

City of Conway, Arkansas

Auditor's Reports and Financial Statements

December 31, 2012



City of Conway, Arkansas
December 31, 2012

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Independent Auditor's Report

The Mayor and City Council
City of Conway, Arkansas

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of City of Conway, Arkansas (the City), as of and for the year ended December 31, 2012, and the related notes to the basic financial statements, which collectively comprise City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Conway Corporation or the City of Conway Advertising and Promotion Commission, whose financial statements reflect assets constituting 100 percent of total assets and revenues constituting 100 percent of total revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for such entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Conway, Arkansas, as of December 31, 2012, and the respective changes in financial position and cash flows, where applicable, 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 and budgetary and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BKD, LLP

City of Conway, Arkansas

Management's Discussion and Analysis

December 31, 2012

The following discussion and analysis of the City of Conway, Arkansas's financial performance provides an overview of the City's financial activities for the year ended December 31, 2012. Readers should consider the information presented here in conjunction with the City's financial statements that follow this section. In the prior year, the City's financial statements were not prepared in accordance with generally accepted accounting standards. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Financial Highlights

- Total assets of the City exceeded total liabilities at the close of 2012 by \$151,105,117. Of this amount, \$138,708,396 represents the City's net investment in capital assets; \$12,654,617 is restricted for debt service, capital improvements and public works projects; and there is an unrestricted net deficit of \$257,896.
- The City's reported total net position increased by \$6,382,045 (4.4%) in 2012. Net position of the governmental activities increased \$7,567,310 (5.5%). Net position of the City's business-type activities, consisting of the Sanitation Fund, decreased by \$1,185,265 (16.8%).
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$19,932,568. The combined governmental funds balances increased \$4,564,204 (29.7%) from the prior year. The primary components of this change were that general fund revenues exceeded expenditures by \$2,094,002 and transfers in from the Sanitation Fund to the General Fund of \$2,447,360. The majority of governmental fund balances (\$12,161,993) are considered restricted to specific purposes at December 31, 2012, and \$7,712,236 is reported as unassigned and can be spent at the discretion of the City Council.
- The General Fund reported fund balance of \$7,770,575 at the end of the current year. Unassigned fund balance for the General Fund was \$7,712,236 or 29.8% of total General Fund expenditures. There was a \$4,527,917 increase in the total fund balance for the General Fund for the year ended December 31, 2012.
- The City's total debt increased by \$4,182,198 (15.1%) during the current year. The key factors in this increase were the issuance of \$15,695,000 in revenue bonds to refinance existing debt and to provide funds for capital outlay.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to that of a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

City of Conway, Arkansas
Management's Discussion and Analysis
December 31, 2012

The statement of activities presents information showing how the government's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenue and expenses reported in this statement for some items will only result in cash flows in future periods, *e.g.*, uncollected taxes and earned but unused vacation leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the City include general government, police and fire, public works, parks and recreation, and municipal airport. The business-type activities of the City consist only of sanitation operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also its component units, Conway Corporation and the City of Conway Advertising and Promotion Commission. Financial information for these component units are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on Pages 12-13 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

City of Conway, Arkansas
Management's Discussion and Analysis
December 31, 2012

The City maintains 23 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, the Street Fund, the Debt Service Fund, the 2006 Sales Tax Capital Improvement Fund and the 2012 Sales Tax Capital Improvement Fund, which are considered to be major funds. Data from the other 18 governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on Pages 14–15 of this report.

Proprietary Funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City maintains one enterprise fund, which is a type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its sanitation operations.

The basic proprietary fund financial statements can be found on Pages 16–18 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City maintains two different types of fiduciary funds. The Pension Trust Fund is used to report resources held in trust for retirees and beneficiaries covered by the Nonuniformed Employees' Defined Benefit Pension Plan. The Agency Fund reports resources held by the City in a custodial capacity for individuals, private organizations and other governments.

The basic fiduciary fund financial statements can be found on Pages 19–20 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on Pages 21–51 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's General Fund and Street Fund budgets and the City's progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found on Page 52 of this report.

City of Conway, Arkansas
Management's Discussion and Analysis
December 31, 2012

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$151,105,117 at December 31, 2012.

City of Conway, Arkansas
Net Position

	Governmental Activities	Business-Type Activities	Total
Current assets	\$ 22,956,561	\$ 1,963,272	\$ 24,919,833
Noncurrent and other assets	5,033,391	4,467,508	9,500,899
Capital assets	<u>155,302,372</u>	<u>10,432,276</u>	<u>165,734,648</u>
Total assets	<u>183,292,324</u>	<u>16,863,056</u>	<u>200,155,380</u>
Current liabilities	6,721,813	1,348,061	8,069,874
Long-term liabilities outstanding	<u>31,347,642</u>	<u>9,632,747</u>	<u>40,980,389</u>
Total liabilities	<u>38,069,455</u>	<u>10,980,808</u>	<u>49,050,263</u>
Net investment in capital assets	129,474,290	9,234,106	138,708,396
Restricted	8,187,109	4,467,508	12,654,617
Unrestricted	<u>7,561,470</u>	<u>(7,819,366)</u>	<u>(257,896)</u>
Total net position	<u>\$ 145,222,869</u>	<u>\$ 5,882,248</u>	<u>\$ 151,105,117</u>

The largest portion of the City's net position (\$138,708,396) reflects its investment in capital assets, *e.g.*, land, buildings, improvements other than buildings, machinery and equipment, and infrastructure, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be utilized to liquidate these liabilities. An additional portion of the City's net position (\$12,654,617) represents resources that are subject to restrictions as to how they may be used, and remaining is an unrestricted net deficit of \$257,896.

The City's overall net position increased \$6,382,045 from the prior year. The reasons for the overall increase are discussed in the following sections for the governmental activities and business-type activities.

City of Conway, Arkansas
Management's Discussion and Analysis
December 31, 2012

City of Conway, Arkansas
Changes in Net Position

	Governmental Activities	Business-Type Activities	Total
Revenues			
<i>Program revenues</i>			
Charges for services	\$ 4,076,242	\$ 7,983,660	\$ 12,059,902
Operating grants and contributions	4,957,660	-	4,957,660
Capital grants and contributions	3,377,356	68,570	3,445,926
<i>General revenues</i>			
General property taxes	4,714,840	-	4,714,840
Sales and use taxes	25,034,762	-	25,034,762
Franchise fees	2,982,941	-	2,982,941
General state revenue turnback	954,207	-	954,207
Investment income	31,390	61,035	92,425
Other	611,641	-	611,641
Total revenues	46,741,039	8,113,265	54,854,304
Expenses			
General government	7,274,541	-	7,274,541
Police	10,633,725	-	10,633,725
Fire	9,579,446	-	9,579,446
Public works	9,492,575	-	9,492,575
Parks and recreation	3,312,523	-	3,312,523
Airport	49,376	-	49,376
Interest expense on long-term debt	1,254,543	-	1,254,543
Sanitation	-	6,875,530	6,875,530
Total expenses	41,596,729	6,875,530	48,472,259
Increase in net position before transfers	5,144,310	1,237,735	6,382,045
Transfers	2,423,000	(2,423,000)	-
Change in Net Position	7,567,310	(1,185,265)	6,382,045
Net position – January 1	137,655,559	7,067,513	144,723,072
Net position – December 31	\$ 145,222,869	\$ 5,882,248	\$ 151,105,117

Governmental Activities. Governmental activities increased the City's net position by \$7,567,310 from the prior year for an ending balance of \$145,222,869. The increase was the result of revenues exceeding expenses by \$5,144,310 in 2012 and the transfer of \$2,423,000 from the City's sanitation operations.

Business-Type Activities. Business-type activities decreased the City's net position by \$1,185,265 (16.8%) to an ending net position of \$5,882,248. The decrease is the result of sanitation net income of \$1,237,735 less transfers to the governmental activities of \$2,423,000.

City of Conway, Arkansas
Management's Discussion and Analysis
December 31, 2012

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of December 31, 2012, the City's governmental funds reported combined ending fund balances of \$19,932,568, an increase of \$4,564,204 during the year. Approximately 38.7% of this amount (\$7,712,236) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is either nonspendable or restricted to indicate that it is either: 1) not in spendable form (\$58,339), or 2) restricted for particular purposes (\$12,161,993).

The *General Fund* is the chief operating fund of the City. At the end of the year, unassigned fund balance of the general fund was \$7,712,236, while the total fund balance increased \$4,527,917 to \$7,770,575. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 29.8% of total general fund expenditures, while overall General Fund balance represents 30% of that same amount.

The *Street Fund*, a major fund, had a decrease of \$125,278 to an overall Street Fund balance of \$2,216,055 at the end of the year, which is restricted for street maintenance and construction.

The *Debt Service Fund*, a major governmental fund, had a decrease in fund balance of \$696,551 during the year to bring the year end fund balance to \$2,234,315.

The *2006 Sales Tax Capital Improvement Fund*, a major governmental fund, had a decrease in fund balance of \$2,394,186 during the year to bring the year end fund balance to \$421,417. The decrease is due to the spend down of bond proceeds for capital improvements.

The *2012 Sales Tax Capital Improvement Fund*, the remaining major governmental fund, was established during the year and had an increase of \$3,426,816 during the year to bring the year end fund balance to \$3,426,816. The increase is due to the \$8.2 million in bond proceeds for capital improvements less \$2.7 million in actual capital expenditures during the year.

Proprietary Funds. The City's proprietary funds provide the same information found in the government-wide financial statements, but with more detail.

Net position at the end of the year amounted to \$5,882,248 for sanitation operations, a decrease from the prior year of \$1,185,265. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

City of Conway, Arkansas
Management's Discussion and Analysis
December 31, 2012

General Fund Budgetary Highlights

Original Budget Compared to Final Budget. The final amended General Fund budget had total appropriations of \$1,651,512 (6.5%) more than the original budget of \$25,425,647. The primary purpose of the amendments was to increase budgeted revenues and expenditures to reflect better than expected general sales tax collections during the course of the year resulting in more funds available for expenditure.

Final Budget Compared to Actual Results. Actual General Fund expenditures for the year were \$1,207,475 (4.5%) less than final budgeted expenditures. However, actual General Fund revenues exceeded final budgeted revenues by \$1,208,963 (4.5%) primarily due to the better than expected general sales tax collections, resulting in an overall surplus of \$4,527,917, \$2,339,491 more than the final budget surplus (deficiency).

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for governmental and business-type activities as of December 31, 2012, amounts to \$165,734,648 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment and infrastructure. The total increase in the City's investment in capital assets for 2012 was 4.4% (a 5.2% increase for governmental activities and a 6.1% decrease for business-type activities).

City of Conway, Arkansas
 Capital Assets, net of depreciation

	Governmental Activities		Business-Type activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 15,484,341	\$ 15,071,496	\$ 1,014,332	\$ 1,014,332	\$ 16,498,673	\$ 16,085,828
Buildings and improvements	39,839,852	41,209,109	1,901,142	2,009,332	41,740,994	43,218,441
Equipment	8,618,329	7,411,510	6,288,149	6,975,090	14,906,478	14,386,600
Infrastructure	73,322,222	75,910,176	1,228,653	1,115,170	74,550,875	77,025,346
Construction in progress	18,037,628	7,997,993	-	-	18,037,628	7,997,993
Total	<u>\$ 155,302,372</u>	<u>\$ 147,600,284</u>	<u>\$ 10,432,276</u>	<u>\$ 11,113,924</u>	<u>\$ 165,734,648</u>	<u>\$ 158,714,208</u>

Major capital asset events during 2012 included the following:

- Infrastructure additions were \$10,915,650.
- Equipment additions were \$3,496,555.
- Depreciation expense totaled \$8,826,664.

Additional information on the City's capital assets can be found in *Note 3* on Pages 32–33 of this report.

Long-Term Debt. At December 31, 2012, the City's primary government, had \$31,926,911 of long-term debt outstanding, including bonds payable of \$28,521,067, secured solely by specified revenue sources, *i.e.* revenue bonds.

City of Conway, Arkansas
Management's Discussion and Analysis
December 31, 2012

City of Conway, Arkansas
Outstanding Debt

(net of premium/discount)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Bonds payable	\$ 28,521,067	\$ 23,010,000	\$ -	\$ -	\$ 28,521,067	\$ 23,010,000
Notes payable	1,491,025	2,401,547	1,198,170	1,575,781	2,689,195	3,977,328
Leases payable	716,649	757,385	-	-	716,649	757,385
Total	<u>\$ 30,728,741</u>	<u>\$ 26,168,932</u>	<u>\$ 1,198,170</u>	<u>\$ 1,575,781</u>	<u>\$ 31,926,911</u>	<u>\$ 27,744,713</u>

Total long-term debt at December 31, 2012, increased \$4,182,198, an increase of 15.1%. The net increase is primarily the result of two new special obligation debt issuances that refunded existing special obligation debt and provided approximately \$8.2 million in capital project funds for acquiring firefighting and sanitation equipment, as well as expansion to the City's landfill.

The City is within all of its legal debt limitations. Under the Arkansas Constitution, the City is allowed to issue, with voter approval, general obligation debt up to 20% of total assessed valuation. The City had no outstanding general obligation bonds at December 31, 2012. The City is allowed to issue short-term financings (maturities of less than five years) up to 5% of total assessed valuation. Outstanding short-term financings at December 31, 2012, of approximately \$2.7 million are well below the statutory limit of \$48,656,763. Voter approval is not required for short-term financing.

Additional information regarding the City's long-term debt can be found in *Note 4* on Pages 34–37 of this report.

Economic Factors and Next Year's Budgets and Rates

Sales tax revenue showed positive growth in 2012—about 4.5% over what was collected in 2011. However, management decided that for budget purposes going forward, it was in the best interest of the City to take an ultra-conservative approach and budget flat amounts for sales tax beginning with the 2013 budget cycle. This was because sales tax represents such a large portion of the City's budget, and any economic downturns have the potential to greatly impact operations for that year. There have only been two years in the history of the City's sales tax, 2002 and 2009, in which collections were less than the prior year. City management feels like it can safely budget flat sales tax revenue without encountering too much risk, but to budget for sales tax revenue increases and then have them not come to fruition can cause major problems in the City's ability to stay within its budgetary expenditure limits.

On February 12, 2012, voters passed a rededication of a quarter-cent sales tax that was originally passed in 1987 as a half cent and then was rededicated and split into two quarter cents in 2006. The 2012 rededication split the quarter cent into two eighths cents, with one eighth being pledged to debt service and the other eighth being pledged as backup for debt service and for general purposes up to the point needed for debt service. This one-eighth cent for general purposes will allow the City to give employee raises in 2013. It will be the first time since 2010 that raises have been given.

City of Conway, Arkansas
Management's Discussion and Analysis
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The City's budget for 2013 is balanced with total resources greater than or equal to total expense appropriation within each fund, as well as in the aggregate. Total estimated revenues amount to \$55,957,065 and total expenses amount to \$53,668,025. This leaves an estimated \$2,289,040 surplus to be used partially for employee raises, and the remainder for appropriations during the year. At the time the budget was passed, City Council was still debating on the salary structure to use going forward, thus employee raises were not included in the adopted budget.

During the current year, the unassigned fund balance in the General Fund was \$7,712,236. The City has appropriated \$466,065 of the amount for spending in the 2013 budget.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 1201 Oak Street, Conway, Arkansas 72032.

City of Conway, Arkansas
Statement of Net Position
December 31, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Conway Corporation	A & P Commission
Assets					
Current Assets					
Cash and cash equivalents	\$ 10,455,648	\$ 1,239,841	\$ 11,695,489	\$ 12,986,119	\$ 1,243,060
Certificates of deposit	-	-	-	30,842,052	-
Restricted cash and cash equivalents – current	2,024,864	-	2,024,864	-	-
Accounts receivable, net of allowance	9,952,645	-	9,952,645	7,726,304	277,885
Due from component units	518,431	667,943	1,186,374	-	-
Internal balances	(53,366)	53,366	-	-	-
Inventory	-	2,122	2,122	7,853,967	-
Prepaid items	58,339	-	58,339	670,544	-
	<u>22,956,561</u>	<u>1,963,272</u>	<u>24,919,833</u>	<u>60,078,986</u>	<u>1,520,945</u>
Noncurrent Assets					
Restricted assets					
Cash and cash equivalents	4,763,807	4,467,508	9,231,315	28,337,812	-
	<u>4,763,807</u>	<u>4,467,508</u>	<u>9,231,315</u>	<u>28,337,812</u>	<u>-</u>
Capital assets – nondepreciable	33,521,969	1,014,332	34,536,301	69,230,060	-
Capital assets – depreciable, net	121,780,403	9,417,944	131,198,347	195,245,288	-
	<u>155,302,372</u>	<u>10,432,276</u>	<u>165,734,648</u>	<u>264,475,348</u>	<u>-</u>
Other assets					
Land held for resale	-	-	-	410,296	-
Deferred bond issue costs	269,584	-	269,584	863,173	-
	<u>269,584</u>	<u>-</u>	<u>269,584</u>	<u>1,273,469</u>	<u>-</u>
Total noncurrent assets	<u>160,335,763</u>	<u>14,899,784</u>	<u>175,235,547</u>	<u>294,086,629</u>	<u>-</u>
Total assets	<u>\$ 183,292,324</u>	<u>\$ 16,863,056</u>	<u>\$ 200,155,380</u>	<u>\$ 354,165,615</u>	<u>\$ 1,520,945</u>

See Notes to Financial Statements

Liabilities and Net Position	Primary Government			Component Units	
	Governmental	Business-Type	Total	Conway	A & P
	Activities	Activities		Corporation	Commission
Current liabilities					
Accounts payable	\$ 1,756,093	\$ 266,908	\$ 2,023,001	\$ 5,242,373	\$ 64,797
Accrued expenses and other liabilities	1,252,108	122,803	1,374,911	3,540,239	-
Due to primary government	-	-	-	751,962	434,412
Customer deposits	-	-	-	1,655,662	-
Notes and lease payable – current portion	773,278	388,297	1,161,575	-	-
Compensated absences – current portion	672,602	79,096	751,698	-	-
Deferred revenue	-	-	-	489,363	-
Accrued interest payable	132,732	24,525	157,257	695,900	-
Developer deposits	-	-	-	265,998	-
Bonds payable – current portion	2,135,000	-	2,135,000	3,229,942	-
Estimated liability for landfill closure and post closure care costs – current portion	-	466,432	466,432	-	-
Total current liabilities	6,721,813	1,348,061	8,069,874	15,871,439	499,209
Noncurrent Liabilities					
Net pension obligation	2,679,220	1,286,026	3,965,246	-	-
Notes payable	761,763	809,873	1,571,636	-	-
Leases payable	672,633	-	672,633	-	-
Bonds payable, net	26,386,067	-	26,386,067	90,540,340	-
Compensated absences	847,959	76,900	924,859	-	-
Postemployment benefits	-	-	-	1,005,380	-
Estimated liability for landfill closure and post closure care costs	-	7,459,948	7,459,948	-	-
Total noncurrent liabilities	31,347,642	9,632,747	40,980,389	91,545,720	-
Total liabilities	38,069,455	10,980,808	49,050,263	107,417,159	499,209
Net Position					
Net investment in capital assets	129,474,290	9,234,106	138,708,396	189,745,251	-
Restricted – expendable					
Debt service	2,234,315	4,467,508	6,701,823	4,469,659	-
Capital improvements	3,736,739	-	3,736,739	-	-
Public works	2,216,055	-	2,216,055	-	-
Developer deposits	-	-	-	100,092	-
Advertising and promotion	-	-	-	-	1,021,736
Total restricted – expendable	8,187,109	4,467,508	12,654,617	4,569,751	1,021,736
Unrestricted (Deficit)	7,561,470	(7,819,366)	(257,896)	52,433,454	-
Total net position	145,222,869	5,882,248	151,105,117	246,748,456	1,021,736
Total liabilities and net position	\$ 183,292,324	\$ 16,863,056	\$ 200,155,380	\$ 354,165,615	\$ 1,520,945

City of Conway, Arkansas
Statement of Activities
Year Ended December 31, 2012

Functions/Programs Primary Government	Expenses	Program Revenues			Primary Government			Net (Expense) Revenue and Changes in Net Assets		Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Conway Corporation	A & P Commission		
Governmental Activities											
General government	\$ 7,274,541	\$ 2,067,332	\$ 3,452,403	\$ -	\$ (1,754,806)	\$ -	\$ (1,754,806)				
Police	10,633,725	502,599	910,471	-	(9,220,655)	-	(9,220,655)				
Fire	9,579,446	85,430	594,786	-	(8,899,230)	-	(8,899,230)				
Public works	9,492,575	641,973	-	3,377,356	(5,473,246)	-	(5,473,246)				
Parks and recreation	3,312,523	699,480	-	-	(2,613,043)	-	(2,613,043)				
Airport	49,376	79,428	-	-	30,052	-	30,052				
Interest expense on long-term debt	1,254,543	-	-	-	(1,254,543)	-	(1,254,543)				
Total governmental activities	41,596,729	4,076,242	4,957,660	3,377,356	(29,185,471)	-	(29,185,471)				
Business-Type Activities											
Sanitation	6,875,530	7,983,660	-	68,570	-	1,176,700	1,176,700				
Total business-type activities	6,875,530	7,983,660	-	68,570	-	1,176,700	1,176,700				
Total primary government	\$ 48,472,259	\$ 12,059,902	\$ 4,957,660	\$ 3,445,926	(29,185,471)	1,176,700	(28,008,771)				
Component Units											
Conway Corporation	\$ 99,331,900	\$ 104,282,906	\$ -	\$ 2,654,678				\$ 7,605,684	\$ -		
A & P Commission	512,403	-	-	-				-	(512,403)		
Total component units	\$ 99,844,303	\$ 104,282,906	\$ -	\$ 2,654,678				7,605,684	(512,403)		
General revenues											
General property taxes					4,714,840	-	4,714,840	-	-		
Sales and use taxes					25,034,762	-	25,034,762	-	-		
Franchise fees					2,982,941	-	2,982,941	-	-		
General state revenue turnback					954,207	-	954,207	-	683,991		
Investment income					31,390	61,035	92,425	479,188	2,571		
Other					611,641	-	611,641	-	-		
Transfers					2,423,000	(2,423,000)	-	-	-		
Total general revenues and transfers					36,752,781	(2,361,965)	34,390,816	479,188	686,562		
Change in Net Position					7,567,310	(1,185,265)	6,382,045	8,084,872	174,159		
Net Position, Beginning of Year					137,655,559	7,067,513	144,723,072	238,663,584	847,577		
Net Position, End of Year					\$ 145,222,869	\$ 5,882,248	\$ 151,105,117	\$ 246,748,456	\$ 1,021,736		

City of Conway, Arkansas
Balance Sheet
Governmental Funds
December 31, 2012

	General Fund	Street Fund	Debt Service Fund	2006 Sales Tax Capital Improvements	2012 Sales Tax Capital Improvements	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 5,597,782	\$ 1,595,583	\$ 2,193,374	\$ 672,866	\$ 3,426,816	\$ 3,757,898	\$ 17,244,319
Accounts receivable	6,201,804	1,700,039	-	555,654	-	1,495,148	9,952,645
Due from other funds	663,077	596,254	-	625	-	3,223	1,263,179
Due from component units	477,490	-	40,941	-	-	-	518,431
Prepaid items	58,339	-	-	-	-	-	58,339
Total assets	<u>\$ 12,998,492</u>	<u>\$ 3,891,876</u>	<u>\$ 2,234,315</u>	<u>\$ 1,229,145</u>	<u>\$ 3,426,816</u>	<u>\$ 5,256,269</u>	<u>\$ 29,036,913</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 647,622	\$ 292,831	\$ -	\$ 206,630	\$ -	\$ 609,010	\$ 1,756,093
Accrued wages payable and related liabilities	1,145,200	69,399	-	-	-	37,509	1,252,108
Due to other funds	569,212	19,321	-	601,098	-	191,673	1,381,304
Deferred revenue	2,865,883	1,294,270	-	-	-	554,687	4,714,840
Total liabilities	<u>5,227,917</u>	<u>1,675,821</u>	<u>-</u>	<u>807,728</u>	<u>-</u>	<u>1,392,879</u>	<u>9,104,345</u>
Fund Balances							
Nonspendable	58,339	-	-	-	-	-	58,339
Restricted	-	2,216,055	2,234,315	421,417	3,426,816	3,863,390	12,161,993
Unassigned	7,712,236	-	-	-	-	-	7,712,236
Total fund balances	<u>7,770,575</u>	<u>2,216,055</u>	<u>2,234,315</u>	<u>421,417</u>	<u>3,426,816</u>	<u>3,863,390</u>	<u>19,932,568</u>
Total liabilities and fund balances	<u>\$ 12,998,492</u>	<u>\$ 3,891,876</u>	<u>\$ 2,234,315</u>	<u>\$ 1,229,145</u>	<u>\$ 3,426,816</u>	<u>\$ 5,256,269</u>	<u>\$ 29,036,913</u>

Total fund balances – total governmental funds	\$ 19,932,568
Amounts reported for the governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	155,302,372
Other miscellaneous items	64,759
Property tax receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	4,714,840
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities are as follows:	
Accrued interest payable on long-term debt	(132,732)
Accrued compensated absences	(1,520,561)
Net pension and other post-employment obligations	(2,679,220)
Bonds payable, net	(28,251,483)
Notes payable and obligations under capital lease	(2,207,674)
Total net position – governmental activities	<u>\$ 145,222,869</u>

City of Conway, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2012

	General Fund	Street Fund	Debt Service Fund	2006 Sales Tax Capital Improvements	2012 Sales Tax Capital Improvements	Other Governmental Funds	Total
Revenues							
General property taxes	\$ 2,628,110	\$ 1,290,276	\$ -	\$ -	\$ -	\$ 37,149	\$ 3,955,535
Sales and use taxes	17,284,775	241,784	1,684,777	3,181,366	-	2,642,060	25,034,762
Licenses and permits	497,099	1,080	-	-	-	-	498,179
Charges for services	1,258,495	10,650	-	-	-	905,130	2,174,275
Fines and forfeitures	1,316,224	-	-	-	-	104,977	1,421,201
Franchise fees	2,358,226	-	624,715	-	-	-	2,982,941
Intergovernmental	2,220,178	2,503,691	-	873,665	-	3,691,589	9,289,123
Investment income	4,297	3,829	5,630	11,008	1,188	5,438	31,390
Miscellaneous	396,282	188,794	-	-	-	9,252	594,328
Total revenues	27,963,686	4,240,104	2,315,122	4,066,039	1,188	7,395,595	45,981,734
Expenditures							
Current							
General government	5,249,183	-	-	-	-	144,991	5,394,174
Police	9,708,880	-	-	-	-	-	9,708,880
Fire	8,200,956	-	-	-	-	-	8,200,956
Public works	-	3,896,034	-	-	-	-	3,896,034
Parks and recreation	2,136,525	-	-	-	-	-	2,136,525
Airport	24,711	-	-	-	-	-	24,711
Capital outlay							
General government	174,006	-	-	-	-	727,854	901,860
Police	243,782	-	-	-	-	568,957	812,739
Fire	39,730	-	-	-	2,721,603	193,329	2,954,662
Public works	-	469,348	-	5,843,359	-	3,076,373	9,389,080
Parks and recreation	11,911	-	-	-	-	468,002	479,913
Airport	80,000	-	-	-	-	3,067,265	3,147,265
Debt service:							
Principal	-	-	3,040,508	-	-	697,895	3,738,403
Interest	-	-	1,024,165	-	-	96,497	1,120,662
Bond issuance costs	-	-	256,476	-	-	-	256,476
Agent fees	-	-	13,108	-	-	-	13,108
Total expenditures	25,869,684	4,365,382	4,334,257	5,843,359	2,721,603	9,041,163	52,175,448
Excess (Deficiency) of Revenues Over Expenditures	2,094,002	(125,278)	(2,019,135)	(1,777,320)	(2,720,415)	(1,645,568)	(6,193,714)
Other Financing Sources (Uses)							
Bonds issued	-	-	7,457,600	-	8,237,400	-	15,695,000
Premiums (discounts) on bonds issued	-	-	114,918	-	-	-	114,918
Payments to refunded bond escrow agents	-	-	(7,475,000)	-	-	-	(7,475,000)
Transfers in	2,447,360	-	1,225,066	345,008	-	2,809,898	6,827,332
Transfers out	(13,445)	-	-	(961,874)	(2,090,169)	(1,338,844)	(4,404,332)
Total other financing sources (uses)	2,433,915	-	1,322,584	(616,866)	6,147,231	1,471,054	10,757,918
Net Change in Fund Balances	4,527,917	(125,278)	(696,551)	(2,394,186)	3,426,816	(174,514)	4,564,204
Fund Balances, Beginning of Year	3,242,658	2,341,333	2,930,866	2,815,603	-	4,037,904	15,368,364
Fund Balances, End of Year	\$ 7,770,575	\$ 2,216,055	\$ 2,234,315	\$ 421,417	\$ 3,426,816	\$ 3,863,390	\$ 19,932,568

See Notes to Financial Statements

Net change in fund balances - total governmental funds \$ 4,564,204

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital asset purchases	14,862,740
Loss on disposal of capital assets	(39,459)
Depreciation expense	(7,121,193)

Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

759,305

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

(4,328,080)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This is the net change in these items this year.

Accrued interest	(132,732)
Accrued compensated absences	(25,889)
Net pension and other post-employment obligations (assets)	(971,586)

Change in net position of governmental activities

\$ 7,567,310

City of Conway, Arkansas
Statement of Net Position
Proprietary Funds
December 31, 2012

	<u>Business-Type Activities – Enterprise Fund</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 1,239,841
Due from component unit	667,943
Due from other funds	64,975
Other current assets	<u>1,387</u>
Total current assets	<u>1,974,146</u>
Noncurrent assets	
Capital assets	
Land and buildings	4,538,986
Equipment	11,406,975
Infrastructure	1,623,347
Less accumulated depreciation	<u>(7,137,032)</u>
Capital assets, net	10,432,276
Restricted cash and cash equivalents	<u>4,467,508</u>
Total noncurrent assets	<u>14,899,784</u>
 Total assets	 <u><u>\$ 16,873,930</u></u>

	Business-Type Activities – Enterprise Fund
Liabilities	
Current liabilities	
Accounts payable	\$ 266,173
Accrued wages payable and related liabilities	201,899
Due to other funds	11,609
Accrued interest payable	24,525
Current portion of note payable	388,298
Current portion of landfill closure and post closure care	466,432
Total current liabilities	<u>1,358,936</u>
Noncurrent liabilities	
Compensated absences	76,900
Note payable	809,872
Landfill closure and post closure care costs	7,459,948
Net pension obligation	1,286,026
Total noncurrent liabilities	<u>9,632,746</u>
Total liabilities	<u>10,991,682</u>
Net Position	
Net investment in capital assets	9,234,106
Restricted for debt service	4,467,508
Unrestricted	(7,819,366)
Total net position	<u><u>\$ 5,882,248</u></u>

City of Conway, Arkansas
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended December 31, 2012

	Business-Type Activities – Enterprise Fund
Operating Revenues	
Charges for services	\$ 7,983,660
Total operating revenues	7,983,660
Operating Expenses	
Sanitation operations	4,486,172
Depreciation	1,705,471
Total operating expenses	6,191,643
Operating Income	1,792,017
Nonoperating Revenues (Expenses)	
Investment income	61,035
Grant revenue	68,570
Gain (loss) on sale of assets	(647,022)
Interest expense	(36,865)
Total nonoperating revenues (expenses)	(554,282)
Income Before Transfers	1,237,735
Transfers Out	(2,423,000)
Change in Net Position	(1,185,265)
Net Position, Beginning of Year	7,067,513
Net Position, End of Year	\$ 5,882,248

City of Conway, Arkansas
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2012

	Business-Type Activities – Enterprise Fund
Operating Activities	
Receipts from customers	\$ 7,983,660
Payments to employees	(3,174,258)
Payments to suppliers	(905,964)
	3,903,438
Net cash provided by operating activities	3,903,438
Noncapital Financing Activities	
Transfers to other funds	(2,423,000)
	(2,423,000)
Net cash used in noncapital financing activities	(2,423,000)
Capital and Related Financing Activities	
Purchase of capital assets	(1,722,767)
Proceeds from the sale of capital assets	51,921
Other	62,871
Principal paid on long-term debt	(377,611)
Interest paid on long-term debt	(36,865)
	(2,022,451)
Net cash used in capital and related financing activities	(2,022,451)
Investing Activities	
Interest income	61,035
	61,035
Net cash provided by investing activities	61,035
Decrease in Cash and Cash Equivalents	(480,978)
Cash and Cash Equivalents, Beginning of Year	6,188,327
Cash and Cash Equivalents, End of Year	\$ 5,707,349
Presented on the Statement of Fund Net Position – Proprietary Funds as Follows:	
Current assets	
Cash and cash equivalents	\$ 1,239,841
Noncurrent assets	
Cash and cash equivalents	4,467,508
	\$ 5,707,349

**Reconciliation of Operating Income to
to Net Cash Provided By Operating Activities**

Operating income	\$	1,792,017
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization expense		1,705,471
Changes in assets and liabilities		
Due to/due from other funds, net		(512,877)
Accounts payable		178,721
Accrued expenses		<u>740,106</u>
Net cash provided by operating activities	\$	<u><u>3,903,438</u></u>

City of Conway, Arkansas
Statement of Net Position – Fiduciary Funds
December 31, 2012

	Employees’ Pension Plan	Agency Funds
Assets		
Cash and cash equivalents	\$ 793,280	\$ 338,094
Investments		
Corporate bonds	494,937	-
Stocks	6,593,371	-
Municipal bonds	103,707	-
Receivables		
Accounts receivable	415,183	-
Due from other funds	67,997	-
Interest and dividends	8,905	-
	<u>8,477,380</u>	<u>338,094</u>
Total assets		
Liabilities		
Accounts payable	-	338,094
Due to other funds	3,238	-
	<u>3,238</u>	<u>338,094</u>
Total liabilities		
Net Position		
Net position held in trust	<u>\$ 8,474,142</u>	<u>\$ -</u>

City of Conway, Arkansas
Statement of Changes in Net Position – Fiduciary Funds
Year Ended December 31, 2012

	Employees’ Pension Plan
Additions	
Contributions	
Employer	\$ 441,581
Plan members	441,581
Property taxes contributed from general fund	380,540
Total contributions	1,263,702
Investment Income:	
Net increase in fair value of investments	610,804
Interest	99,473
Dividends	107,499
	817,776
Less investment expense	47,013
Net investment income	770,763
Total additions	2,034,465
Deductions	
Benefits paid directly to participants	1,034,597
Refunds of contributions	105,142
Administrative expense	5,031
Total deductions	1,144,770
Change in Net Position	889,695
Net Position Held in Trust, Beginning of Year	7,584,447
Net Position Held in Trust, End of Year	\$ 8,474,142

City of Conway, Arkansas

Notes to Financial Statements

Year Ended December 31, 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

The City of Conway, Arkansas (the City), is a municipal corporation operating under the authority of Arkansas state statute. The City operates under an elected mayor-council form of government. Eight elected council members and the Mayor set policy for the City. The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America for state and local governments as defined by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting and reporting policies of the City.

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the City and its component units. The component units are legally separate entities for which the City is considered to be financially accountable. Accountability is defined as the City's substantive appointment of the majority of the component unit's governing board. Furthermore, to be financially accountable, the City must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to or impose specific financial burdens on the City. These component units are further distinguished between Blended Component Units, presented as part of the primary government, and Discretely Presented Component Units, presented separately.

The City's defined benefit plans, being fiduciary in nature, were not evaluated as potential component units but instead are reported as fiduciary funds.

The City's primary government consists of those funds or organizations that make up the legal entity for which it is financially responsible. Under these criteria, the following are included in the primary government reporting entity:

Blended Component Units

The Planning Commission of the City of Conway, Arkansas (the "Planning Commission") – The Planning Commission of the City of Conway, Arkansas (the "Planning Commission") was established by ordinance of the City in 1976, and is governed by members nominated by the Planning Commission and confirmed by the City Council. Although it is legally separate from the City, the Planning Commission is reported as if it were part of the primary government because its sole function is performed for the City. There are no financial activities for the Planning Commission.

Discretely Presented Component Units

Conway Corporation (the Corporation) – The Corporation provides electric, water, waste water treatment, cable, internet and telephone services to industrial, residential, commercial and institutional customers in the City of Conway, Arkansas. 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.

City of Conway, Arkansas

Notes to Financial Statements

Year Ended December 31, 2012

The City of Conway Advertising and Promotion Commission (the Commission) – The governing body of the Commission is appointed by the Mayor of Conway subject to City Council approval. The City has the power to impose its will on the Commission. The Commission acts autonomously and serves as the sales and advertising office for the City’s convention and tourism industry.

Government-wide and Fund Financial Statements

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

Government-Wide Financial Statements

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

Fund Financial Statements

The fund financial statements provide information about the City’s funds, including its fiduciary funds. Separate statements for each fund type—governmental, proprietary and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and major enterprise funds, each displayed in a separate column. All other governmental and enterprise funds are aggregated and reported as nonmajor funds.

City of Conway, Arkansas

Notes to Financial Statements

Year Ended December 31, 2012

The City reports the following 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 and charges for services.

The *street fund* accounts for gasoline and road taxes received from the state and county levies. Revenues are expended for maintenance and repair of streets and sidewalks.

The *debt service fund* accounts for financial resources that are restricted for principal and interest-related costs as well as the financial resources being accumulated for future debt service.

The *2006 sales tax capital improvements fund* accounts for the acquisition and construction of major capital facilities financed with the proceeds of the 2006 Sales and Use Tax Capital Improvement Bonds.

The *2012 sales tax capital improvements fund* accounts for the acquisition and construction of major capital facilities financed with the proceeds of the 2012 Sales and Use Tax Refunding and Capital Improvement Bonds.

The City reports one major enterprise fund. It accounts for the City's Sanitation Department operations, which is primarily supported by user charges.

Additionally, the City reports the following fund types:

The pension trust fund which accounts for assets held in trust for the Nonuniformed Employees' Defined Benefit Pension Plan. Pension trust funds are accounted for in essentially the same manner as proprietary funds.

The agency fund accounts for monies collected and held by the City until they are disbursed to various governmental agencies.

Measurement Focus and Basis of Accounting

Government-Wide, Proprietary and Fiduciary Funds

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

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 Conway, Arkansas

Notes to Financial Statements

Year Ended December 31, 2012

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

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in available spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available.

The City considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, federal funds, local funds and investment earnings. Other revenues are considered to be measurable and available only when cash is received by the City. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences and obligations for workers' compensation, which are recognized as expenditures when payment is due. Pension expenditures are recognized when amounts are due to a plan.

Use of Estimates

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

Cash and Cash Equivalents

The City considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2012, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Investments and Investment Income

All investments in the City's pension funds are carried at fair value. Fair value is determined using quoted market prices for all investment.

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.

Prepaid Items

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

Capital Assets

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

Capital assets are defined as assets with an initial value or cost greater than or equal to \$5,000 and an estimated useful life of greater than one year. Exceptions are for infrastructure assets which are defined as having a constructed cost greater than \$250,000.

Capital assets are depreciated using the straight-line method over their estimated useful lives ranging from 5–50 years for infrastructure, 10–50 years for buildings and improvements and 3–20 years for furniture, vehicles and equipment.

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, business-type activities and component units. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. Debt premiums, discounts and deferred losses on refundings are generally deferred and amortized using the effective interest rate method. Long-term debt is reported net of the applicable debt premium or discount. Debt issuance costs are deferred and amortized over the life of the related debt using the straight-line method.

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

City of Conway, Arkansas

Notes to Financial Statements

Year Ended December 31, 2012

Compensated Absences

City employees earn sick pay and vacation leave benefits on the basis of length of service time. Subject to certain restrictions, City employees are compensated (historically from the fund which the employee is assigned) for unused sick and vacation time upon leaving the City's employment. All sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. In governmental funds, a liability for these amounts is reported only as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. For governmental activities, the liability for compensated absences is generally liquidated from the general fund.

Deferred Revenue

Resource inflows that do not yet meet the criteria for revenue recognition are deferred in all funds. Unearned amounts are always reported as deferred revenues. In the governmental funds, earned amounts are also reported as deferred if they are not received within 60 days of year-end.

Fund Balance – Governmental Funds

The fund balances for the City's governmental funds are displayed in three components:

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

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

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

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

Net Position

Net position of the City is classified in three components. Net investment in capital assets, consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted.

City of Conway, Arkansas

Notes to Financial Statements

Year Ended December 31, 2012

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

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and street funds. All annual appropriations lapse at year-end and are re-established in the succeeding year.

New Governmental Accounting Standards Board (GASB) Pronouncements

GASB has issued the following statements which the City has not yet adopted and which require adoption subsequent to December 31, 2012:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—An Amendment of GASB Statements No. 14 and No. 34*, issued November 2010 will be effective for the City for the year ended December 31, 2013. The GASB 61 modifies certain requirements for inclusion of component units in the financial reporting entity, amends criteria for reporting component units as if they were part of the primary government, *i.e.* blending in certain circumstances and clarifies the reporting of equity interests in legally separate organizations.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of GASB 65 are effective for periods beginning after December 15, 2012, and would be applied on a prospective basis.

GASB Statement No. 66, *Technical Corrections - 2012*, enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. GASB 66 amends both GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 66 are effective for periods beginning after December 15, 2012, and would be applied on a prospective basis.

GASB Statement No. 67, *Financial Reporting for Pension Plans (an amendment of GASB Statement No. 25)*, replaces requirements of GASB Statements No. 25 and No. 50, related to pension plans administered through trusts or similar arrangements. GASB 67 uses existing framework for financial reports of defined benefit pension plans, including a statement of fiduciary net position and a statement of changes in fiduciary net position, and enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. GASB 67 requires the presentation of information about annual money-weighted rates of return in the notes and in 10-year required supplementary information schedules. The provisions of GASB 67 are effective for periods beginning after June 15, 2013.

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)* replaces requirements of GASB Statements No. 27 and No. 50, related to pension plans administered through trusts or similar arrangements. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits and adds revised and new note disclosures and required supplementary information. The provisions of GASB 68 are effective for periods beginning after June 15, 2014.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term “government combinations” includes a variety of transactions referred to as mergers, acquisitions and transfers of operations. GASB 69 is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

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, 2012, the City’s certificate of deposit with one financial institution exceeded federally insured limits by approximately \$50,000. At December 31, 2012, none of City’s component units’ bank balances were uninsured or uncollateralized.

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

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

Investments at December 31, 2012, consisted of the following:

Type	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Corporate bonds	\$ 494,937	\$ 102,519	\$ 359,725	\$ 32,693	\$ -
Money market mutual funds	7,287,185	7,287,185	-	-	-
Municipal bonds	103,707	-	103,707	-	-
	<u>7,885,829</u>	<u>\$ 7,389,704</u>	<u>\$ 463,432</u>	<u>\$ 32,693</u>	<u>\$ -</u>
Corporate stocks	<u>6,593,371</u>				
	<u>\$ 14,479,200</u>				

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

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The pension fund investment policy limits its investments to U.S. Treasury and Agency securities, “AAA” mortgage-backed investments, and corporate bond issues rated at “A” by either Moody’s or Standard & Poor’s at the time of purchase.

Investment Type	Rating Agency	Rating
Corporate bonds	S&P/Moody’s	A3/BBB+ to A2/A
Money market mutual funds	S&P/Moody’s	AAA/Aaa
Municipal bonds	S&P	A

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. While the City’s investment policy does not directly address custodial credit risk, all investments held by the City or by an agent of the City in the City’s name are insured or collateralized or limited to Treasury Fund Money Markets.

Concentration of Credit Risk – The City defines the following ranges as suitable for portfolio asset allocation:

	Minimum	Maximum
Stocks	60%	80%
Fixed income	20%	40%
Cash equivalents	0%	10%

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Summary of Carrying Values

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

	Primary Government	Component Units
Carrying value		
Deposits	\$ 16,795,857	\$ 73,409,043
Investments	14,479,200	-
	\$ 31,275,057	\$ 73,409,043
Included in the following statement of net position captions		
Cash and cash equivalents	\$ 11,695,489	\$ 14,229,179
Certificates of deposit	-	30,842,052
Restricted cash and cash equivalents – current	2,024,864	-
Restricted cash and cash equivalents – noncurrent	9,231,315	28,337,812
Included in the following fiduciary net assets captions		
Cash and cash equivalents	1,131,374	-
Investments	7,192,015	-
	\$ 31,275,057	\$ 73,409,043

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Note 3: Capital Assets

A summary of changes in capital assets for the year ended December 31, 2012, is presented below:

Governmental Activities	Balance, December 31, 2011	Additions and Transfers, Net	Retirements and Transfers, Net	Balance, December 31, 2012
Capital assets, nondepreciable				
Land	\$ 15,071,496	\$ 412,845	\$ -	\$ 15,484,341
Construction in progress	7,997,993	10,915,650	876,015	18,037,628
Total capital assets, nondepreciable	<u>23,069,489</u>	<u>11,328,495</u>	<u>876,015</u>	<u>33,521,969</u>
Capital assets, depreciable				
Buildings and improvements	46,950,110	37,690	-	46,987,800
Equipment	24,819,010	3,496,555	469,947	27,845,618
Infrastructure	121,086,189	876,015	5,700	121,956,504
Total capital assets, depreciable	<u>192,855,309</u>	<u>4,410,260</u>	<u>475,647</u>	<u>196,789,922</u>
Less accumulated depreciation				
Buildings and improvements	5,741,001	1,406,947	-	7,147,948
Equipment	17,407,500	2,103,338	283,549	19,227,289
Infrastructure	45,176,013	3,612,457	154,188	48,634,282
Total accumulated depreciation	<u>68,324,514</u>	<u>7,122,742</u>	<u>437,737</u>	<u>75,009,519</u>
Total governmental activities, net	<u>\$ 147,600,284</u>	<u>\$ 8,616,013</u>	<u>\$ 913,925</u>	<u>\$ 155,302,372</u>
Business-Type Activities	Balance, December 31, 2011	Additions and Transfers, Net	Retirements and Transfers, Net	Balance, December 31, 2012
Capital assets, nondepreciable				
Land	\$ 1,014,332	\$ -	\$ -	\$ 1,014,332
Total capital assets, nondepreciable	<u>1,014,332</u>	<u>-</u>	<u>-</u>	<u>1,014,332</u>
Capital assets, depreciable				
Buildings and improvements	3,524,654	-	-	3,524,654
Equipment	11,271,101	1,650,951	1,515,077	11,406,975
Infrastructure	1,456,914	166,433	-	1,623,347
Total capital assets, depreciable	<u>16,252,669</u>	<u>1,817,384</u>	<u>1,515,077</u>	<u>16,554,976</u>
Less accumulated depreciation				
Buildings and improvements	1,515,322	108,190	-	1,623,512
Equipment	4,296,011	1,639,119	816,304	5,118,826
Infrastructure	341,744	52,950	-	394,694
Total accumulated depreciation	<u>6,153,077</u>	<u>1,800,259</u>	<u>816,304</u>	<u>7,137,032</u>
Total business-type activities, net	<u>\$ 11,113,924</u>	<u>\$ 17,125</u>	<u>\$ 698,773</u>	<u>\$ 10,432,276</u>

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Component Unit	Balance, December 31, 2011	Additions and Transfers, Net	Retirements and Transfers, Net	Balance, December 31, 2012
Capital Assets, non-depreciable				
Land and land rights	\$ 17,881,443	\$ 956,685	\$ -	\$ 18,838,128
Construction in progress	<u>15,159,179</u>	<u>41,276,352</u>	<u>6,043,599</u>	<u>50,391,932</u>
Total capital assets, non-depreciable	<u>33,040,622</u>	<u>42,233,037</u>	<u>6,043,599</u>	<u>69,230,060</u>
Capital Assets, depreciable				
Building and improvements	171,887,258	11,233,508	15,100	183,105,666
Equipment	143,324,144	7,561,814	1,098,148	149,787,810
Undivided interest in coal-fired generating plants	<u>45,353,930</u>	<u>398,121</u>	<u>-</u>	<u>45,752,051</u>
Total capital assets, depreciable	<u>360,565,332</u>	<u>19,193,443</u>	<u>1,113,248</u>	<u>378,645,527</u>
Less accumulated depreciation	<u>170,485,664</u>	<u>13,856,081</u>	<u>941,506</u>	<u>183,400,239</u>
Total capital assets, depreciable, net	<u>190,079,668</u>	<u>5,337,362</u>	<u>171,742</u>	<u>195,245,288</u>
Total component unit, net	<u>\$ 223,120,290</u>	<u>\$ 47,570,399</u>	<u>\$ 6,215,341</u>	<u>\$ 264,475,348</u>

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

Governmental activities	
General administration	\$ 614,492
Airport	24,665
Fire	843,992
Highways and streets	3,937,344
Parks and recreation	1,002,156
Law enforcement	<u>698,544</u>
Total depreciation expense	<u>7,121,193</u>
Business-type activities	
Sanitation	<u>1,705,471</u>
Total depreciation expense	<u>1,705,471</u>
Total depreciation expense, primary government	<u>\$ 8,826,664</u>

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended December 31, 2012, were as follows:

Governmental Activities	Balance December 31, 2011	Increases	Decreases	Balance December 31, 2012	Amounts Due in One Year
Bonds payable	\$ 23,010,000	\$ 15,695,000	\$ 10,300,000	\$ 28,405,000	\$ 2,135,000
Premiums (discounts)	-	114,918	(1,149)	116,067	-
Notes payable	2,401,547	-	910,522	1,491,025	729,262
Leases payable	757,385	-	40,736	716,649	44,016
Compensated absences	1,494,672	698,491	672,602	1,520,561	672,602
Net pension obligation	<u>1,707,634</u>	<u>971,586</u>	<u>-</u>	<u>2,679,220</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 29,371,238</u>	<u>\$ 17,479,995</u>	<u>\$ 11,922,711</u>	<u>\$ 34,928,522</u>	<u>\$ 3,580,880</u>

Business-Type Activities	Balance December 31, 2011	Increases	Decreases	Balance December 31, 2012	Amounts Due in One Year
Notes payable	\$ 1,575,781	\$ -	\$ 377,611	\$ 1,198,170	\$ 388,297
Compensated absences	163,596	71,495	79,096	155,995	79,096
Net pension obligation	819,665	466,361	-	1,286,026	-
Estimated liability for landfill closure and post closure care costs	<u>7,448,657</u>	<u>477,723</u>	<u>-</u>	<u>7,926,380</u>	<u>466,432</u>
Total business-type activities long-term liabilities	<u>\$ 10,007,699</u>	<u>\$ 1,015,579</u>	<u>\$ 456,707</u>	<u>\$ 10,566,571</u>	<u>\$ 933,825</u>

Bonds outstanding at December 31, 2012, were as follows:

Governmental Activities	Interest Rates	Final Maturity	Original Issue	Total Outstanding
Restaurant Tax Bonds, Series 2007	4-5%	2028	\$ 14,100,000	\$ 11,750,000
Franchise Fee Revenue Bonds, Series 2008	6.25%	2019	2,220,000	1,040,000
Franchise Fee Revenue Bonds, Series 2012	1-3.75%	2030	4,440,000	4,360,000
Sales and Use Tax Bonds, Series 2012	2-2.75%	2021	11,255,000	<u>11,255,000</u>
				<u>\$ 28,405,000</u>

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Restaurant Gross Receipts Tax Capital Improvement Bonds, Series 2007 – Bonds in the amount of \$14,100,000 were issued in December 2007 to finance the acquisition, construction and equipping of certain park and trail improvements within the City and to pay the costs of issuance of the bonds. These bonds are special obligations of the City secured by, and payable solely from, restaurant gross receipts tax. The tax shall continue until sufficient monies are accumulated to retire the bonds. Interest payments are due annually on December 1.

These bonds are subject to redemption in part by sinking fund installments beginning December 1, 2021. These bonds are also subject to redemption at direction of the City beginning December 1, 2015.

Electric Franchise Fee Revenue Bonds, Series 2008 – The City issued \$2,220,000 Electric Franchise Tax Bonds to finance the cost of site improvements at an industrial site. The bonds are special obligations of the City secured by, and payable solely from, receipts of electric franchise fees. The pledge of electric franchise fee receipts securing payment of the series 2008 bonds is subject and subordinate to the City's obligations under the Franchise Fee Revenue Lease-Purchase Agreement. Interest payments are due semiannually each January 1 and July 1. These bonds are subject to redemption in part by sinking fund installments beginning July 1, 2009. These bonds are also subject to redemption at direction of the City beginning July 1, 2009.

Franchise Fee Revenue Bonds, Series 2012 – Bonds in the amount of \$4,440,000 were issued with varying interest rates from 1.00% to 3.75% to refund the outstanding Franchise Fee Revenue Improvement Bonds, Series 2006, which had interest rates ranging from 4.00% to 4.375%. Principal payments are due annually on December 1. Interest payments are due semiannually on June 1 and December 1. The bonds are special obligations of the City secured by, and payable solely from, receipts of the franchise fees. These bonds are subject to redemption in part by sinking fund installments beginning December 1, 2030. These bonds are also subject to redemption at direction of the City beginning June 1, 2017.

Proceeds of \$4,416,053 were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the 2006 Series Franchise Fee Revenue Improvement Bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The current refunding of the 2006 Series Franchise Fee Revenue Improvement Bonds in the amount of \$4,400,000 reduced the City's total debt service payments over 19 years by \$407,754 and resulted in an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$300,290.

Sales and Use Tax Bonds, Series 2012 – Bonds in the amount of \$11,255,000 were issued by the City in May 2012 for the purpose of acquiring firefighting vehicles and equipment, acquiring sanitation vehicles and equipment, a landfill expansion and refunding of the City's outstanding Sales and Use Tax Capital Improvement Bonds, Series 2006. The bonds are special obligations of the City secured by, and payable solely from, receipts of the special sales and use tax and the general sales and use tax.

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

The interest rates on the bonds range from 2.00% to 2.75%. Principal payments are due annually on May 1. Interest payments are due semiannually on May 1 and November 1. These bonds are subject to mandatory redemption from Surplus Tax Receipts beginning May 31, 2013. These bonds are also subject to redemption at direction of the City beginning May 1, 2015.

The current refunding of the 2006 Series Sales and Use Tax Capital Improvement Bonds in the amount of \$3,075,000 increased the City's total debt service payments over nine years by \$161,156 and provided the City with an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$60,504.

Notes Payable

Notes payable at December 31, 2012, were as follows:

Governmental Activities

- Note payable to bank for improvements to the Conway Fairgrounds; annual installments of \$794,392 through August 1, 2014; interest rate 4.37%.

Business-Type Activities

- Note payable to bank for the purchase of a recycling sorter; due in annual installments of \$422,206 through April 9, 2015; interest rate 2.83%.

Leases Payable – Governmental Activities

Leases payable at December 31, 2012, were as follows:

- Lease-purchase agreement with bank to acquire energy efficiency improvements to city facilities; quarterly payments of \$18,685 to \$25,675 through July 1, 2023.

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on revenue bonds, leases payable and notes payable outstanding at December 31, 2012:

Governmental Activities

Fiscal Year	Principal	Interest	Total
2013	\$ 2,908,278	\$ 1,075,301	\$ 3,983,579
2014	2,999,637	983,928	3,983,565
2015	2,303,296	886,989	3,190,285
2016	2,378,404	817,921	3,196,325
2017	2,443,849	746,172	3,190,021
2018–2022	9,944,176	2,577,982	12,522,158
2023–2027	5,735,330	1,160,928	6,896,258
2028–2032	1,899,704	114,544	2,014,248
	<u>\$ 30,612,674</u>	<u>\$ 8,363,765</u>	<u>\$ 38,976,439</u>

Business-Type Activities

Fiscal Year	Principal	Interest	Total
2013	\$ 388,297	\$ 33,908	\$ 422,205
2014	399,286	22,919	422,205
2015	410,587	11,620	422,207
	<u>\$ 1,198,170</u>	<u>\$ 68,447</u>	<u>\$ 1,266,617</u>

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Note 5: Construction Commitments

At December 31, 2012, the City had the following commitments:

	Project Authorization	Expended Through December 31, 2012	Remaining Commitment
Conway Airport	\$ 16,305,984	\$ 8,791,976	\$ 7,514,008
Western Loop Street Project	1,582,412	1,096,943	485,469
Trail Improvements	1,525,861	625,804	900,057
Fire Vehicle and Equipment	6,131,250	2,704,434	3,426,816
Prince Street Improvements	3,860,000	2,110,142	1,749,858
Old Military Road Improvements	3,495,238	3,030,678	464,560
Total	\$ 32,900,745	\$ 18,359,977	\$ 14,540,768

Note 6: Interfund Balances and Transfers

Interfund receivables and payables as of December 31, 2012, are as follows:

	Interfund Receivables	Interfund Payables
General fund	\$ 663,077	\$ 569,212
Street fund	596,254	19,321
2006 sales tax capital improvements fund	625	621,118
Other governmental funds	3,223	171,653
Sanitation fund	64,975	11,609
Fiduciary fund	67,997	3,238
	\$ 1,396,151	\$ 1,396,151

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

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Interfund transfers in and transfers out for the year ended December 31, 2012, are as follows:

Transfers In	Transfers Out					Sanitation Fund	Total
	Governmental Funds				Proprietary Fund		
	General Fund	2006 Sales Tax Capital Improvements		2012 Sales Tax Capital Improvements	Other Funds		
		General Fund	Improvements	Improvements			
Governmental Funds							
General Fund	\$ -	\$ -	\$ -	\$ 24,360	\$ 2,423,000	\$ 2,447,360	
Debt Service Fund	-	-	1,225,066	-	-	1,225,066	
2006 Sales Tax Capital Improvements	-	-	345,008	-	-	345,008	
Other Funds	13,445	961,874	520,095	1,314,484	-	2,809,898	
	<u>\$ 13,445</u>	<u>\$ 961,874</u>	<u>\$ 2,090,169</u>	<u>\$ 1,338,844</u>	<u>\$ 2,423,000</u>	<u>\$ 6,827,332</u>	

During the year, transfers are used to move sanitation fees to the general fund. Further, during 2012, the City made one-time transfers from capital projects to the debt service fund for debt related payments.

Note 7: Fund Balance

The City classified governmental fund balances as follows:

	General Fund	Street Fund	Debt Service Fund	2006 Sales Tax Capital Improvements	2012 Sales Tax Capital Improvements	Other Governmental Funds	Total Governmental Funds
Fund Balances							
Nonspendable:							
Prepays	\$ 58,339	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,339
Restricted							
Debt service	-	-	2,234,315	-	-	-	2,234,315
Street maintenance	-	2,216,055	-	-	-	-	2,216,055
Fire capital projects	-	-	-	-	3,426,816	-	3,426,816
Street capital projects	-	-	-	421,417	-	-	421,417
Parks and recreation capital projects	-	-	-	-	-	2,765,522	2,765,522
Capital projects	-	-	-	-	-	703,347	703,347
Special projects	-	-	-	-	-	394,521	394,521
Unassigned	<u>7,712,236</u>	-	-	-	-	-	<u>7,712,236</u>
Total Fund Balances	<u>\$ 7,770,575</u>	<u>\$ 2,216,055</u>	<u>\$ 2,234,315</u>	<u>\$ 421,417</u>	<u>\$ 3,426,816</u>	<u>\$ 3,863,390</u>	<u>\$ 19,932,568</u>

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Note 8: Related Party Transactions

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

Water Department and Wastewater Department – As consideration for operation of these departments, the City receives \$25 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.

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 Cable Television Department 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 Cable Television Department to pay the City a franchise fee of 5% of gross revenues. The Cable Television Department paid the City approximately \$710,000 during the year ended December 31, 2012. At December 31, 2012, the Cable Television Department was indebted to the City in the amount of approximately \$65,000, which is recorded as due from component units.

Electric Department – The Corporation operates the Electric Department for the City pursuant to an exclusive franchise agreement requiring the Electric Department to assess each customer a 2.5% franchise fee on certain revenues. The Electric Department remitted approximately \$1,550,000 in franchise fees. At December 31, 2012, the Electric Department was indebted to the City in the amount of approximately \$15,000, which is recorded as due from component units. The Electric Department also pays the City \$120,000 in annual rent.

Sanitation Department – The City has entered into an agreement with the Corporation for collection of sanitation fees. The Corporation retains approximately 0.7% of the fees as compensation for the collection and billing services. The Corporation retained approximately \$20,000 for billing and collection services, and remitted approximately \$6,770,000 to the City in gross receipts during the year ended December 31, 2012. At December 31, 2012, the Sanitation Department was indebted to the City in the amount of approximately \$670,000, which is recorded as due from component units.

The City paid the Corporation approximately \$850,000 during 2012 for utility services provided to the City.

On August 16, 2005, Ordinance No. O-05-97 levied a 1% tax on prepared food for the benefit of the City (75%) and the Commission (25%). On the same date, Ordinance No. O-05-98 levied another 1% tax on prepared food for the benefit of the City. These taxes are collected by the Commission and remitted to the City. The Commission remitted approximately \$2,200,000 to the City during the year ended December 31, 2012. At December 31, 2012, the Commission was indebted to the City in the amount of approximately \$435,000, which is recorded as due from component units.

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Note 9: Pension Plans

Substantially all of the City’s employees receive retirement benefits. The assets of the plans are maintained in legally separate trusts and each plan’s assets may be used only for the payment of benefits to the members of that plan or their beneficiaries in accordance with the terms of the plan.

Membership of each plan consisted of the following at December 31, 2012:

	Firemen's Pension and Relief Plan	Policemen's Pension and Relief Plan	Nonuniformed Employees' Defined Benefit Pension Plan
Retirees and beneficiaries receiving benefits	23	42	73
Active plan members	0	0	226
Members on Deferred Retirement Option Plan (DROP)	4	0	0

Plan Descriptions and Funding Information

The ***Policemen’s Pension and Relief Fund (Policemen’s Fund)*** is an agent multiple-employer defined benefit pension plan administered by LOPFI, established in accordance with legislation enacted by the Arkansas General Assembly. Benefit provisions are established by State of Arkansas Act #16, as amended. Policemen’s Fund assets are administered by a board of trustees.

The Policemen’s Fund provides retirement benefits for policemen who have completed 20 years of service. Disability benefits are available to policemen who become permanently disabled, unless the disability is the direct result of gainful employment performed outside of the police department. The Policemen’s Fund also provides benefits for surviving spouses and dependent children of deceased policemen. No benefits are vested to participants until normal retirement. At normal retirement, participants may elect to continue working and enter the Deferred Retirement Option Plan (DROP) for up to 10 years. All policemen hired after January 1, 1983, participate in the Arkansas Local Police and Fire Retirement System created by Act 364 of 1981. Therefore, the Policemen’s Fund is effectively closed to new members.

Contributions to the Policemen’s Fund are set forth in Arkansas statute. The City’s contribution to the Policemen’s Fund consists of a one mill real and personal property tax collection, an insurance premium tax turn back collected by the State Insurance Commissioner, and a \$3 assessment against each court case plus 10% of fines and forfeitures collected. Additionally, the City contributes a percentage of the policemen’s salaries, which amounted to 6% during 2012. The participants contributed 6% of their salaries in 2012. Participant contributions are returned without interest if the participant terminates covered employment. Participant contributions are returned without interest if the participant terminates covered employment. Administrative costs are financed by the Policemen’s Fund.

City of Conway, Arkansas

Notes to Financial Statements

Year Ended December 31, 2012

As of January 1, 2012, the most recent actuarial valuation date, the Policemen's Pension and Relief Plan was 43% funded. The actuarial accrued liability for benefits was \$9,923,578 and the actuarial value of assets was \$4,285,123, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,638,455. The covered payroll (annual payroll of active employees covered by the plan) was \$4,883,553 and the ratio of the UAAL to the covered payroll was 115%.

The ***Firemen's Pension and Relief Fund (Firemen's Fund)*** is an agent multiple-employer defined benefit pension plan administered by LOPFI, established in accordance with legislation enacted by the Arkansas General Assembly. Benefit provisions are established by State of Arkansas Act #14, as amended. Fund assets are administered by a board of trustees.

The Firemen's Fund provides retirement benefits for firemen who have completed 20 years of service. Disability benefits are available to firemen who become permanently disabled, unless the disability is the direct result of gainful employment performed outside of the fire department. The Firemen's Fund also provides benefits for surviving spouses and dependent children of deceased firemen.

No benefits are vested to participants until normal retirement. At normal retirement, participants may elect to continue working and enter the DROP for up to 10 years. All firemen hired after January 1, 1983, participate in the Arkansas Local Police and Fire Retirement System created by Act 364 of 1981. Therefore, the Firemen's Fund is effectively closed to new members.

Contributions to the Firemen's Fund are set forth in Arkansas statute. The City's contribution to the Firemen's Fund consists of a one mill real and personal property tax collection and an insurance premium tax turnback collected by the State Insurance Commissioner. Additionally, the City contributes a percentage of the firemen's salaries which amounted to 6% during 2012. The participants contributed 6% of their salaries in 2012. Participant contributions are returned without interest if the participant terminates covered employment. Administrative costs are financed by the Firemen's Fund.

As of January 1, 2012, the most recent actuarial valuation date, the Firemen's Pension and Relief Plan was 36% funded. The actuarial accrued liability for benefits was \$9,652,797 and the actuarial value of assets was \$3,481,085 resulting in an unfunded actuarial accrued liability (UAAL) of \$6,171,712. The covered payroll (annual payroll of active employees covered by the plan) was \$4,956,302 and the ratio of the UAAL to the covered payroll was 125%.

The ***Nonuniformed Employees' Defined Benefit Pension Plan (Nonuniformed Plan)*** is a single-employer, defined benefit pension 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 Nonuniformed 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.

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future.

The Nonuniformed Plan uses the aggregate cost method in calculating the annual required contribution. This method does not identify or separately amortize unfunded actuarial accrued liabilities. Information about funded status and funding progress is presented using the entry age actuarial cost method. The information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

As of January 1, 2012, the most recent actuarial valuation date, the Nonuniformed Plan was 34% funded. The actuarial accrued liability for benefits was \$22,163,639 and the actuarial value of assets was \$7,610,004, resulting in an unfunded actuarial accrued liability (UAAL) of \$14,553,635. The covered payroll (annual payroll of active employees covered by the plan) was \$7,610,004, and the ratio of the UAAL to the covered payroll was 191%.

	Firemen's Pension and Relief Plan	Policemen's Pension and Relief Plan	Non-Uniformed Employees' Pension and Relief Plan
Annual required contribution	\$ 477,305	\$ 379,250	\$ 1,520,737
Interest on net pension obligation	-	-	224,713
Adjustment to annual required contribution	-	-	(172,160)
Annual pension cost	<u>477,305</u>	<u>379,250</u>	<u>1,573,290</u>
Contributions made	477,305	379,250	818,224
Increase in net pension obligation	-	-	755,066
Net pension obligation at beginning of the year	<u>-</u>	<u>-</u>	<u>3,210,180</u>
Net pension obligation at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,965,246</u></u>

Actuarial 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 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 Policemen's and Firemen's Pension and Relief Funds. Actuarial valuations are performed biennially and the last evaluation was as of December 31, 2012. Actuarial assumptions used in evaluating the fund include entry age cost method, five-year smoothed market for valuing assets, level percent open amortization method, and amortization period of five years for active participants and five years for retirees, 5% investment rate of return, 4.2% to 8% salary increases, and 4% inflation rate.

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at December 31, 2012, was 30 years.

	Firemen's Pension and Relief Fund	Policemen's Pension and Relief Fund	Nonuniformed Employees' Defined Benefit Pension Plan
Actuarial valuation date	12/31/2012	12/31/2012	1/1/2012
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent closed
Remaining amortization period	13 years	13 years	30 years
Asset valuation method	5-year smoothed	5-year smoothed	Market value
Investment rate of return	8%	8%	7%
Projected salary increases	4%	4%	3.5%
Includes inflation at	4%	4%	3.5%
Cost-of-living adjustments	None	None	None

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Three-Year Trend Information

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Firemen's Fund	12/31/2012	\$ 477,305	100%	\$ -
	12/31/2011	465,341	100%	-
	12/31/2009	752,921	100%	-
Policemen's Fund	12/31/2012	\$ 379,250	100%	\$ -
	12/31/2011	372,704	100%	-
	12/31/2009	1,130,046	100%	-
Nonuniformed Employees' Defined Benefit Pension Plan	12/31/2012	\$ 1,473,145	54%	\$ 3,965,246
	12/31/2011	1,498,696	54%	3,210,180
	12/31/2010	1,473,145	54%	2,527,299

Net pension obligations have historically been the responsibility of the general fund. In prior years, the actuarial value of assets was equal to the market value reported by the City less any benefits payable at year-end. Defined contribution accounts are excluded from plan assets for purposes of determining the employer contribution requirement of the plan.

Method Used to Determine Fair Value of Investments

The fair value of investments other than mutual funds is determined using quoted market prices. The fair value of investments in mutual funds is determined using the fund's net asset value per unit.

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Cost Sharing Multi-Employer Defined Benefit Pension Plan

The *Local Police and Fire Retirement System (LOPFI)* is a statewide cost sharing multi-employer retirement program that 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. The authority to establish and amend benefit provisions is set forth in Arkansas state statutes and is vested in the Arkansas Legislature with the concurrence of the Governor. 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 financial report that includes financial statements and required supplementary information of the Plan, which may be obtained by contacting the following:

Arkansas Local Police and Fire Retirement System
P.O. Drawer 34164
Little Rock, Arkansas 72203
501.682.1745

Contribution requirements are set forth in Arkansas statute. LOPFI members were required to contribute 8.5% of their annual covered salary. The City is required to contribute at an actuarially determined rate, which was 14.23% for participating policemen and 17.58% for participating firemen.

Note 10: Component Unit Retirement Plans

Defined Benefit Pension Plan

Plan Description: The Retirement Plan of the Corporation (the Plan) is a noncontributory, single-employer defined benefit pension plan administered by the Corporation with the Corporation's chief executive officer serving as the Plan's trustee. The Plan provides retirement benefits to eligible employees in the form of monthly pension payments over the life of the participant. The Corporation's board of directors has been assigned the authority to establish and amend benefit provisions of the Plan. An actuarial valuation is prepared by an independent actuary as of the beginning of each plan year, which occurs on August 1. Copies of this report may be obtained by contacting the Corporation.

Funding Policy: Contribution requirements are calculated by the Plan's independent actuary. The Corporation's policy is to contribute 100% of the annual required contribution amount calculated by the actuary, subject to approval by the Corporation's board of directors. Employer contributions for all departments, which equaled the annual required contributions, totaled \$1,716,000, \$1,344,216 and \$1,344,216 for the years ended December 31, 2012, 2011 and 2010, respectively. There was no net pension obligation at December 31, 2012, 2011 or 2010.

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Funded Status and Funding Progress: As of August 1, 2012, the most recent actuarial valuation date, the funded status was as follows:

Actuarial accrued liability (AAL)	\$ 20,964,805
Actuarial value of plan assets	<u>17,441,339</u>
Unfunded actuarial accrued liability	<u><u>\$ 3,523,466</u></u>
Funded ratio (actuarial value of plan assets/AAL)	83.2%
Covered payroll (active plan members)	\$ 11,753,362
UAAL as a percentage of covered payroll	30.0%

Actuarial Methods and Assumptions: In the August 1, 2012, actuarial valuation, the frozen actuarial liability cost method was used. The actuarial assumptions included (a) 7% investment rate of return and (b) projected salary increases of 4% per year. Both (a) and (b) included an inflation component of 3%. The actuarial value of Plan assets is equal to market value. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at August 1, 2012, was 22 years.

Section 457 Deferred Compensation Plan

The Conway Corporation 457 Supplemental Retirement Plan was formed, effective January 1, 2000, as a supplemental defined contribution retirement program for employees. Employee participation in this plan is optional. The Corporation makes matching contributions for eligible employees who elect to participate up to 25% of the first 3% of each participant's gross pay. Matching contributions for all Corporation employees for the years ended December 31, 2012 and 2011, totaled \$71,317 and \$66,886, respectively.

Note 11: Component Unit Postemployment Healthcare and Life Insurance Plan

Plan Description: The Corporation offers retiree medical benefits and life insurance to employees who retire from active employment under a single-employer defined benefit postemployment plan that is administered by the Corporation. The Corporation's board of directors has been assigned the authority to establish and amend benefits of the postemployment plan. An actuarial valuation was prepared by an independent actuary as of January 1, 2011. Copies of this report may be obtained by contacting the Corporation.

Funding Policy: Contribution requirements of the plan members and Corporation are established and may be amended by the board of directors. The required contribution is based on projected pay-as-you-go financing requirements.

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Annual OPEB Cost and Net OPEB Obligation: The Corporation's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (GASB No. 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Corporation's annual OPEB cost for the year, the amount actually contributed to the Plan and changes in the Corporation's net OPEB obligation to the Plan:

Annual required contribution	\$	182,606
Interest on net OPEB obligation		34,849
Adjustment to annual required contribution		(33,291)
Annual OPEB cost		184,164
Contributions made		(50,000)
Increase in net OPEB obligation		134,164
Net OPEB – beginning of year		871,214
Net OPEB – end of year	\$	1,005,378

The Corporation's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2012, 2011 and 2010 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2010	\$ 283,470	18.3%	\$ 740,990
12/31/2011	175,224	25.7%	871,214
12/31/2012	184,164	27.1%	1,005,378

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

Funded Status and Funding Progress: As of January 1, 2012 and 2011, the most recent actuarial valuation date, the funded status of the plan was as follows:

	2012
Actuarial accrued liability (AAL)	\$ 2,247,641
Actuarial value of plan assets	-
Unfunded actual accrued liability (UAAL)	<u>\$ 2,247,641</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 11,753,362
UAAL as a percentage of covered payroll	19.1%

Actuarial Methods and Assumptions: An actuarial valuation of an ongoing plan involves estimates regarding the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future.

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 January 1, 2011, actuarial valuation utilizes the unit credit actuarial cost method. The actuarial assumptions include an annual health care cost trend rate of 8.9%, reduced by decrements to an ultimate rate of 4.7% after 71 years. The rate includes a 3.0% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll, assuming 3.0% growth in covered payroll, on an open basis. The remaining amortization period at December 31, 2012, is 26 years.

City of Conway, Arkansas
Notes to Financial Statements
Year Ended December 31, 2012

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. Fixed premiums are set annually by the AML 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 \$2,000 fee to the AML for each legal matter it handles. There have been no significant reductions in coverage from 2011 to 2012; nor have settlement amounts exceeded insurance coverage for the current year or the three prior years.

Note 13: Contingencies

The City is a member of the Arkansas Municipal Legal Defense Program (the Program), which provides extraordinary legal defense and extraordinary expenses in suits against municipal officials and employees and civil rights suits against the municipal government. The Program only pays judgments for actual damages (not punitive damages) imposed on municipal governments and their officials and employees; which will not exceed 25% of the Program's available funds at the time the lawsuit was filed or the judgment becomes final, or \$1 million, whichever is less. In the opinion of the City Attorney, the amount of financial exposure to the City as a result of litigation matters handled by the Program is not significant to the City.

The City, its agencies and its employees are defendants in numerous legal proceedings, many of which normally occur in governmental operations. Such litigation includes, but is not limited to, claims assessed against the City for property damage and personal injury, other alleged torts and alleged violations of state and federal laws. It is not possible to predict with certainty or exactitude the ultimate outcome of all lawsuits pending or threatened against the City. Based on the current status of all of the legal proceedings, it is the opinion of the City Attorney and management that the ultimate outcome will not have a material adverse impact on the City's financial position. However, events could occur in the near term that would cause these estimates to change materially.

Note 14: Landfill Closure and Postclosure Care Cost

State and federal laws and regulations require that the City place a final cover on its landfills when closed and perform certain maintenance and monitoring functions at the landfill site for two years after certified closure at one landfill site and 30 years after certified closure at the current landfill site. Although closure and postclosure care costs will be paid only near or after the date that the current landfill stops accepting waste, the City recognizes a portion of these closure and postclosure care costs as an operating expense in each year based on landfill capacity used as of each balance sheet date.

City of Conway, Arkansas

Notes to Financial Statements

Year Ended December 31, 2012

The estimated liability for landfill closure and postclosure care costs was approximately \$7,926,380 as of December 31, 2012, which is based on the amount of the landfill site currently being used.

The City will recognize additional cost of closure and postclosure care as the remaining estimated capacity is filled. The City expects to close the landfills in the year 2026. Actual costs are subject to change due to inflation, deflation, changes in technology or changes in applicable laws or regulations.

The City is required by state and federal laws and regulations to establish financial assurance for the cost of closure and post closure care. The City Council approved the establishment of a trust fund in which annual contributions would be made, commencing in 2003. At December 31, 2012, the trust held funds of approximately \$4,467,508. The financial assurance is funded by a capital improvement sanitation surcharge that also funds sanitation capital improvements.

Note 15: Conduit Debt Obligations

From time to time, the City has issued economic development and other revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial, commercial, health care facilities and other deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither, the City, the State nor any political subdivision thereof, is obligated in any manner for repayment of the bonds.

As of December 31, 2012, the aggregate principal amount payable on these bonds was approximately \$141,541,765.

Note 16: Subsequent Events

On July 17, 2013, and May 9, 2014, the City issued promissory notes in the amounts of \$2,000,000 and \$3,000,000, respectively, to finance the construction of certain street projects. The promissory notes have an interest rate of 1.92% and are due July 2018 and May 2019, respectively.

On February 28, 2014, the City issued a promissory note in the amount of \$6,500,000 to finance the construction of an airport. The promissory note has an interest rate of 1.92% and is due upon the sale of certain property.

On August 1, 2014, the Corporation issued Series 2014 bonds, in the amount of \$9,980,000 to accomplish a current refunding of the Series 2009 bonds. The Series 2014 bonds have a varying interest rate from 1.00% to 3.00% and are due October 1, 2029. Subsequent to year ended December 31, 2012, the Corporation also has drawn approximately \$40,250,000 of authorized principal of the Series 2012B bond for the acquisition and construction of certain betterments and improvements to the City's waste water system.

Required Supplementary Information

City of Conway, Arkansas
Defined Benefit Pension Plans – Required Supplementary Information
Schedule of Employer Contributions
Year Ended December 31, 2012

	Year Ended December 31,	Annual Required Contribution	Percentage Contributed
Nonuniformed Employees' Defined Benefit Pension Plan	2004	\$ 830,340	69%
	2005	911,792	68%
	2006	915,910	67%
	2008	972,432	82%
	2009	1,442,821	116%
	2010	1,442,821	55%
	2011	1,457,322	56%
	2012	1,520,737	54%

City of Conway, Arkansas
Defined Benefit Pension Plans – Required Supplementary Information
Schedules of Funding Progress
Year Ended December 31, 2012

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
Primary Government							
Nonuniformed Employees' Defined Benefit Pension Plan	1/1/2012	\$ 7,610,004	\$ 22,163,639	\$ 14,553,635	34%	\$ 7,610,004	191%
	1/1/2011	7,724,443	21,007,350	13,282,907	37%	7,525,542	177%
	1/1/2009	6,261,361	18,321,174	12,059,813	34%	7,676,664	157%
	1/1/2007	5,664,729	14,884,132	9,219,403	38%	6,521,226	141%
Firemen's Pension and Relief Plan	12/31/2012	\$ 3,481,085	\$ 9,652,797	\$ 6,171,712	36%	\$ 4,956,302	125%
	12/31/2011	5,135,902	10,102,935	4,967,033	51%	4,802,600	103%
	12/31/2010	4,798,282	9,872,359	5,074,077	49%	4,758,369	107%
Policemen's Pension and Relief Plan	12/31/2012	\$ 4,285,123	\$ 9,923,578	\$ 5,638,455	43%	\$ 4,883,553	115%
	12/31/2011	4,451,665	9,522,225	5,070,560	47%	4,783,256	106%
	12/31/2010	4,648,738	9,099,420	4,450,682	51%	4,993,380	89%
Discretely Presented Component Units							
The Retirement Plan of Conway Corporation	8/1/2012	\$ 17,441,339	\$ 20,964,805	\$ 3,523,466	83%	\$ 11,753,362	30%
	8/1/2011	15,861,445	19,492,549	3,631,104	81%	10,937,948	33%
	8/1/2010	13,689,515	15,409,157	1,719,642	89%	10,664,445	16%
Conway Corporation Postemployment Healthcare and Life Insurance Plan	1/1/2012	-	\$ 2,247,641	\$ 2,247,641	0%	\$ 11,753,362	19%
	1/1/2011	-	2,118,827	2,118,827	0%	10,937,948	19%

City of Conway, Arkansas
Budgetary Comparison Schedule
General Fund
Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
General property taxes	\$ 2,921,695	\$ 2,921,695	\$ 2,628,110	\$ (293,585)
Sales and use taxes	15,345,000	16,540,000	17,284,775	744,775
Licenses and permits	711,700	711,700	497,099	(214,601)
Charges for services	746,000	859,882	1,258,495	398,613
Fines and forfeitures	1,141,000	1,279,635	1,316,224	36,589
Franchise fees	2,612,300	2,612,300	2,358,226	(254,074)
Intergovernmental	1,600,000	1,600,000	2,220,178	620,178
Investment income	4,000	4,000	4,297	297
Miscellaneous	154,700	225,511	396,282	170,771
	<u>25,236,395</u>	<u>26,754,723</u>	<u>27,963,686</u>	<u>1,208,963</u>
Expenditures				
General government	4,971,561	5,387,679	5,249,183	138,496
Police	9,670,783	9,950,169	9,708,880	241,289
Fire	8,093,090	8,308,981	8,200,956	108,025
Parks and recreation	2,409,553	2,409,561	2,136,525	273,036
Airport	32,500	32,500	24,711	7,789
Capital outlay	248,160	988,269	549,429	438,840
	<u>25,425,647</u>	<u>27,077,159</u>	<u>25,869,684</u>	<u>1,207,475</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(189,252)</u>	<u>(322,436)</u>	<u>2,094,002</u>	<u>2,416,438</u>
Other Financing Sources (Uses)				
Transfers in	422,400	2,510,862	2,447,360	(63,502)
Transfers out	-	-	(13,445)	(13,445)
	<u>422,400</u>	<u>2,510,862</u>	<u>2,433,915</u>	<u>(76,947)</u>
Net Change in Fund Balances	233,148	2,188,426	4,527,917	2,339,491
Fund Balances, Beginning of Year	<u>3,242,658</u>	<u>3,242,658</u>	<u>3,242,658</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 3,475,806</u>	<u>\$ 5,431,084</u>	<u>\$ 7,770,575</u>	<u>\$ 2,339,491</u>

City of Conway, Arkansas
Budgetary Comparison Schedule
Street Fund
Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
General property taxes	\$ 1,210,000	\$ 1,210,000	\$ 1,290,276	\$ 80,276
Sales and use taxes	250,000	250,000	241,784	(8,216)
Licenses and permits	500	500	1,080	580
Charges for services	10,000	10,000	10,650	650
Intergovernmental	2,500,000	2,500,000	2,503,691	3,691
Investment income	20,000	20,000	3,829	(16,171)
Miscellaneous	200,000	200,000	188,794	(11,206)
Total revenues	<u>4,190,500</u>	<u>4,190,500</u>	<u>4,240,104</u>	<u>49,604</u>
Expenditures				
Public works	3,978,000	4,153,089	3,896,034	257,055
Capital outlay	212,500	663,571	469,348	194,223
Total expenditures	<u>4,190,500</u>	<u>4,816,660</u>	<u>4,365,382</u>	<u>451,278</u>
Deficiency of Revenues Under Expenditures	<u>-</u>	<u>(626,160)</u>	<u>(125,278)</u>	<u>500,882</u>
Other Financing Uses				
Transfers out	<u>-</u>	<u>(200)</u>	<u>-</u>	<u>200</u>
Total other financing uses	<u>-</u>	<u>(200)</u>	<u>-</u>	<u>200</u>
Net Change in Fund Balances	-	(626,360)	(125,278)	501,082
Fund Balances, Beginning of Year	<u>2,341,333</u>	<u>2,341,333</u>	<u>2,341,333</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 2,341,333</u>	<u>\$ 1,714,973</u>	<u>\$ 2,216,055</u>	<u>\$ 501,082</u>

City of Conway, Arkansas
Notes to Required Supplementary Information
Year Ended December 31, 2012

Note 1: Nonuniformed Employees' Defined Benefit Pension Plan

Actuarial Assumptions

	Firemen's Pension and Relief Fund	Policemen's Pension and Relief Fund	Nonuniformed Employees' Defined Benefit Pension Plan
Actuarial valuation date	12/31/2012	12/31/2012	1/1/2012
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent closed
Remaining amortization period	13 years	13 years	30 years
Asset valuation method	5-year smoothed	5-year smoothed	Market value
Investment rate of return	8%	8%	7%
Projected salary increases	4%	4%	3.5%
Includes inflation at	4%	4%	3.5%
Cost-of-living adjustments	None	None	None

Note 2: Budgets and Budgetary Accounting

Budgeted revenues and expenditures represent the formal operating budget adopted by the City Council, as amended by the City Council during the year. Budgetary control is maintained at the departmental level. Budgeted amounts not spent by year-end lapse in personnel services and operating accounts. Amounts for capital projects that are underway but not finished may be rolled forward to the following year if requested by the department head. Expenditures greater than budgeted amounts must be approved by City Council voting to amend the budget. Department heads have the authority to submit a budget adjustment request to the finance department for approval if the adjustment is within a budget category and is within their approved total for the category. The chief financial officer may present the request to the mayor if the request seems unusual or noteworthy. The mayor may choose to take any request to the City Council if it is one that may be unusual or highly visible. All budget transfers are documented by the budget analyst and tracked in the City's computerized financial system. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the funds. All annual appropriations lapse at year-end.

City of Conway, Arkansas
Notes to Required Supplementary Information
Year Ended December 31, 2012

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). The *Budgetary Comparison Schedules* for the General and Street Funds present the original and revised budget amounts in comparison to the actual amounts of revenues and expenditures for the current year.

Other Required Reports

Independent Auditor's Report on Compliance with Certain State Acts

The Mayor and City Council
City of Conway, Arkansas

We have examined management's assertions that the City of Conway, Arkansas, (the City) complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas statutes during the year ended December 31, 2012.

- (1) Arkansas Municipal Accounting Law of 1973, § 14-59-101 et seq.;
- (2) Arkansas District Courts and City Courts Accounting Law, § 16-10-201 et seq.;
- (3) Improvement contracts, §§ 22-9-202 – 22-9-204;
- (4) Budgets, purchases, and payments of claims, etc., § 14-58-201 et seq. and 14-58-301 et seq.;
- (5) Investment of public funds, § 19-1-501 et seq.; and
- (6) Deposit of public funds, §§ 19-8-101 – 19-8-107.

Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

Our examination disclosed the following material noncompliance with the aforementioned requirements applicable to the City during the year ended December 31, 2012.

- The District Courts' monthly bank reconciliations were not accurately prepared.
- Reconciliation of the completed citation books for the County Sheriff's office was not performed.

In our opinion, except for the material noncompliance described above, the City of Conway, Arkansas, complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2012.

This report is intended solely for the information and use of the governing body, management and the State of Arkansas, and is not intended to be, and should not be, used by anyone other than these specified parties.

BKD, LLP

Little Rock, Arkansas
November 14, 2014

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 Mayor and City Council
City of Conway, 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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Conway, Arkansas (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 14, 2014, which contained an emphasis of matter paragraph regarding a change in accounting principle and corrections of errors. Other auditors audited the financial statements of Conway Corporation and the City of Conway Advertising and Promotion Commission as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2012-001 that we consider to be a significant deficiency in internal control.

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 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*.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to the City's management in a separate letter dated November 14, 2014.

Purpose of this Report

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

BKD, LLP

Little Rock, Arkansas
November 14, 2014

City of Conway, Arkansas
Schedule of Findings and Responses
Year Ended December 31, 2012

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2012-001	<p>Criteria or Specific Requirement Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition Some bank statements were not properly reconciled to the general ledger.</p> <p>Context The current format of the bank reconciliation makes reconciliation of the general ledger balance and the bank balance difficult.</p> <p>Effect Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause Proper bank reconciliation procedures and controls are not in place.</p> <p>Recommendation Management should change the bank reconciliation format to ensure that the bank statement is agreed to the general ledger on a monthly basis and enable a visible month summary of activity.</p> <p>Views of Responsible Officials and Planned Corrective Actions Management concurs with the finding and recommendation. Management will implement adequate policies to ensure the bank reconciliations are properly prepared.</p>