

City of Conway, Arkansas

**Regulatory Basis Financial Statements
and Other Reports**

December 31, 2011

LEGISLATIVE JOINT AUDITING COMMITTEE



CITY OF CONWAY, ARKANSAS
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Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
House Vice Chair

Arkansas



Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

City of Conway, Arkansas Officials and Council Members
Legislative Joint Auditing Committee

We have audited the accompanying regulatory basis financial statements of the general fund, street fund, and other funds in the aggregate of the City of Conway, Arkansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1(B and C), the City has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Conway, Arkansas, as of December 31, 2011, or the changes in its financial position or where applicable, its cash flows, thereof for the year then ended.

The Conway Corporation, Advertising and Promotion Commission, Federal Emergency Management Agency (FEMA) Fire Grant, Airport Grant, Driving Under Influence (DUI) Seatbelt, Community Development Block Grant, Arkansas Highway and Transportation Department Grant, Miscellaneous Grants, and Police Equipment Grant Funds have not been included in the City's regulatory basis financial statements. The regulatory basis as prescribed or permitted by Arkansas Code requires the Conway Corporation, Advertising and Promotion Commission, FEMA Fire Grant, Airport Grant, DUI Seatbelt, Community Development Block Grant, Arkansas Highway and Transportation Department Grant, Miscellaneous Grants, and Police Equipment Grant Funds to be presented as part of the other funds in the aggregate, thus increasing the column's assets, liabilities, revenues, and expenditures. The amount by which this departure would affect the assets, liabilities, revenues, and expenditures of the other funds in the aggregate column is not reasonably determinable. The City's regulatory basis financial statements also do not disclose all the required information concerning deposit and investment risks, which should be included in order to conform with the regulatory basis of accounting described in Note 1(C).

Further, in our opinion, because of the effects on the financial statements of the omissions described in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the respective regulatory basis financial position of the other funds in the aggregate of the City of Conway, Arkansas, as of December 31, 2011, and the respective changes in the regulatory basis financial position for the year then ended on the basis of accounting as described in Note 1(C).

Further, in our opinion, except for the effects of not disclosing all required information concerning deposit risks, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of the general fund and street fund of the City of Conway, Arkansas, as of December 31, 2011, and the respective changes in the regulatory basis financial position, and the budgetary results for the general fund and street fund for the year then ended on the basis of accounting as described in Note 1(C).

As discussed in Note 1 to the financial statements, the City changed the classifications of its governmental fund balances on January 1, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2013 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of the state constitution, laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the accompanying regulatory basis financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described above, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

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

DIVISION OF LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
October 23, 2013
LOM102111

Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
House Chair
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Senate Vice Chair
Rep. John W. Walker
House Vice Chair

Arkansas



Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING, COMPLIANCE AND OTHER MATTERS,
AND OTHER ISSUES BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

City of Conway, Arkansas Officials and Council Members
Legislative Joint Auditing Committee

We have audited the accompanying regulatory basis financial statements of the general fund, street fund, and other funds in the aggregate of the City of Conway, Arkansas, as of and for the year ended December 31, 2011, and have issued our report thereon dated October 23, 2013. We issued an adverse opinion because the City prepared the financial statements using accounting practices prescribed or permitted by Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, with respect to the basis of accounting described in Note 1(C), our opinion on the other funds in the aggregate was adverse because of the effects on the financial statements of not including the Conway Corporation, Advertising and Promotion Commission, Federal Emergency Management Agency (FEMA) Fire Grant, Airport Grant, Driving Under Influence (DUI) Seatbelt, Community Development Block Grant, Arkansas Highway and Transportation Department Grant, Miscellaneous Grants, and Police Equipment Grant Funds, which are material to other funds in the aggregate, and because required disclosures were not made concerning deposit and investment risks. Our opinions on the general fund and street fund were qualified because required disclosures were not made concerning deposit risks. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weakness:

2011-1 To ensure the proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions should be distributed among appropriate employees. The City officials, as specified in the Other Issues section of this report, did not segregate these duties to sufficiently reduce the risks of fraud or error and properly safeguard the City's assets because of limited financial resources. We recommend that the financial accounting duties in each office be segregated among employees to the extent possible.

The City officials, as specified in the Other Issues section of this report, responded and indicated that their offices will segregate the duties relating to initiating, receipting, depositing, disbursing, and recording transactions to the extent possible with the current staffing levels.

Compliance and Other Matters

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

The City's response to the findings identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

Other Issues

The following issues are not significant deficiencies, material weaknesses, or material instances of noncompliance, but are issues that are presented to assist in the efficient operation of the City.

The commentary contained in this section relates to the following officials that held office during 2011:

Mayor: Tab Townsell
Clerk/Treasurer: Michael Garrett
Finance Director: Lowell McClanahan (through September 1, 2011)
Tyler Winningham (September 1, 2011)
District Court Clerk: Donna Clifton
Police Chief: A.J. Gary

We reviewed the City's compliance with certain Arkansas laws concerning general and district court accounting, budgeting, purchasing, and investing and depositing of public funds.

Our audit procedures indicated that the Offices of **Mayor, Clerk/Treasurer, Finance Director, and Police Chief** were in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with state law and accepted accounting practices was noted in the Office of **District Court Clerk**.

District Court Clerk

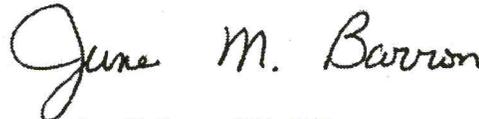
The District Court Clerk was unable to identify \$48,563 remaining in the bank account with receipts issued for cases not adjudicated and payments made on all unpaid time accounts, as required by Ark. Code Ann. § 16-10-209.

Bank deposit slips did not contain the range of receipts, as required by Ark. Code Ann. § 16-10-209.

Monthly bank reconciliations were not accurate due to checks issued in the subsequent month posted to the outstanding checks list, in noncompliance with Ark. Code Ann. § 16-10-209.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, local City government, state executive and oversight management, the federal awarding agencies, and pass-through entities, if applicable, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



June M. Barron, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
October 23, 2013

CITY OF CONWAY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 DECEMBER 31, 2011

	General	Street	Other Funds in the Aggregate
ASSETS			
Cash and cash equivalents	\$ 1,017,642	\$ 1,231,231	\$ 15,783,223
Investments			6,193,822
Accounts receivable	2,028,985	390,988	1,685,837
Interfund receivables	348,285	870,473	129,561
TOTAL ASSETS	<u>\$ 3,394,912</u>	<u>\$ 2,492,692</u>	<u>\$ 23,792,443</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,224,687	\$ 140,625	\$ 420,285
Interfund payables	502,555	143,336	702,428
Settlements pending			749,004
Total Liabilities	<u>1,727,242</u>	<u>283,961</u>	<u>1,871,717</u>
Fund Balances: (Note 10)			
Restricted		2,208,731	14,001,101
Committed			7,919,625
Unassigned	1,667,670		
Total Fund Balances	<u>1,667,670</u>	<u>2,208,731</u>	<u>21,920,726</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,394,912</u>	<u>\$ 2,492,692</u>	<u>\$ 23,792,443</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CONWAY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Street	Other Funds in the Aggregate
REVENUES			
State aid	\$ 1,589,461	\$ 2,761,590	\$ 797,322
Federal aid	275,503		
Property taxes	2,315,895	1,200,228	368,149
Franchise fees	2,713,751		630,037
Sales taxes	15,151,937	233,864	6,154,320
Fines, forfeitures, and costs	853,440		78,334
Interest	2,047	4,752	257,282
Local permits and fees	575,849	4,365	1,305,925
Sanitation fees			8,175,708
Airport revenue	81,411		
911 fees	273,882		
Parks and recreation fees	434,389		
Employer contributions			473,940
Employee contributions			258,248
Advertising and promotion taxes			2,517,257
Other	936,721	5,307	230,282
TOTAL REVENUES	25,204,286	4,210,106	21,246,804
EXPENDITURES			
Current:			
General government	4,303,502		268,833
Law enforcement	11,413,855		281,198
Highways and streets		4,147,006	4,996,543
Public safety	7,888,022		1,155,038
Sanitation			7,351,736
Recreation and culture	2,249,980		471,163
Social services	15,108		
Airport	38,890		
Total Current	25,909,357	4,147,006	14,524,511

CITY OF CONWAY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Street	Other Funds in the Aggregate
EXPENDITURES (CONTINUED)			
Debt Service:			
Bond principal	\$ 35,869		\$ 4,320,000
Bond interest and other charges	42,125		1,128,214
Lease principal			
Lease interest			
Note principal			1,243,671
Note interest			195,240
TOTAL EXPENDITURES	25,987,351	\$ 4,147,006	21,411,636
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(783,065)	63,100	(164,832)
OTHER FINANCING SOURCES (USES)			
Transfers in	1,217,620		3,064,655
Transfers out			(4,282,275)
Loss on sale of investments			(15,276)
TOTAL OTHER FINANCING SOURCES (USES)	1,217,620		(1,232,896)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	434,555	63,100	(1,397,728)
FUND BALANCES - JANUARY 1	1,233,115	2,145,631	23,318,454
FUND BALANCES - DECEMBER 31	\$ 1,667,670	\$ 2,208,731	\$ 21,920,726

The accompanying notes are an integral part of these financial statements.

CITY OF CONWAY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL AND STREET FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	General			Street		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State aid	\$ 1,568,000	\$ 1,589,461	\$ 21,461	\$ 2,660,000	\$ 2,761,590	\$ 101,590
Federal aid		275,503	275,503			
Property taxes	2,498,502	2,315,895	(182,607)	1,175,000	1,200,228	25,228
Franchise fees	2,813,000	2,713,751	(99,249)			
Sales taxes	15,387,000	15,151,937	(235,063)	225,000	233,864	8,864
Fines, forfeitures, and costs	808,751	853,440	44,689			
Interest	15,000	2,047	(12,953)	50,000	4,752	(45,248)
Local permits and fees	752,700	575,849	(176,851)	11,000	4,365	(6,635)
Airport revenue	37,614	81,411	43,797			
911 fees		273,882	273,882			
Parks and recreation fees	584,000	434,389	(149,611)			
Other	972,242	936,721	(35,521)	10,000	5,307	(4,693)
TOTAL REVENUES	25,436,809	25,204,286	(232,523)	4,131,000	4,210,106	79,106
EXPENDITURES						
Current:						
General government	4,035,139	4,303,502	(268,363)			
Law enforcement	11,740,574	11,413,855	326,719	4,525,037	4,147,006	378,031
Highways and streets						
Public safety	8,001,426	7,888,022	113,404			
Recreation and culture	2,551,247	2,249,980	301,267			
Social services		15,108	(15,108)			
Airport	27,500	38,890	(11,390)			
Total Current	26,355,886	25,909,357	446,529	4,525,037	4,147,006	378,031
Debt Service:						
Lease principal		35,869	(35,869)			
Lease interest		42,125	(42,125)			
TOTAL EXPENDITURES	26,355,886	25,987,351	368,535	4,525,037	4,147,006	378,031

CITY OF CONWAY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL AND STREET FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	General		Variance Favorable (Unfavorable)	Street		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (919,077)	\$ (783,065)	\$ 136,012	\$ (394,037)	\$ 63,100	\$ 457,137
OTHER FINANCING SOURCES (USES) Transfers in	699,699	1,217,620	517,921	450		450
Transfers out	(666,987)		666,987			
TOTAL OTHER FINANCING SOURCES (USES)	32,712	1,217,620	1,184,908	450		450
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(886,365)	434,555	1,320,920	(393,587)	63,100	457,587
FUND BALANCES - JANUARY 1	1,058,510	1,233,115	174,605	393,587	2,145,631	1,752,044
FUND BALANCES - DECEMBER 31	\$ 172,145	\$ 1,667,670	\$ 1,495,525	\$ 0	\$ 2,208,731	\$ 2,209,631

The accompanying notes are an integral part of these financial statements.

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CITY OF CONWAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1: Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Conway was incorporated under the laws of the State of Arkansas and operates under an elected Mayor-Council form of government. The reporting entity includes all funds of the City. The following funds of the City are not presented in this report: Conway Corporation, Advertising and Promotion Commission, Federal Emergency Management Agency (FEMA) Fire Grant, Airport Grant, Driving Under Influence (DUI) Seatbelt, Community Development Block Grant, Arkansas Highway and Transportation Department Grant, Miscellaneous Grants, and Police Equipment Grant.

B. Basis of Presentation – Regulatory

The financial statements are presented in accordance with the regulatory basis of presentation as prescribed or permitted by Arkansas Code. The law requires that the financial statements be presented on a fund basis with, as a minimum, the general fund and street fund presented separately with all other funds included in the financial statements presented in the aggregate. This law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general and street funds; notes to financial statements; and a supplemental schedule of capital assets.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual balances, and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following types of funds are recognized in the accompanying regulatory basis financial statements.

General Fund - The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Street Fund - The Street Fund (Special Revenue Fund) is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Street Fund accounts for and reports the proceeds of state highway turnback, property taxes, and sales taxes that are restricted or committed for maintaining and constructing highways and streets.

Other Funds in the Aggregate - Other Funds in the Aggregate consist of all funds included in the financial statements except for the General and Street Funds. The following types of funds are included in this column as follows:

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The following Special Revenue Funds are reported with other funds in the aggregate: Parks and Recreation Ad Valorem, Animal Welfare Ad Valorem, Spay and Neuter, Court Automation, Drug Control, Conway Corporation Franchise, Parks and Recreation Advertising and Promotion, Tree Board, Street Impact Fees, Parks Impact Fees, and Stormwater Retention.

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by Enterprise Funds). The following Capital Projects Funds are reported with other funds in the aggregate: Fire and Police Sales and Use Tax, Parks and Recreation Restaurant Tax, and Street Sales and Use Tax.

CITY OF CONWAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation – Regulatory (Continued)

Other Funds in the Aggregate – (Continued)

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The following Debt Service Funds are reported with other funds in the aggregate: Restaurant Tax 2007 Bond, 2006 Sales and Use Tax Capital Improvement Bond, Soccer Park Loan, 2006 Franchise Fee Improvement Bond, and Hewlett-Packard Franchise Revenue Bond.

Enterprise Funds – Enterprise funds are used to report activity that is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; activity that is legally required to recover its costs through fees or charges; or activity that the government's policy is to establish fees or charges designed to recover the cost of providing services. The following Enterprise Fund is reported with other funds in the aggregate: Sanitation.

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the entity in a trustee capacity, or as an agent for individuals, private organizations, other governmental units, and other funds. The following Trust and Agency Funds are reported with other funds in the aggregate: Nonuniformed Pension and Relief Plan, District Court, Seized Assets, and Disbursement Clearing.

C. Basis of Accounting - Regulatory

The financial statements are prepared on the regulatory basis of accounting as prescribed or permitted by Arkansas Code. This regulatory basis differs from accounting principles generally accepted in the United States of America. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. As a result of the use of this regulatory basis of accounting, capital assets and long-term debt are not recorded in these financial statements.

D. Assets, Liabilities, and Fund Balances

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" include all demand and savings accounts, certificates of deposit, and short-term investments with an original maturity of three months or less.

Investments

Investments are reported at cost.

Settlements Pending

Settlements pending are considered fines, forfeitures, costs, and hot check collections that have not been transferred to the appropriate entities.

Fund Balance Classifications

1. Restricted fund balance - amounts that are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Committed fund balance - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council (passage of an ordinance).

CITY OF CONWAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Fund Balances (Continued)

Fund Balance Classifications (Continued)

3. Unassigned fund balance – amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the general fund. This classification may also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

E. Property Taxes

A lien attaches to the real property in January and on personal property in June of each year. Property taxes are collectible beginning the first business day of March of the subsequent year, but are not considered delinquent until after October 15. Property taxes reflected as revenues on the financial statements include the property tax relief distribution made by the State of Arkansas. The purpose of this distribution is to reimburse the municipality for property tax credits in accordance with Arkansas Code.

F. Budget Law

State law requires that these procedures be followed in establishing the budgetary data:

- a. Prior to December 1, the Mayor submits to the City Council a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. The proposed budget is discussed at a City Council meeting prior to adoption.
- c. Prior to February 1, the budget is legally enacted by action of the City Council.
- d. Appropriations lapse at the end of each year.
- e. Under certain conditions, the budget may be amended subsequent to the year-end.

The budgeted revenues and expenditures represent the formal operating budget adopted by the City Council, as amended by the Council during the year.

Basis of Accounting

The City prepared an annual budget on the regulatory basis for the General Fund, Street Fund, and the other Special Revenue Funds.

G. Fund Balance Classification Policies and Procedures

The Municipality's highest level of decision-making authority is its City Council. The establishment of amounts classified as committed fund balances and any subsequent modifications to such balances are the result of formal action taken by the City Council through passage of an ordinance. The City Council is authorized to assign amounts to a specific purpose, although a formal policy has not been established.

The Municipality does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The Municipality does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts. There are no assigned fund balances at December 31, 2011.

CITY OF CONWAY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011

NOTE 1: Summary of Significant Accounting Policies (Continued)

H. Change in Regulatory Basis

The City adopted Governmental Accounting Standards Board (GASB) Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on January 1, 2011. GASB Statement no. 54 changed the classifications of governmental fund balances from reserved and unreserved to nonspendable, restricted, committed, assigned, and unassigned.

NOTE 2: Cash and Investments

Deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk have not been provided as required by Governmental Accounting Standards Board Statement no. 40.

NOTE 3: Legal or Contractual Provisions for Deposits and Investments

A. Governmental Fund Types

State law generally requires that municipal funds be deposited in federally insured banks located in the State of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts, and time deposits. Public funds may be invested in eligible investment securities having a maturity of not longer than five years from the date of acquisition unless, as documented at the time of acquisition, the investment is to fund or support a specific purpose and there are no expectations that the investment will be sold before maturity; an Arkansas bank certificate of deposit; an account established by a local government joint investment trust; or an Arkansas financial institution repurchase agreement for eligible investment securities in which the seller agrees to repurchase the investment at a price including interest earned during the holding period as determined by the repurchase agreement.

B. Nonuniformed Pension and Relief Plan

State law provides certain restrictions for nonuniformed employee's pension trust funds. If the total assets of the fund are less than \$100,000, the funds may be deposited in federally insured banks located in Arkansas or invested in interest-bearing bonds of the United States, of the State of Arkansas, or of the city in which the board is located or in a local government joint investment trust. If the total assets of the fund exceed \$100,000, the board may employ an investment advisor, to invest the assets, subject to terms, conditions, limitations, and restrictions imposed by law upon the Arkansas Local Police and Fire Retirement System.

NOTE 4: Public Fund Investments

A summary of investments by fund types is as follows:

Fund Type	December 31, 2011	
	Reported Amount	Fair Value
Trust:		
Nonuniform Pension Plan	\$ 6,193,822	\$ 6,773,839

These investments are composed of the following:

	December 31, 2011	
	Reported Amount	Fair Value
Municipal bonds	\$ 100,015	\$ 104,817
Corporate bonds	465,578	521,692
Equities	2,936,346	3,445,631
Other	2,691,883	2,701,699
Totals	\$ 6,193,822	\$ 6,773,839

CITY OF CONWAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 5: Accounts Receivable

The accounts receivable balance at December 31, 2011 is composed of the following:

Description	General Fund	Street Fund	Other Funds in the Aggregate
State aid	\$ 292,888	\$ 221,781	
Property taxes	123,988	63,670	\$ 19,363
Franchise fees	231,449		42,927
Sales taxes	1,257,411	19,408	510,728
Fines, forfeitures, and costs	2,372		
Sanitation fees			665,551
Employee contributions			209
Advertising and promotion taxes			445,497
Other	120,877	86,129	1,562
Totals	\$ 2,028,985	\$ 390,988	\$ 1,685,837

NOTE 6: Accounts Payable

The accounts payable balance at December 31, 2011 is composed of the following:

Description	General Fund	Street Fund	Other Funds in the Aggregate
Vendor payables	\$ 255,060	\$ 86,545	\$ 312,973
Salaries payable	389,640	36,838	65,900
Payroll taxes payable	135,495	17,242	41,412
Other	444,492		
Totals	\$ 1,224,687	\$ 140,625	\$ 420,285

NOTE 7: Interfund Balances

Individual fund interfund receivable and payable balances are as follows:

Fund	December 31, 2011	
	Interfund Receivables	Interfund Payables
General	\$ 348,285	\$ 502,555
Street	870,473	143,336
Other Funds in the Aggregate:		
Street Impact Fees		20,020
Sanitation	64,975	519,086
Street Sales and Use Tax		104,599
Nonuniformed Pension and Relief Plan	64,586	58,723
Totals	\$ 1,348,319	\$ 1,348,319

Interfund receivables and payables consist of errors in depositing restricted revenues and interfund loans. These balances were repaid May 31, 2012.

CITY OF CONWAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 8: Legal Debt Limit

A. Property Tax Secured Bonded Debt

The City is subject to a constitutional limitation for bonded indebtedness equal to 20% of the total assessed value for tax purposes of real and personal property as determined by the last tax assessment. At December 31, 2011, the legal debt limit for the bonded debt was \$172,991,955. There were no property tax secured bond issues.

B. Short-Term Financing Obligations

The City is subject to a constitutional limitation for short-term financing obligations equal to 5% of the assessed value of taxable property within the City as determined by the last tax assessment. At December 31, 2011, the legal debt limit for short-term financing obligations was \$43,776,937. The amount of short-term financing obligations was \$4,737,760, leaving a legal debt margin of \$39,039,177.

NOTE 9: Federal Funds Program Compliance

A separate report was issued for the federal grants of the City. The following material instance of noncompliance were reported:

2011-01 Community Development Block Grant Program (CFDA 14.218)

The City was unable to provide supporting documentation and/or explanation of the amounts requested and received as reimbursements for administrative costs.

NOTE 10: Details of Fund Balance Classifications

Fund balance classifications at December 31, 2011 are composed of the following:

Description	General	Street	Other Funds in the Aggregate
<u>Fund Balances</u>			
Restricted for:			
General government			\$ 1,465
Law enforcement			411,556
Highways and streets		\$ 2,208,731	
Recreation and culture			979,232
Debt service			2,534,307
Capital outlay			3,451,393
Pension benefits			6,623,148
Total Restricted		<u>2,208,731</u>	<u>14,001,101</u>
Committed for:			
General government			74,843
Law enforcement			14,476
Highways and streets			1,144,020
Sanitation			6,215,793
Recreation and culture			470,493
Total Committed			<u>7,919,625</u>
Unassigned	<u>\$ 1,667,670</u>		
Totals	<u>\$ 1,667,670</u>	<u>\$ 2,208,731</u>	<u>\$ 21,920,726</u>

CITY OF CONWAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 11: Commitments

Total commitments consist of the following at December 31, 2011:

	December 31, 2011
Long-Term liabilities	\$ 32,070,713
Noncancellable lease	40,000
Construction contracts	5,640,530
Management agreement	617,354
Total Commitments	\$ 38,368,597

Long-Term Liabilities

Long-Term liabilities at December 31, 2011 are comprised of the following:

	December 31, 2011
Franchise Fee Revenue Improvement Bonds, Series 2006; due in annual installments of \$155,000 - \$330,000 through December 1, 2030; interest rate 4% - 4.375%. Payments are to be made from the 2006 Franchise Fee Improvement Bond Fund.	\$ 4,400,000
Sales and Use Tax Capital Improvement Bonds, Series 2006B; due in annual installments of \$1,305,000 - \$2,285,000 through March 1, 2015; interest rate 3.635% -3.95%. Payments are to be made from the 2006 Sales and Use Tax Capital Improvement Bond Fund.	5,190,000
Restaurant Gross Receipts Tax Capital Improvement Bonds, Series 2007; due in annual installments of \$505,000 - \$1,005,000 through December 1, 2018; interest rate 4.0% - 5.0%. Payments are to be made from the Restaurant Tax 2007 Bond Fund.	12,255,000
Electric Franchise Fee Revenue Bonds, Series 2008; due in semiannual installments of \$62,500 - \$92,500 through January 1, 2019; interest rate 6.25%. Payments are to be made from the Hewlett Packard Franchise Revenue Bond Fund.	1,165,000
Note payable to Centennial Bank for improvements to the Conway Fairgrounds; annual installments of \$794,392 through August 1, 2014; interest rate 4.37%. Payments are to be made from the Parks and Recreation Advertising and Promotion Fund.	2,189,086
Note payable to US Bank for the purchase of a recycling sorter; due in annual installments of \$422,206 through April 9, 2015; interest rate 2.83%. Payments are to be made from the Sanitation Fund.	1,575,781
Note payable to First State Bank for development and operation and maintenance of the Soccer Park; semi-annual payments of \$111,157 through February 16, 2012; interest rate 4.13%. Payments are to be made from the Soccer Park Loan Fund.	215,509
Lease-purchase agreement with First Security Bank to acquire energy efficiency improvements to city facilities; quarterly payments of \$18,685 - \$25,675 through July 1, 2023. Payments are to be made from the General Fund.	757,384
Landfill Closure and Postclosure Care Costs	2,828,281
Compensated Absences	1,494,672
Total Long-Term Liabilities	\$ 32,070,713

CITY OF CONWAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 11: Commitments (Continued)

Due to the City's regulatory basis of accounting, these liabilities are not recorded in the financial statements.

Post Employment Benefits Other Than Pensions

The amount of any actuarially determined accrued liability for post employment benefits other than pensions was not determined.

Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Although closure and postclosure care costs will be only near or after the landfill stops accepting waste, the City recognizes a portion of these closure and postclosure costs each year based on the landfill capacity used as of the balance sheet date. The estimated liability of the landfill closure and postclosure care costs has a balance of \$2,828,281 which is based on the use of 63% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$1,638,831 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2011. The City expects to close the landfill in the year 2026. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by Ark. Code Ann. §§ 8-6-1602 -1604 to establish financial assurance for the cost of closure and postclosure care in compliance with state regulations and the solid waste permit. At December 31, 2011, the City has reserved \$3,413,002 in the Sanitation Fund to establish financial assistance for these costs.

Debt Service Requirements to Maturity

The City is obligated for the following amounts at December 31, 2011:

Years Ending December 31,	Bonds	Notes	Leases	Total
2012	\$ 6,902,505	\$ 1,438,911	\$ 59,819	\$ 8,401,235
2013	1,595,734	1,216,597	81,397	2,893,728
2014	1,594,340	1,216,559	83,408	2,894,307
2015	1,586,399	422,205	85,470	2,094,074
2016	1,592,067		87,585	1,679,652
2017 through 2021	7,450,369		471,586	7,921,955
2022 through 2026	6,967,075		163,075	7,130,150
2027 through 2031	3,475,392			3,475,392
Total Obligations	31,163,880	4,294,272	1,032,340	36,490,492
Less Interest	8,153,880	313,896	274,956	8,742,732
Total Principal	<u>\$ 23,010,000</u>	<u>\$ 3,980,376</u>	<u>\$ 757,384</u>	<u>\$ 27,747,760</u>

Noncancellable Lease

The City entered into a noncancellable lease agreement for real property to be used for a fire station on March 13, 2008. Terms of the lease are annual rental payments of \$20,000 per year expiring 2013. At the end of the lease term, the City has the option to renew for three five-year terms. The City is obligated for the following amounts for the next two years:

Year	December 31, 2011
2012	\$ 20,000
2013	20,000
Total	<u>\$ 40,000</u>

CITY OF CONWAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 11: Commitments (Continued)

Noncancellable Lease (Continued)

Rental expense for 2011 was \$20,000.

Construction Contracts

The City was contractually obligated for the following construction contracts at December 31, 2011:

<u>Project Name</u>	<u>Completion Date</u>	<u>Contract Balance December 31, 2011</u>
Farris Road Impact	May 2013	\$ 752,621
Old Military Road	July 2013	161,748
Prince Street Improvements	December 2013	3,172,609
Western Loop	July 2015	<u>1,553,552</u>
Total Construction Contracts		<u>\$ 5,640,530</u>

Management Agreement

Management Agreement with Cope's Aircraft Services, Inc., is to provide for the management of the airport facilities; due in monthly installments of \$1,860 through August 15, 2039 for a total of \$617,354. Payments are to be made from the General Fund.

NOTE 12: Interfund Transfers

Other Funds in the Aggregate transferred \$1,217,620 in sanitation fees to the General Fund. Within Other Funds in the Aggregate, \$3,064,655 was transferred for debt related payments and for the purchase of fire-fighting equipment.

NOTE 13: Subsequent Events

On May 1, 2012, the City issued \$11,255,000 of Sales and Use Tax Capital Improvement and Refunding Bonds with interest rates ranging from 2.00 to 2.75 percent. The bond proceeds will be used to refund all the City's outstanding Sales and Use Tax Capital Improvement Bonds, Series 2006B, finance the costs of acquiring firefighting vehicles and equipment, sanitation vehicles and equipment, and landfill expansion.

On June 1, 2012, the City issued \$4,440,000 of Franchise Fee Revenue Refunding Bonds with interest rates ranging from 1.00 to 3.45 percent. The bond proceeds will be used to refund the City's \$4,400,000 outstanding Franchise Revenue Improvement Bonds, Series 2006.

NOTE 14: Pledged Revenues

Sales and Use Taxes

The City pledged future .25% sales and use taxes to repay \$17,280,000 in bonds that were issued in 2006 to provide refunding for the City's outstanding Sales and Use Capital Improvement Bonds, Series 1997A and for financing the costs of police station facilities. Total principal and interest remaining on the bonds are \$5,190,000 and \$127,402, respectively, payable through March 15, 2012. For 2011, principal and interest paid were \$3,560,000 and \$284,159, respectively.

The 2006 Sales and Use Tax Capital Improvement Fund received \$3,077,160 in sales taxes in 2011. Any sales taxes collected in excess of debt service payments shall be applied to the mandatory redemption of the bonds.

CITY OF CONWAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 14: Pledged Revenues (Continued)

Sales and Use Taxes (Continued)

The City pledged 75% of the receipts from a one percent tax (A&P no.1) and 100% of receipts from a one percent tax (A&P no. 2) levied on gross receipts received by restaurants to repay \$14,100,000 in bonds that were issued in 2007 for the purpose of acquiring, constructing, and equipping various city parks and trail improvements. Total principal and interest remaining on the bonds are \$12,255,000 and \$5,592,432, respectively, payable through December 1, 2028. Principal and interest paid in 2011 were \$490,000 and \$562,424, respectively.

The City received \$2,202,600 in pledged revenues in 2011. Any restaurant tax collected in excess of debt service payments on this bond is permitted to be used for any purpose permitted by the Advertising and Promotion Act and as determined by the Commission.

Franchise Fees

The City pledged franchise fees to repay \$5,100,000 in bonds that were issued in 2006 for the purpose of financing improvements to the City's wastewater and electric systems and roadway infrastructure and related improvements. Total principal and interest remaining on the bonds are \$4,400,000 and \$2,120,687, respectively, payable through December 1, 2030. Principal and interest paid in 2011 were \$150,000 and \$192,419, respectively.

The City received \$3,343,788 in pledged revenues in 2011. Pledged revenues collected in excess of debt service requirements are available for debt service on the lease-purchase agreement, 2008 Electric Franchise Fee Revenue Bonds, and thereafter for city operations.

The City pledged electric franchise fee receipts to repay \$2,220,000 in bonds that were issued in 2008 for the purpose of providing roadway and other site improvements in connection with the construction of certain industrial facilities located in the City and leased by the City to the Hewlett-Packard Company. Total principal and interest remaining on the bonds are \$1,165,000 and \$313,359, respectively payable through July 1, 2019. Principal and interest paid in 2011 were \$120,000 and \$78,438, respectively.

The pledge of electric franchise fee receipts securing payment of the series 2008 bonds is subject and subordinate to the prior pledge of such receipts securing the City's outstanding Franchise Fees Revenue Improvement Bonds, Series 2006, and the City's obligations under the Franchise Fee Revenue lease-purchase agreement.

The City pledged franchise fees to secure a lease-purchase agreement entered into in 2008 to finance the costs of various capital improvements. Total principal and interest remaining on the lease-purchase agreement are \$757,385 and \$274,956, respectively. Principal and interest paid in 2011 were \$35,869 and \$42,125, respectively.

NOTE 15: Conway Corporation

The City has entered into several agreements with Conway Corporation (the "Corporation") for the operation of city-owned utilities. As a result, the Corporation operates the electric department, water department, wastewater department, and cable television department. The Corporation provides electric, water, wastewater treatment, cable, internet, and telephone services to industrial, residential, commercial, and institutional customers in the City of Conway and recognizes revenue for utility services in the period in which the services are provided. The City receives financial benefits through franchise fees and contributions to operations as a result of the Corporation leasing the utilities. Appointments to the Corporation's Board of Directors, issues of additional indebtedness, rate changes, and changes in services are subject to approval of the City Council. Audited financial statements of the Corporation can be obtained at the offices of Conway Corporation, 1307 Prairie Street, Conway, Arkansas 72032.

CITY OF CONWAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 16: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and participation in a public entity risk pool. The amount of settlements, if any, has not exceeded the insurance coverage for each of the past three years. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

The City participates in the Arkansas Municipal League Program (public entity risk pools) for coverage in the following areas:

Workers' Compensation - This program provides statutory benefits for losses incurred by municipal officials, employees, and volunteer fire fighters while performing work for the municipality. Rates for municipalities participating in this program are revised by class code on an annual basis by the Arkansas Workers' Compensation Commission.

Municipal Vehicle Program

- A. Liability - This program may pay all sums the municipality legally must pay as damages because of bodily injury, death or property damage to which this agreement applies involving a covered municipal vehicle and for which the municipality is liable. The limit of payment by the program is \$25,000 for bodily injury or death per person, \$50,000 for bodily injury or death per accident, and \$25,000 for property damage per accident. The City shall pay into the program each year a charge established annually by the program administrator for covered municipal vehicles and mobile equipment owned or leased by the City.
- B. Physical Damage - This program covers vehicles and permanently attached equipment which are the property of the participating municipality. Property is valued at the full cost to repair or replace the property after deduction for depreciation. Loss amounts payable will be reduced by the deductible amount of \$1,000 per occurrence. The City agrees to pay into the program each year a service charge established annually by the program administrator for covered property.

Municipal Property Program - This program covers insurable property and equipment, exclusive of motor vehicles and water vessels, which belong to or are in the care, custody, or control of a participating municipality. Property is valued at the full cost to repair or replace the property after deduction of depreciation or as agreed to by the participating municipality and program. Loss amounts payable will be reduced by the deductible amount of \$5,000, or in the case of flood or earthquake, \$100,000. The municipality agrees to pay into the program each year a service charge established annually by the program administrator for property for which the municipality desires coverage.

Municipal Legal Defense Program - The program shall, at the sole discretion of the program administrators, provide extraordinary legal defense and extraordinary expenses in suits against municipal officials and employees and civil rights suits against the municipal government of a participating municipality and pay extraordinary judgments (for actual damages – not punitive damages) imposed on municipal officials and employees and the municipal government. The program shall never be liable to reimburse the municipal government, municipal officials, and employees because of judgment in any one lawsuit for more than 25% of the program's available funds at time the lawsuit was filed or the judgment becomes final, or \$1 million, whichever is less. The City agrees to pay into the program each year a charge established by the steering committee. Each city also agrees to pay the first \$3,000 of the aggregate cost for all expenses on each lawsuit. This cost deposit is not refundable.

The City also participates in the Self-Insured Fidelity Bond Program administered by the Governmental Bonding Board. This program covers actual losses sustained by the participating entity through any fraudulent or dishonest act or acts committed by any of the officials or employees, acting alone or in collusion with others, during the bond period to an amount not exceeding the lesser of \$250,000 or the amount of the bond. Premiums for coverage are determined by the State Risk Manager and approved by the Board. These premiums are paid by the State Treasurer from funds withheld from the Municipal Aid Fund. There is a \$1,000 deductible per occurrence.

CITY OF CONWAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

**NOTE 17: Local Police and Fire Retirement System (LOPFI)
(A Defined Benefit Pension Plan)**

Plan Description

The City contributes to the Local Police and Fire Retirement System (LOPFI), an agent multiple employer retirement system that acts as a common investment and administrative agent for cities and towns in Arkansas. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Local Police and Fire Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for LOPFI. That report may be obtained by writing to Arkansas Local Police and Fire Retirement System, P. O. Drawer 34164, Little Rock, Arkansas 72203 or by calling 1-501-682-1745.

Funding Policy

The employee contribution rate depends on the type of service being rendered and whether or not the service is also covered by Social Security. The different employee contribution rates required by state law are:

- A. Paid service not covered by Social Security: 8.5% of gross pay
- B. Paid service also covered by Social Security: 2.5% of gross pay
- C. Volunteer fire service: no employee contribution

The City is required to contribute at an actuarially determined rate. The contribution requirements of plan members are established and may be amended by State law. The contribution requirements of the City are established and may be amended by the LOPFI Board of Trustees.

NOTE 18: Nonuniformed Employees' Pension and Relief Plan

Plan Description

The Nonuniformed Employees' Pension and Relief Plan is a single-employer defined benefit plan that covers the City of Conway's employees except those covered by the Arkansas Local Police and Fire Retirement System, elected officials, and the Court Clerk. The plan, administered by the City, provides retirement, disability, and survivor benefits. Benefit and contributions are established by the Nonuniformed Employees' Pension Plan Board. The plan does not issue a stand-alone financial report but is included in the City's financial report.

Funding Policy

Employees are not required to contribute to the plan. Employer contributions are determined by the pension plan board upon advice of an actuary employed by the board. Employer contributions were \$473,940.

NOTE 19: Related Party Transactions

The City has entered into lease and franchise fee agreements with the Conway Corporation to operate city-owned utilities as follows:

Water Department and Wastewater Department - As consideration for operation of these departments, the City receives \$24 monthly. The Corporation is allowed to annually withdraw \$8,000 from Water Department Funds and \$2,500 from Wastewater Department Funds plus \$1 for services rendered.

Electric Department - The Corporation operates the Electric Department for the City pursuant to an exclusive franchise agreement requiring the Corporation to assess each customer a 2.5% franchise fee on certain revenues. The Department also pays the City \$120,000 in annual rent. Amounts remitted to the City by the Electric Department totaled \$1,575,000 during the year ended December 31, 2011. At the end of the lease period, the Corporation is required to return the net assets of the Electric Department to the City. Charges for electric service paid by the City to the Corporation totaled \$596,000 during the year ended December 31, 2011.

CITY OF CONWAY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 19: Related Party Transactions (Continued)

Cable Television Department - The Corporation operates the Cable Television Department for the City under a lease agreement which expires December 31, 2015. The agreement requires the Corporation to pay rent of \$25,000 per month to the City reduced by 1/12 of the increase in total cable franchise fees paid for the preceding year. The agreement also requires the Corporation to pay the City a franchise fee of 5% of gross revenues. The Corporation paid the City \$558,000 during the year ended December 31, 2011.

The City has entered into an agreement with the Corporation for collection of sanitation fees. The Corporation retains \$1,587 per month of the fees as compensation for the collection and billing services. The Corporation retained \$19,041 for billing and collection services, and remitted \$8,032,830 to the City in gross receipts during the year ended December 31, 2011.

The City paid the Corporation \$755,924 during 2011 for utility services provided to the City, and \$161,524 for construction work provided for capital purchases.

NOTE 20: Leases

The City leases to a private business at the airport, related facilities, and land where its hangar is located under a lease agreement expiring in 2039. In addition to a monthly rental payment of \$5,990 (\$2,360 for the airport and \$3,630 for the hangar), the lease provides for \$0.05 per gallon of fuel sold by the private business at the airport. At the end of the lease term, any improvements made to the land become property of the City.

The City has a lease agreement with the Conway Regional Medical Center, Inc., whereby Conway Regional Medical Center, Inc., leases land and its primary facilities, including equipment, for \$25 per year under an agreement expiring in 2098. At the end of the term, any improvements made to the related land and buildings become property of the City.

Future lease payments receivable at December 31, 2011 are as follows:

Years Ending December 31,	Leases Receivable
2012	\$ 71,899
2013	71,899
2014	71,899
2015	71,899
2016	71,899
2017 through 2021	359,495
2022 through 2026	359,495
2027 through 2031	359,495
2032 through 2036	359,495
2037 through 2041	191,789
2042 - 2098	1,425
Total	\$ 1,990,689

These receivables were not recorded in the City's financial statements due to the regulatory basis of accounting.

CITY OF CONWAY, ARKANSAS
 COMBINING BALANCE SHEET - OTHER FUNDS IN THE AGGREGATE -
 REGULATORY BASIS
 DECEMBER 31, 2011

SPECIAL REVENUE FUNDS

	Parks and Recreation Ad Valorem	Animal Welfare Ad Valorem	Spay and Neuter	Court Automation	Drug Control	Conway Corporation Franchise	Parks and Recreation Advertising and Promotion	Tree Board	Street Impact Fees
ASSETS									
Cash and cash equivalents	\$ 35,551	\$ 4,065	\$ 15,692	\$ 343,020	\$ 64,772	\$ 31,916	\$ 497,498	\$ 1,551	\$ 1,152,454
Investments	686					42,927	445,497		
Accounts receivable		394							
Interfund receivables									
TOTAL ASSETS	\$ 36,237	\$ 4,459	\$ 15,692	\$ 343,020	\$ 64,772	\$ 74,843	\$ 942,995	\$ 1,551	\$ 1,152,454
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable			\$ 1,216		\$ 695			\$ 86	\$ 33,481
Interfund payables									20,020
Settlements pending									
Total Liabilities			1,216		695			86	53,501
Fund Balances:									
Restricted	\$ 36,237	\$ 4,459		\$ 343,020	64,077		\$ 942,995	1,465	
Committed			14,476			\$ 74,843			1,086,953
Total Fund Balances	36,237	4,459	14,476	343,020	64,077	74,843	942,995	1,465	1,086,953
TOTAL LIABILITIES AND FUND BALANCES	\$ 36,237	\$ 4,459	\$ 15,692	\$ 343,020	\$ 64,772	\$ 74,843	\$ 942,995	\$ 1,551	\$ 1,152,454

CITY OF CONWAY, ARKANSAS
 COMBINING BALANCE SHEET - OTHER FUNDS IN THE AGGREGATE -
 REGULATORY BASIS
 DECEMBER 31, 2011

	SPECIAL REVENUE FUNDS			CAPITAL PROJECTS FUNDS			DEBT SERVICE FUNDS			
	Parks Impact Fees	Stormwater Retention	Fire and Police Sales and Use Tax	Parks and Recreation Restaurant Tax	Street Sales and Use Tax	Restaurant Tax 2007 Bond	2006 Sales and Use Tax Capital Improvement Bond	2006 Franchise Fee Improvement Bond	Hewlett-Packard Franchise Revenue Bond	
ASSETS										
Cash and cash equivalents	\$ 470,493	\$ 45,067	\$ 289	\$ 1,031,569	\$ 2,469,161	\$ 89,009	\$ 1,895,334	\$ 221,354	\$ 133,246	
Investments										
Accounts receivable					255,364					
Interfund receivables							255,364			
TOTAL ASSETS	\$ 470,493	\$ 45,067	\$ 289	\$ 1,031,569	\$ 2,724,525	\$ 89,009	\$ 2,090,698	\$ 221,354	\$ 133,246	
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable						\$ 200,391				
Interfund payables						104,599				
Settlements pending										
Total Liabilities						<u>304,990</u>				
Fund Balances:										
Restricted	\$ 470,493	\$ 45,067	\$ 289	\$ 1,031,569	2,419,535	\$ 89,009	\$ 2,090,698	\$ 221,354	\$ 133,246	
Committed	<u>470,493</u>	<u>45,067</u>	<u>289</u>	<u>1,031,569</u>	<u>2,419,535</u>	<u>89,009</u>	<u>2,090,698</u>	<u>221,354</u>	<u>133,246</u>	
Total Fund Balances	\$ 470,493	\$ 45,067	\$ 289	\$ 1,031,569	\$ 2,724,525	\$ 89,009	\$ 2,090,698	\$ 221,354	\$ 133,246	
TOTAL LIABILITIES AND FUND BALANCES										

CITY OF CONWAY, ARKANSAS
 COMBINING BALANCE SHEET - OTHER FUNDS IN THE AGGREGATE -
 REGULATORY BASIS
 DECEMBER 31, 2011

	ENTERPRISE FUND	TRUST FUND	AGENCY FUNDS			Totals
ASSETS						
Cash and cash equivalents	\$ 6,188,317	\$ 403,861	\$ 354,757	\$ 21,646	\$ 372,601	\$ 15,783,223
Investments		6,193,822				6,193,822
Accounts receivable	665,703	19,902				1,685,837
Interfund receivables	64,975	64,586				129,561
TOTAL ASSETS	\$ 6,918,995	\$ 6,682,171	\$ 354,757	\$ 21,646	\$ 372,601	\$ 23,792,443
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 184,116	\$ 300				\$ 420,285
Interfund payables	519,086	56,723				702,428
Settlements pending			\$ 354,757	\$ 21,646	\$ 372,601	749,004
Total Liabilities	703,202	59,023	354,757	21,646	372,601	1,871,717
Fund Balances:						
Restricted		6,623,148				14,001,101
Committed	6,215,793					7,919,625
Total Fund Balances	6,215,793	6,623,148	\$ 354,757	\$ 21,646	\$ 372,601	21,920,726
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,918,995	\$ 6,682,171	\$ 354,757	\$ 21,646	\$ 372,601	\$ 23,792,443

CITY OF CONWAY, ARKANSAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - OTHER FUNDS IN THE AGGREGATE -
 REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	SPECIAL REVENUE FUNDS						
	Parks and Recreation Ad Valorem	Animal Welfare Ad Valorem	Spay and Neuter	Court Automation	Drug Control	Conway Corporation Franchise	Parks and Recreation Advertising and Promotion Tree Board
REVENUES							
State aid	\$ 19,301	\$ 10,823				\$ 630,037	
Property taxes				\$ 60,735	\$ 17,599		
Franchise fees				532			\$ 658
Sales taxes							
Fines, forfeitures, and costs			\$ 44,707				
Interest							2,517,257
Local permits and fees							
Sanitation fees							
Employer contributions							
Employee contributions							
Advertising and promotion taxes							
Other							\$ 5,268
TOTAL REVENUES	<u>19,301</u>	<u>10,823</u>	<u>44,707</u>	<u>61,267</u>	<u>17,599</u>	<u>630,037</u>	<u>2,517,915</u>
							<u>5,268</u>
EXPENDITURES							
Current:							
General government							3,803
Law enforcement		6,773	30,231	52,387	56,712		
Highways and streets							
Public safety							
Sanitation							
Recreation and culture							312,460
Total Current		<u>6,773</u>	<u>30,231</u>	<u>52,387</u>	<u>56,712</u>		<u>312,460</u>
Debt Service:							
Bond principal							
Bond interest and other charges							669,472
Note principal							124,919
Note interest							
TOTAL EXPENDITURES		<u>6,773</u>	<u>30,231</u>	<u>52,387</u>	<u>56,712</u>		<u>1,106,851</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>19,301</u>	<u>4,050</u>	<u>14,476</u>	<u>8,880</u>	<u>(39,113)</u>	<u>630,037</u>	<u>1,411,064</u>
OTHER FINANCING SOURCES (USES)							
Transfers in							
Transfers out						(555,194)	(1,067,622)
Loss on sale of investments							
TOTAL OTHER FINANCING SOURCES (USES)						<u>(555,194)</u>	<u>(1,067,622)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>19,301</u>	<u>4,050</u>	<u>14,476</u>	<u>8,880</u>	<u>(39,113)</u>	<u>74,843</u>	<u>343,442</u>
FUND BALANCES - JANUARY 1	<u>16,936</u>	<u>409</u>		<u>334,140</u>	<u>103,190</u>		<u>599,553</u>
FUND BALANCES - DECEMBER 31	<u>\$ 36,237</u>	<u>\$ 4,459</u>	<u>\$ 14,476</u>	<u>\$ 343,020</u>	<u>\$ 64,077</u>	<u>\$ 74,843</u>	<u>\$ 942,995</u>

CITY OF CONWAY, ARKANSAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - OTHER FUNDS IN THE AGGREGATE -
 REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	SPECIAL REVENUE FUNDS			CAPITAL PROJECTS FUNDS		
	Street Impact Fees	Parks Impact Fees	Stormwater Retention	Fire and Recreation Police Sales and Use Tax	Parks and Recreation Restaurant Tax	Street Sales and Use Tax
REVENUES						
State aid						\$ 797,322
Property taxes	\$ 3,123	\$ 674				
Franchise fees	921,184	294,967	\$ 45,067			3,077,160
Sales taxes						
Fines, forfeitures, and costs						
Interest				\$ 2	\$ 198	12,209
Local permits and fees						
Sanitation fees						
Employer contributions						
Employee contributions						
Advertising and promotion taxes						
Other						188,905
TOTAL REVENUES	924,307	295,641	45,067	2	198	4,075,596
EXPENDITURES						
Current:						
General government						
Law enforcement	1,608,949					3,211,004
Highways and streets				1,153,838		
Public safety						
Sanitation						
Recreation and culture					64,174	
Total Current	1,608,949		45,067	1,153,838	64,174	3,211,004
Debt Service:						
Bond principal						
Bond interest and other charges						
Note principal						
Note interest						
TOTAL EXPENDITURES	1,608,949		45,067	1,153,838	64,174	3,211,004
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(684,642)	295,641	45,067	(1,153,836)	(63,976)	864,592
OTHER FINANCING SOURCES (USES)						
Transfers in				1,219,443		
Transfers out		(222,314)				(1,219,525)
Loss on sale of investments						
TOTAL OTHER FINANCING SOURCES (USES)		(222,314)		1,219,443		(1,219,525)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(684,642)	73,327	45,067	65,607	(63,976)	(354,933)
FUND BALANCES - JANUARY 1	1,783,595	397,166		(65,318)	1,095,545	2,774,468
FUND BALANCES - DECEMBER 31	\$ 1,098,953	\$ 470,493	\$ 45,067	\$ 289	\$ 1,031,569	\$ 2,419,535

CITY OF CONWAY, ARKANSAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - OTHER FUNDS IN THE AGGREGATE -
 REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	DEBT SERVICE FUNDS				ENTERPRISE FUND		TRUST FUND		Totals
	2006 Sales and Use Tax Capital Improvement Bond	Soccer Park Loan	2006 Franchise Fee Improvement Bond	Hewlett-Packard Franchise Revenue Bond	Sanitation	Nonuniformed Pension and Relief Plan			
REVENUES									
State aid									\$ 797,322
Property taxes									368,149
Franchise fees									630,037
Sales taxes	\$ 3,077,160								6,154,320
Fines, forfeitures, and costs									78,334
Interest			\$ 1,834	\$ 263	\$ 52,598				257,282
Local permits and fees									1,305,925
Sanitation fees					8,175,708				8,175,708
Employer contributions									473,940
Employee contributions									258,248
Advertising and promotion taxes									2,517,257
Other					36,097				230,282
TOTAL REVENUES	41	3,085,831	1,834	263	8,264,403	12	1,246,704		21,246,804
EXPENDITURES									
Current:									
General government									268,833
Law enforcement									281,198
Highways and streets									4,996,543
Public safety									1,155,038
Sanitation					7,001,737				7,351,736
Recreation and culture									94,529
Total Current					7,001,737		1,022,443		14,524,511
Debt Service:									
Bond principal	490,000	3,560,000	150,000	120,000					4,320,000
Bond interest and other charges	569,596	285,294	193,486	79,838					1,128,214
Note principal			\$ 206,980		367,219				1,243,671
Note interest			15,334		54,987				195,240
TOTAL EXPENDITURES	1,059,596	3,845,294	343,486	199,838	7,423,943	1,022,443			21,411,636
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,059,555)	(759,463)	(341,652)	(199,575)	840,460	224,261			(164,832)
OTHER FINANCING SOURCES (USES)									
Transfers in	1,067,622	82	342,419	212,775	(1,217,620)				3,064,655
Transfers out									(4,282,275)
Loss on sale of investments									(15,276)
TOTAL OTHER FINANCING SOURCES (USES)	1,067,622	82	342,419	212,775	(1,217,620)	(15,276)			(1,232,896)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	8,067	(759,381)	767	13,200	(377,160)	208,985			(1,397,728)
FUND BALANCES - JANUARY 1	80,942	2,850,079	220,587	120,046	6,592,953	6,414,163			23,318,454
FUND BALANCES - DECEMBER 31	\$ 89,009	\$ 2,090,698	\$ 0	\$ 133,246	\$ 6,215,793	\$ 6,623,148			\$ 21,920,726

CITY OF CONWAY, ARKANSAS
 NOTES TO SCHEDULES 1 AND 2
 DECEMBER 31, 2011

The following funds and descriptions represent all funds reported as other funds in the aggregate.

<u>Fund Name</u>	<u>Fund Description</u>
Parks and Recreation Ad Valorem	Conway City Ordinance no. A-418 (1964) authorized voluntary assessment of real and personal property tax for the purpose of providing additional funds for operation and maintenance of public recreation and playgrounds.
Animal Welfare Ad Valorem	Conway City Ordinance no. A-468 (1968) authorized voluntary assessment of real and personal property tax for the purpose of providing additional funds for construction, operation, and maintenance of a municipal animal shelter.
Spay and Neuter	Conway City Code § 6.04.25 (2011) established fees paid for the licensing of dogs or cats collected to be set aside for an assisted spay and neuter program and other animal health needs.
Court Automation	Ark. Code Ann. § 16-13-704 established fund to receive District Court installment fees of 1/2 of \$5 per month on each person to be used for court related technology.
Drug Control	Ark. Code Ann. § 5-64-505 established fund to receive asset forfeitures resulting from drug offense cases due to arresting agency.
Conway Corporation Franchise	Conway City Code § 4.40.07 (2011) established a franchise fee of 2.5% of the retail electric sales to all customers excluding City of Conway and Conway Corporation with 40% of these fees to be segregated and specifically earmarked for the payment of all or a portion of capital projects that will enhance or augment desirable economic development, including the acquisition of real property and rights-of-way for construction, the exercise of eminent domain, road and highway improvements, water service, wastewater treatment, and any expansion of utility infrastructure, including electric, cable, gas, or telephone. Additional Conway City Code 4.64.05 (2011) established a franchise fee equal to 5% of gross revenues from subscription fees for video services.

CITY OF CONWAY, ARKANSAS
 NOTES TO SCHEDULES 1 AND 2
 DECEMBER 31, 2011

The following funds and descriptions represent all funds reported as other funds in the aggregate.

<u>Fund Name</u>	<u>Fund Description</u>
Parks and Recreation Advertising and Promotion	Conway City Ordinance nos. O-05-97 (August 16, 2005) and O-05-98 (August 16, 2005) both levied a one percent tax on prepared food and beverages know as A&P no. 1 and A&P no. 2, respectively. Twenty-five percent of A&P no. 1 shall be used at the discretion of the Advertising and Promotion Commission. Seventy-five percent of A&P no. 1 and one hundred percent of A&P no. 2 shall be used by the Commission at the direction of the Mayor, upon approval of the City Council, for the development, purchase, and construction of Conway parks and recreation facilities.
Tree Board	Conway City Code § 5.36.01 (2011) established the Conway Tree Board to develop a definite plan for the care, preservation, and disposition of the trees on the public property.
Street Impact Fees	Conway City Ordinance no. O-03-98 (July 29, 2003) authorized the assessment of development impact fees for the improvement of roads and parks.
Parks Impact Fees	Conway City Ordinance no. O-03-98 (July 29, 2003) authorized the assessment of development impact fees for the improvement of roads and parks.
Stormwater Retention	Conway City Ordinance no. O-09-13 (February 10, 2009) established a stormwater retention fee to be collected for the purpose of stormwater management.
Fire and Police Sales and Use Tax	Fund established to receive sales tax designated for the purpose of the Fire Department's capital improvement projects.
Parks and Recreation Restaurant Tax	Fund established to receive Restaurant Gross Receipts Tax designated for the purpose of parks and recreation capital improvement project.
Street Sales and Use Tax	Fund established to receive sales tax designated for the purpose of street capital improvement projects.
Restaurant Tax 2007 Bond	Conway Ordinance no. O-07-144 (November 6, 2007) authorized the issuance and sale of Restaurant Gross Receipts Tax Capital Improvement Bonds for the purpose of financing certain park and trail improvements within the City.

CITY OF CONWAY, ARKANSAS
 NOTES TO SCHEDULES 1 AND 2
 DECEMBER 31, 2011

The following funds and descriptions represent all funds reported as other funds in the aggregate.

<u>Fund Name</u>	<u>Fund Description</u>
2006 Sales and Use Tax Capital Improvement Bond	Conway Ordinance no. O-06-10 (February 28, 2006) authorized the issuance and sale of Franchise Tax Capital Improvement Bonds for the purpose of financing the cost of police station facilities within the City.
Soccer Park Loan	Fund established to account for payments of the soccer park loan.
2006 Franchise Fee Improvement Bond	Conway Ordinance no. O-06-149 (November 14, 2006) authorized the issuance and sale of Franchise Fee Revenue Improvement Bonds for the purpose of financing the cost of certain wastewater and electric system improvements and certain roadway infrastructure and related improvements.
Hewlett-Packard Franchise Revenue Bond	Conway Ordinance no. O-08-144 (November 25, 2008) authorized the issuance and sale of taxable Electric Franchise Fee Revenue Bonds (Hewlett-Packard Company Project) for the purpose of financing the cost of site improvements in connection with the construction of certain industrial facilities to be owned by the City, leased to Conway Development Corporation, and then subleased to Hewlett-Packard Company.
Sanitation	Conway City Code § 5.04.01 (2011) created a City Sanitation Department to be supervised and operated by the city council for the purpose of efficiently and systematically gathering, transporting, and disposing of all garbage inside the city limits.
Nonuniformed Pension and Relief Plan	Conway City Ordinance no. A-431 (March 22, 1966) called for an election to establish a Pension and Relief Fund for nonuniformed employees of the City and a special tax of one mill on the dollar on all real and personal property within the City to assist in providing a Pension and Relief Fund for nonuniformed employees and was passed by the voters May 3, 1966.
District Court	Ark. Code Ann. § 16-10-204 established account to receive fines, forfeitures, and costs collected by the District Court.
Seized Assets	Fund established to account for assets seized by Conway Police Department drug seizure cases.
Disbursement Clearing	Fund established as a flow-through for disbursements of operating funds.

CITY OF CONWAY, ARKANSAS
OTHER INFORMATION
SCHEDULE OF CAPITAL ASSETS
DECEMBER 31, 2011
(Unaudited)

Schedule 3

	<u>December 31, 2011</u>
Land	\$ 17,110,038
Buildings	44,688,638
Equipment	<u>24,970,463</u>
Total	<u>\$ 86,769,139</u>
 <u>Enterprise Fund Assets</u>	
Land	\$ 2,496,581
Buildings	2,042,405
Equipment	<u>11,296,964</u>
Total	<u>\$ 15,835,950</u>

