liability	1,615,647	22,432	-	1,638,079	-
Net pension liability	10,492,270	1,844,956	-	12,337,226	-
Total Governmental Activities Long-Term Liabilities	<u>\$ 15,175,006</u>	<u>\$ 1,888,332</u>	<u>\$ (855,429)</u>	<u>\$ 16,207,909</u>	<u>\$ 1,914,935</u>

Business-type Activities	Balance December 31, 2018	Increases	Decreases	Balance December 31, 2019	Amounts Due In One Year
Bonds payable					
Revolving Loan Fund	\$ 2,188,016	\$ -	\$ (307,509)	\$ 1,880,507	\$ 307,510
Utility System Refunding Revenue Bonds, Series 2012	1,680,000	-	(405,000)	1,275,000	405,000
Unamortized bond premium	16,981	-	(5,660)	11,321	-
Bonds payable, net	3,884,997	-	(718,169)	3,166,828	712,510
Compensated absences	423,706	17,566	-	441,272	441,272
Other postemployment benefits liability	597,569	8,295	-	605,864	-
Total Business-Type Activities Long-Term Liabilities	<u>\$ 4,906,272</u>	<u>\$ 25,861</u>	<u>\$ (718,169)</u>	<u>\$ 4,213,964</u>	<u>\$ 1,153,782</u>

Bonds outstanding as December 31, 2019, 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, 2019

Note 5: Long-term Liabilities (Continued)

Business Type Activities

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, 2019.

Fiscal Year	Governmental Activities	
	Principal	Interest
2020	\$ 475,000	\$ 17,063
2021	255,000	6,375
	\$ 730,000	\$ 23,438

Fiscal Year	Business-type Activities		
	Principal	Interest	Fees
2020	\$ 712,510	\$ 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	566,435	12,360	5,493
	\$ 3,155,507	\$ 194,882	\$ 57,930

City of Siloam Springs, Arkansas
Notes to Financial Statements
December 31, 2019

Note 5: Long-term Liabilities (Continued)

The following is a summary of pledged revenues for the City for the year ended December 31, 2019.

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>						
<u>Sales and Use Tax Refunding Bonds -</u>						
Series 2012	Sales & Use Taxes	\$ 472,839	\$ 465,000	98%	\$ 1,244,800 1,244,800	Until 2021
<u>Business -type Activities</u>						
Revolving Loan Fund #00254-CWRLF-L	Revenues of the Enterprise Fund	\$ 35,902,403	\$ 307,150	1%	2,068,781	Until 2025
Utility System Refunding Revenue Bonds Series 2012	Revenues of the Enterprise Fund	\$ 35,902,403	\$ 405,000	1%	1,339,538 <u>\$ 3,408,319</u>	Until 2022

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 2019, 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, 2019, were as follows:

Year ending December 31	Governmental Activities
2020	\$ 403,358
2021	67,226
Total minimum lease payments	470,584
Less: amount representing interest	(4,557)
Present value of minimum lease payments	<u>\$ 466,027</u>

City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2019

Note 7: Interfund Receivables and Payables

Interfund receivables and payables as of December 31, 2019, are as follows:

	Interfund Receivables	Interfund Payables
Government funds		
General fund	\$ -	\$ 2,898,068
Street fund	245	-
Total governmental funds	245	2,898,068
Proprietary funds to/from nonfiduciary funds		
Utilities	2,897,823	-
Total	\$ 2,898,068	\$ 2,898,068

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

Note 8: Interfund Transfers

Amount of interfund transfers between funds are summarized as follows:

	Transfers In	Transfers Out
Government funds		
General fund	\$ 8,323,169	\$ 646,228
Proprietary funds		
Utilities	-	7,676,941
Total	\$ 8,323,169	\$ 8,323,169

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, 2019

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:

	FRPF	LOPFI	Total
Net pension liability	\$ 207,911	12,129,315	\$ 12,337,226
Deferred outflows of resources	\$ 152,277	4,954,726	\$ 5,107,003
Deferred outflows of resources - contributions	\$ -	1,040,563	\$ 1,040,563
Deferred inflows of resources	\$ 495,601	953,175	\$ 1,448,776
Pension expense	\$ 280,595	2,576,939	\$ 2,857,534

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 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, 2019

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 2019 contributions to the FRPF were \$121,622. The City's share of contributions was \$121,622 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, 2019. The actuarial assumptions used in evaluating the fund were based on an experience study conducted from 2007 to 2012 and are as follows:

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

City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2019

Note 9: Pension Plans (Continued)

Membership Information

Membership of the FPRF consisted of the following at December 31, 2019:

Retirees and beneficiaries receiving benefits	16
Active plan members	-
Total	16

Components of the Net Pension Liability

Measurement Date	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability
December 31, 2019	\$ 3,883,695	\$ 3,675,784	\$ 207,911	94.65%

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 and equivalents	10%	0.25%
Total	100%	
Expected inflation		2.50%

Discount Rate

In the December 31, 2019 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, 2019

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	\$ 4,254,319	\$ 3,883,695	\$ 3,566,980
Net Pension Liability	\$ 578,535	\$ 207,911	\$ (108,804)

Changes in the Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2018	\$ 3,989,359	\$ 3,273,295	\$ 716,064
Changes for the Year			
a. Service cost	-	-	-
b. Interest on TPL	191,320	-	191,320
c. Differences between expected and actual experience	28,953	-	28,953
d. Employee contributions	-	-	-
e. Employer contributions	-	121,622	(121,622)
f. Net investment income	-	608,938	(608,938)
g. Benefits and refunds	(325,936)	(325,936)	-
h. Administrative expenses	-	(2,735)	2,735
i. Benefit changes	-	-	-
j. Assumption changes	-	-	-
k. Other/reconciliation	-	600	(600)
Net Changes	(105,664)	402,489	(508,153)
Balances at December 31, 2019	\$ 3,883,695	\$ 3,675,784	\$ 207,911

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 2019 was -2.59%.

City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2019

Note 9: Pension Plans (Continued)

Pension Expense and Deferred Inflows of Resources related to Pensions

For the year ended December 31, 2019, the City recognized pension expense from the FRPF Plan of \$280,595. At December 31, 2019, the City reported deferred inflows of resources related to pensions from the following source:

	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 495,601
Total	\$ 495,601

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
2020	\$ (108,010)
2021	(105,894)
2022	(39,330)
2023	(90,090)
2024	-
Total thereafter	-
Total	\$ (343,324)

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, 2019

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 8.5% 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, 2019. Contributions made to the Plan by employees and the City for the year ended December 31, 2019 amounted to \$328,752 and \$1,040,563, respectively.

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

At December 31, 2019, the City reported a liability of \$12,129,315 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, 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, 2018, the City's proportion was 1.3442%, which was a decrease of .0316% from the December 31, 2017 proportion of 1.3758%.

For the year ended December 31, 2019, the City recognized pension expense related to the LOPFI plan of \$2,576,939. At December 31, 2019, 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	\$ 644,393	\$ -
Changes in assumptions or other inputs	1,660,182	-
Difference between projected and actual investment earnings on pension plan investments	2,339,125	787,234
Changes in proportion	311,026	165,941
Contributions subsequent to the measurement date	1,040,563	-
Total	\$ 5,995,289	\$ 953,175

City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2019

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 \$1,040,563 will be recognized as a reduction of the net pension liability for the year ended December 31, 2019. 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>	
2020	\$ 1,147,797
2021	610,959
2022	483,013
2023	-
Total	<u>\$ 2,241,769</u>

Actuarial Assumptions

The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.75 percent
Wage inflation	3.75 percent
Investment rate of return	7.75 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 2018, 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, 2019

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	28%	0.90%
Domestic equity	42%	5.30%
Foreign equity	20%	7.00%
Alternative investments	10%	6.20%
Total	100%	

Discount Rate

In the December 31, 2018 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:

	Sensitivity of the Net Position Liability		
		Current Single Rate	
	1% decrease 6.00%	Assumption 7.00%	1% increase 8.00%
City's proportionate share of the net pension liability	\$ 18,878,122	\$ 12,129,315	\$ 7,921,821

City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2019

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.

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 2019, the City’s contributions totaled \$587,069.

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, 2019

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 December 31, 2019 were \$150,828.

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, 2019 which is also the measurement date.

Actuarial Assumptions: The total OPEB liability in the December 31, 2019 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>
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, 2019

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

Changes in Total OPEB Liability:

	Total OPEB Liability
Balances at Beginning of Year	\$ 2,213,215
Changes for the Year:	
Service cost	62,548
Interest expense	88,280
Change in assumptions	-
Benefits paid	(120,099)
Net Changes	30,729
Balances End of Year	\$ 2,243,944

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended December 31, 2019, the City recognized OPEB expense of \$150,828. At December 31, 2019, 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	\$ 2,039,707	\$ 2,243,944	\$ 2,475,727

City of Siloam Springs, Arkansas

Notes to Financial Statements

December 31, 2019

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	\$ 2,013,145	\$ 2,243,944	\$ 2,517,999

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 2018 to 2019; 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, 2019

Note 14: Fund Balance

The City classified governmental fund balances as follows:

	<u>General Fund</u>	<u>Street Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Fund balances				
Nonspendable				
Prepaid expenses	\$ 324,529	\$ 13,616	\$ -	\$ 338,145
Inventories	62,232	-	-	62,232
Spendable				
Restricted				
Capital outlay and debt service	1,037,297	4,421,568	508,718	5,967,583
Assigned				
Capital outlay	-	-	-	-
Unassigned				
General fund	<u>10,222,080</u>	<u>-</u>	<u>-</u>	<u>10,222,080</u>
Total fund balances	<u>\$ 11,646,138</u>	<u>\$ 4,435,184</u>	<u>\$ 508,718</u>	<u>\$ 16,590,040</u>

City of Siloam Springs, Arkansas

Budgetary Comparison Schedule

General Fund

For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property taxes	\$ 1,155,000	\$ 1,155,000	\$ 1,219,312	\$ 64,312
Sales taxes	7,095,430	7,095,430	6,834,195	(261,235)
Licenses and permits	425,500	425,500	547,942	122,442
Intergovernmental	1,999,294	1,999,294	1,740,118	(259,176)
Charges for services	2,306,105	2,306,105	2,364,050	57,945
Fines and forfeitures	383,853	383,853	316,842	(67,011)
Grants and contributions	67,700	104,515	365,010	260,495
Investment income	638,754	638,754	779,731	140,977
Miscellaneous	142,177	142,177	435,123	292,946
Total Revenues	<u>14,213,813</u>	<u>14,250,628</u>	<u>14,602,323</u>	<u>351,695</u>
Expenditures				
General government				
Administration	1,240,547	1,224,211	1,002,839	(221,372)
Finance	1,563,981	1,451,290	1,499,637	48,347
Construction	554,170	500,127	497,331	(2,796)
Maintenance	347,255	348,704	258,454	(90,250)
Total General Government	<u>3,705,953</u>	<u>3,524,332</u>	<u>3,258,261</u>	<u>(266,071)</u>
Public safety and judiciary				
Police	4,359,836	4,347,336	3,915,732	(431,604)
Fire	5,165,491	5,173,360	4,808,713	(364,647)
Municipal court	342,464	342,464	334,332	(8,132)
Total Public Safety and Judiciary	<u>9,867,791</u>	<u>9,863,160</u>	<u>9,058,777</u>	<u>(804,383)</u>
Cultural, parks and recreation				
Library	530,003	530,003	493,162	(36,841)
Parks	1,470,748	1,464,109	1,331,271	(132,838)
Total Cultural, Parks and Recreation	<u>2,000,751</u>	<u>1,994,112</u>	<u>1,824,433</u>	<u>(169,679)</u>
Community development				
Building inspections	1,618,152	1,618,152	1,608,130	(10,022)
Total Community Development	<u>1,618,152</u>	<u>1,618,152</u>	<u>1,608,130</u>	<u>(10,022)</u>
Capital outlay	2,305,675	7,533,910	6,375,724	(1,158,186)
Total Expenditures	<u>19,498,322</u>	<u>24,533,666</u>	<u>22,125,325</u>	<u>(2,408,341)</u>
Excess Revenues Over (Under) Expenditures	(5,284,509)	(10,283,038)	(7,523,002)	2,760,036
Other Financing Sources (Uses)				
Transfers in	7,590,500	6,203,200	7,919,811	1,716,611
Transfers out	(403,358)	(403,358)	(625,801)	(222,443)
Total Other Financing Sources (Uses)	<u>7,187,142</u>	<u>5,799,842</u>	<u>7,294,010</u>	<u>1,494,168</u>
Net Change in Fund Balance	1,902,633	(4,483,196)	(228,992)	4,254,204
Fund Balance, Beginning of year	3,005,359	2,233,176	11,875,130	-
Fund Balance, End of year	<u>\$ 4,907,992</u>	<u>\$ (2,250,020)</u>	<u>\$ 11,646,138</u>	<u>\$ 4,254,204</u>

City of Siloam Springs, Arkansas

Budgetary Comparison Schedule

Street Fund

For the Year Ended December 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property taxes	\$ 394,740	\$ 394,740	\$ 416,950	\$ 22,210
Sales taxes	1,635,549	1,635,549	1,615,126	(20,423)
Intergovernmental	1,051,988	1,051,988	1,163,749	111,761
Investment income	2,750	2,750	4,819	2,069
Miscellaneous	11,600	1,150,152	14,425	(1,135,727)
	<u>3,096,627</u>	<u>4,235,179</u>	<u>3,215,069</u>	<u>(1,020,110)</u>
Total Revenues				
Expenditures				
Current:				
Transportation				
Streets	1,557,326	1,557,326	1,557,824	498
Capital outlay	1,936,900	3,625,720	1,405,477	(2,220,243)
	<u>3,494,226</u>	<u>5,183,046</u>	<u>2,963,301</u>	<u>(2,219,745)</u>
Total Expenditures				
Excess Revenues Over (Under) Expenditures				
	(397,599)	(947,867)	251,768	1,199,635
Other Financing Sources (uses)				
Transfers in	-	-	(20,427)	(20,427)
	<u>-</u>	<u>-</u>	<u>(20,427)</u>	<u>(20,427)</u>
Total Other Financing Sources (Uses)				
Net Change in Fund Balance				
	(397,599)	(947,867)	231,341	1,179,208
Fund Balance, Beginning of year				
	<u>(1,396,682)</u>	<u>(2,153,122)</u>	<u>4,203,843</u>	<u>-</u>
Fund Balance, End of year				
	<u>\$ (1,794,281)</u>	<u>\$ (3,100,989)</u>	<u>\$ 4,435,184</u>	<u>\$ 1,179,208</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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability					
Interest	\$ 191,320	\$ 186,211	\$ 191,591	\$ 196,914	\$ 209,522
Difference between actual and expected experience	28,952	(82,332)	36,445	27,641	(129,297)
Benefit changes	-	331,468	-	-	-
Benefit payments	<u>(325,936)</u>	<u>(340,436)</u>	<u>(330,817)</u>	<u>(331,227)</u>	<u>(333,537)</u>
Net Change in Total Pension Liability	(105,664)	94,911	(102,781)	(106,672)	(253,312)
Total Pension Liability - Beginning	<u>3,989,359</u>	<u>3,894,448</u>	<u>3,997,229</u>	<u>4,103,901</u>	<u>4,357,213</u>
Total Pension Liability - Ending (a)	<u><u>\$3,883,695</u></u>	<u><u>\$3,989,359</u></u>	<u><u>\$3,894,448</u></u>	<u><u>\$3,997,229</u></u>	<u><u>\$4,103,901</u></u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 121,622	\$ 119,801	\$ 115,002	\$ 108,897	\$ 107,204
State insurance turnback - supplements	25,200	22,792	27,412	28,836	25,200
Net investment income	608,938	(80,530)	492,563	172,776	10,113
Benefit payments	(325,936)	(340,436)	(330,817)	(331,227)	(333,537)
Supplements	(24,600)	(21,238)	(27,412)	(28,836)	(25,200)
Administrative expense	(2,735)	(5,400)	(2,776)	(2,800)	(2,912)
Other/reconciliation	<u>-</u>	<u>-</u>	<u>-</u>	<u>324</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	402,489	(305,012)	273,972	(52,030)	(219,132)
Plan Fiduciary Net Position - Beginning	<u>3,273,295</u>	<u>3,578,307</u>	<u>3,304,335</u>	<u>3,356,365</u>	<u>3,575,497</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$3,675,784</u></u>	<u><u>\$3,273,295</u></u>	<u><u>\$3,578,307</u></u>	<u><u>\$3,304,335</u></u>	<u><u>\$3,356,365</u></u>
City's Net Pension Liability (a) - (b)	\$ 207,911	\$ 716,064	\$ 316,141	\$ 692,894	\$ 747,536
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	94.65%	82.05%	91.88%	82.67%	81.78%
Covered Payroll	\$ -	\$ -	\$ -	\$ -	\$ -
City's Net Pension Liability as a Percentage of Covered Payroll	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
2019	\$ 161,455	\$ 121,622	\$ 39,833	\$ -	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.

City of Siloam Springs, Arkansas

Required Supplementary Information
Defined Benefit Pension Plan
Schedule of Investment Returns - FRPF

FY Ended December 31,	Annual Return
2014	5.83%
2015	0.29%
2016	5.34%
2017	15.28%
2018	-2.32%
2019	19.21%

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,	2019	2018	2017	2016	2015
City's proportion of the net pension liability	1.34%	1.38%	1.2610%	1.2740%	1.1949%
City's proportionate share of the net pension liability	\$ 12,129,315	\$ 9,776,206	\$ 7,194,342	\$ 6,685,605	\$ 4,325,604
City's covered payroll	\$ 4,455,409	\$ 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	272.24%	193.14%	167.14%	176.15%	116.33%
Plan fiduciary net position as a percentage of the total pension liability	66.09%	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) There was no change for 2018 assumption rates. Assumption rates for 2017 for price inflation, wage inflation and investment return, respectively, were 2.50, 3.25, and 7.00 percent.

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

Fiscal year ended December 31,	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 1,040,563	\$ 1,049,727	\$ 984,507	\$ 830,071	\$ 790,948
Contributions in relation to the statutorily required contribution	\$ (1,040,563)	\$ (1,049,727)	\$ (984,507)	\$ (830,071)	\$ (790,948)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 4,455,409	\$ 5,061,610	\$ 4,304,318	\$ 3,795,488	\$ 3,718,254
Contributions as a percentage of covered payroll	23.36%	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, 2019

	Enterprise Fund Departments				
	Electric	Water	Wastewater	Sanitation	Totals
Operating Revenues					
Charges for Services	\$ 23,382,818	\$ 4,565,683	\$ 3,802,532	\$ 3,276,379	\$ 35,027,412
Operating Expenses					
Cost of Goods Sold					
Cost of power	13,273,088	-	-	-	13,273,088
Personal services	2,175,432	870,126	777,715	799,078	4,622,351
Contracted services	193,233	8,001	428	-	201,662
Maintenance and operating expenses	1,373,009	656,773	791,681	1,626,584	4,448,047
Other services and charges	129,756	38,245	40,111	71,332	279,444
Utilities	25,479	188,389	214,856	18,058	446,782
Depreciation	1,169,416	1,239,030	1,410,216	333,624	4,152,286
Total Operating Expenses	<u>18,339,413</u>	<u>3,000,564</u>	<u>3,235,007</u>	<u>2,848,676</u>	<u>27,423,660</u>
Operating Income	<u>5,043,405</u>	<u>1,565,119</u>	<u>567,525</u>	<u>427,703</u>	<u>7,603,752</u>
Nonoperating Income (Expenses)					
Sales tax revenue	475,955	2,523,634	-	-	2,999,589
Interest income	125,707	23,621	6,977	6,110	162,415
Interest expense	-	(23,312)	(64,677)	(8,172)	(96,161)
Net Non-Operating Revenues (Expenses)	<u>601,662</u>	<u>2,523,943</u>	<u>(57,700)</u>	<u>(2,062)</u>	<u>3,065,843</u>
Income Before Capital Contributions and Transfers	<u>5,645,067</u>	<u>4,089,062</u>	<u>509,825</u>	<u>425,641</u>	<u>10,669,595</u>
Transfers out	<u>(4,191,988)</u>	<u>(1,547,873)</u>	<u>(1,285,000)</u>	<u>(652,080)</u>	<u>(7,676,941)</u>
Change in Net Position	<u>\$ 1,453,079</u>	<u>\$ 2,541,189</u>	<u>\$ (775,175)</u>	<u>\$ (226,439)</u>	<u>\$ 2,992,654</u>
Net Position, Beginning of Year					<u>86,652,161</u>
Net Position, End of Year					<u>\$ 89,644,815</u>



**HINKLE &
COMPANY**
Strategic PC
Business Advisors

**Independent Auditor's Report On Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Financial
Statements Performed in Accordance with Government Auditing Standards**

The Honorable Mayor and 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 18, 2020.

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
August 18, 2020



City of Siloam Springs, Arkansas
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
US Department of Agriculture			
Arkansas Agriculture Department			
Firewise USA Project	10.664		\$ 1,000
Total US Department of Agriculture			<u>1,000</u>
US Department of Housing			
Arkansas Department of Economic Development			
Arkansas Community and Economic Development	14.228	794-00241-08	-
Total Department of Housing and Urban Development Programs			<u>-</u>
US Department of Justice			
Arkansas Department of Finance			
US Office of Justice Programs	16.607	BA-3A00S-MR02	4,873
LLEEG	16.738	19-183-17L	2,300
Total Department of Justice			<u>7,173</u>
US Department of Transportation			
Arkansas Department of Aeronautics			
Airport Improvement Program	20.106	3-05-0058-015-2018	178,632
			<u>178,632</u>
Arkansas State Highway and Transportation			
FAST Act	20.200	13-799-3861	65,428
5310 Enhanced Mobility Program	20.513	AR 180214-015	37,128
			<u>102,556</u>
Arkansas State Police			
State & Community Highway Safety	20.600		13,698
State & Community Highway Safety	20.600		1,984
National Priority Safety Program	20.616		7,942
National Priority Safety Program	20.616		3,998
			<u>27,622</u>
Total US Department of Transportation			<u>308,810</u>
Total Expenditures of Federal Awards			<u><u>\$ 316,983</u></u>