

# City of Conway, Arkansas



## **General Purpose Financial Statements and Supplemental Schedules With Independent Auditors' Reports**

**For the year ended  
December 31, 2010**

**CITY OF CONWAY, ARKANSAS**

**TABLE OF CONTENTS**

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<b>LETTER OF TRANSMITTAL</b>	1
<b><u>FINANCIAL SECTION</u></b>	
<b>INDEPENDENT AUDITORS' REPORT</b>	3
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	5
<b>BASIC FINANCIAL STATEMENTS:</b>	
Government-Wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Fund Net Assets – Proprietary Funds	20
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22
Statement of Fiduciary Net Assets – Fiduciary Funds	23
Statement of Changes in Fiduciary Net Assets – Pension Funds	24
Combining Statement of Net Assets – Component Units	25
Combining Statement of Activities – Component Units	26
Notes to Financial Statements	27
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Required Supplementary Schedule of Employer Contributions (Unaudited)	62
Required Supplementary Schedule of Funding Progress (Unaudited)	63
Required Supplementary Schedules of Revenues and Expenditures – Budget to Actual:	
General Fund	65
Street Fund	66
Other Special Revenue Fund	67
Notes to Required Supplementary Schedules of Revenues and Expenditures – Budget to Actual	68

## **OTHER REPORTS**

<b>SCHEDULE OF PRIOR AUDIT FINDINGS</b>	69
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	71
Independent Auditors' Report on Compliance with Requirements that could have a Direct and Material Effect on each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	73
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	75
<b>NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	76
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	77
<b>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH ARKANSAS CODE ANNOTATED 14-58-101</b>	82

# City of Conway

Finance Department

City Hall

1201 Oak Street

Conway, AR 72032

513-3500

October 11, 2011

To the Honorable Mayor, Members of Council and Citizens of the City of Conway, Arkansas:

Arkansas state law allows cities to choose to publish a set of basic financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Accordingly, we hereby issue the annual financial report of the City of Conway, Arkansas for the fiscal year ended December 31, 2010.

The City's financial statements have been audited by Jeffrey Phillips Mosley & Scott, P.A., a firm of licensed certified public accountants. Jeffrey Phillips Mosley & Scott, P.A. conducted the single audit, as required under Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local governments and Non-Profit Organizations*.

This report is presented to fairly present the financial position and results of operations as measured by the financial activities of the various City funds. Responsibility for both the accuracy of the data and the completeness and fairness of the presentations rests with management of the City. Internal accounting controls provide reasonable assurance regarding safekeeping of assets and fair presentation of the financial statements and supporting schedules. There are inherent limitations to internal accounting controls including cost considerations, management decisions that may override, and risk of collusion. However, the data presented is believed accurate in all material respects. All disclosures necessary to ensure clear communication to the reader have been provided. This letter of transmittal is designed to complement the Management's Discussion and Analysis (MD&A) and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

This report, which can be obtained by calling the Finance Department at (501) 513-3500, or via the City's website at <http://www.cityofconway.org>, is prepared in accordance with GAAP in conformance with the standards for financial reporting set forth by the Government Accounting Standards Board (GASB), using the guidelines recommended by the Government Finance Officers Association (GFOA).

## PROFILE OF THE CITY

The City of Conway was first incorporated in 1875 and subsequently incorporated as a city of the first class in 1930. The City is located in the central part of the state of Arkansas and is a part of the Little Rock/North Little Rock metropolitan area. The City has enjoyed considerable growth in recent years and the most recent special census documented the population at 58,908. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically by City Council action.

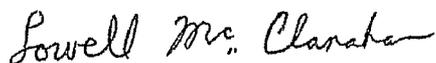
The City operates under the Mayor/City Council form of government. Policy-making and legislative authority are vested in a governing board consisting of the Mayor and eight council members. The Council is responsible for passing ordinances, adopting budgets, and appointing committees. The Mayor is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The City is divided into four wards, each represented by two council members – one elected at large and one elected ward specific, with staggered four-year terms. The Mayor is a full-time position, elected at-large for a four-year term.

The City provides a full range of municipal services, including administration of zoning, community development, fire and police, refuse collection, airport facilities, street construction, and repair and traffic systems. Additionally, district court operation and management of recreational facilities and programs are included. The City is financially accountable for a legally separate entity which operates the city-owned utilities, which is reported separately within the City's financial statements.

The annual budget is the City's prime financial planning and control tool. All departments are required to submit requested budgets as the starting point for the Mayor's proposed budget. The City Council must adopt a final budget by February 1. The City's appropriated budget is prepared by fund and department.

Conway has continued to experience growth during this period of national economic difficulty. Demand for service continues to expand. Sales tax accounted for 56.6% of general fund revenue in 2010, growing 5.0% and reaching \$14.9 million. The growth in 2010 was welcome after a decline of about 1.0% in 2009. The new fairgrounds project was completed in 2010. The Conway Station Park baseball was substantially complete at year end with play beginning in the spring of 2011. Conway's lifestyle is quite attractive and the future for the City is very bright.

Respectfully submitted,



Lowell McClanahan  
Chief Financial Officer (Interim)

## **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

### **To the Honorable Mayor and Members of the City Council City of Conway, Arkansas:**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Conway, Arkansas, (the "City") as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Conway Corporation or the City of Conway Advertising and Promotion Commission, the discretely presented component units. The financial statements of those entities were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

The financial statements of Conway Corporation do not purport to, and do not, present fairly the complete financial position and changes therein of the reporting entity of Conway Corporation in accordance with accounting principles generally accepted in the United States of America, which would require the inclusion of the statement of fiduciary net assets and statement of changes in fiduciary net assets of the Retirement Plan of Conway Corporation.

In our opinion, except for the exclusion of the fiduciary net assets and statement of changes in fiduciary net assets of the Retirement Plan of Conway Corporation, based on our audit and the reports of 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2011, 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* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as well as the budgetary and pension information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Conway, Arkansas' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

JEFFREY, PHILLIPS, MOSLEY + SCOTT, P.A.

October 11, 2011

# City of Conway

Finance Department

City Hall

1201 Oak Street

Conway, AR 72032

513-3500

## Management's Discussion and Analysis

This section of the report provides the reader with management's view of the 2010 results. Its function is to focus on the City's primary government and, unless otherwise noted, the component units reported separately from the primary government are not included.

### Financial Highlights

- The general fund reported a fund balance of \$2,831,264 at the end of 2010. This was an increase of \$517,181 from 2009. This increase was primarily the result of reduced budgets in early 2010 and the impact of the 5% increase in sales tax. The beginning fund balance was restated to \$2,314,083 due to a reclassification of income to deferred income relating to the 2009 move of the administration of Fire and Police pensions to Arkansas Local Police and Fire Retirement System (LOPFI).
- The City's total net assets increased \$9,462,042 in 2010. Net assets of the governmental activities increased \$8,427,297, or 7.1%, as compared to beginning net assets, and net assets of the business type assets increased \$1,034,745, which represents a 11.5% increase from 2009.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$15,827,516. The combined governmental funds balance decreased \$5,213,194 from the prior year's ending fund balance. This decrease resulted from the completion of Conway Station Park and the fairgrounds. At December 31, 2010, \$8,233,118 of the combined fund balance was considered unreserved.
- The decrease in the City's total governmental activities long-term obligations of \$3,266,976 (8.2%) during the current fiscal year is primarily due to debt service exceeding new debt to finance City improvements. The City's business-type activities long-term obligations increased by \$2,283,067 (45.1%) during 2010 and are attributable to the recycling center term loan, increases in the liability for landfill closure and post closure costs and compensated absences.
- Net assets of fiduciary funds were \$7,719,039 at December 31, 2010, and represent assets held in trust for pension benefits. There was an increase of \$1,057,449 in the total fiduciary net assets held in trust during the year. Market conditions improved during 2010.
- The City's component units reported net assets of \$229,974,844 as of December 31, 2010, an increase of \$7,222,182 compared to December 31, 2009, net assets of \$222,752,662.

## **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 required supplementary information in addition to the basic financial statements.

**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 a private-sector business. The Statement of Net Assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, 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 and charges (business-type activities). The governmental activities of the City include general administration, airport, cemeteries, Community Development Block Grant (CDBG), fire, highways and streets, parks and recreation, and law enforcement activities. The business-type activities of the City are the operations of the sanitation department.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate corporation which operates city-owned utilities and the City's Advertising and Promotion Commission, both for which the City is financially accountable. Financial information for these component units are reported separately from the financial information presented for the primary government. Presented as a combined total on the government-wide financial statements, combining statements are also included in this report. The government-wide financial statements can be found on pages 15-16 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** – 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 near

term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City'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 fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains nine individual governmental funds. Information is presented separately in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, the street fund, the debt service fund, the other special revenue fund, and the capital projects fund, all of which are considered by the City to be major funds. Data from the other four governmental funds (asset forfeiture, grant, CDBG, and police equipment) are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its general fund, street fund, and other special revenue fund. A budgetary comparison statement for each has been provided on pages 65-67 to demonstrate compliance with the budgets.

The basic governmental fund financial statements can be found on pages 17-18 of this report.

***Proprietary funds*** – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City utilizes an internal service fund to account for the maintenance of its fleet of vehicles. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 20-22 of this report. Combining statements are not presented since the City has only one enterprise fund and one internal service fund.

***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 basic fiduciary fund financial statements can be found on pages 23-24 of this report.

**Discretely Presented Component Units** – Combining statements for the City’s discretely presented component units are included in the basic financial statements and can be found on pages 25-26 of this report.

**Notes to the Financial Statements** – 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 27-61 of this report.

**Required Supplementary Information** – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City’s progress in funding its obligation to provide pension benefits to its employees and its schedule of employer contributions. Also included as required supplementary information are budget to actual schedules for the general fund, the street fund, and the other special revenue fund. Required supplementary information can be found on pages 62-68 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the City’s financial position. In the case of the City, assets exceeded liabilities by \$136,735,506 as of December 31, 2010.

The City’s net assets reflecting its investment in capital assets (e.g., land, buildings, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding, comprised approximately 90% of total net assets at year end. The City uses these capital assets to provide services to citizens; consequently, those assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities. The net assets invested in capital assets, net of related debt, increased \$8,000,361 during the year. This increase was primarily the result of payments for infrastructure, vehicles, and equipment for police and vehicles for fire, street, and sanitation departments.

Restricted net assets totaling \$10,603,153 comprised 8% of the City’s net assets at December 31, 2010, decreased \$3,905,056 as compared to 2009. The most significant change was due to capital outlays funded through bond proceeds, that were purchased during 2010 thereby reducing restricted net assets. The remaining unspent bond proceeds will provide funding for park and trail improvements during 2011.

Unrestricted net assets increased \$4,658,165 to \$3,057,183 during 2010, primarily as a result of restrictions on net assets for capital projects and debt. Converting bond proceeds to capital structures reduced the deficit.

At the end of the current fiscal year, the City has positive balances in net assets invested in capital assets, net of related debt and in net assets, restricted, in total and for governmental activities and business-type activities. Governmental activities grew unrestricted net assets to \$4,956,281 at December 31, 2010. Business-type activities reported a deficit balance of \$1,899,098 primarily reflecting the accrual for landfill post closure expenses.

The City's net assets increased by \$9,462,042 during the year and the net assets of the discretely presented component units added \$7,222,182.

**City of Conway, Arkansas's Net Assets**

	<b><u>Governmental Activities</u></b>		<b><u>Business-type Activities</u></b>		<b><u>Total</u></b>	
	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Current and other assets	\$ 22,721,661	\$ 29,127,600	\$ 3,754,911	\$ 3,142,544	\$ 26,476,572	\$ 32,270,144
Capital assets	143,722,138	134,089,199	10,785,114	8,630,925	154,507,252	142,720,124
Other noncurrent assets	—	—	3,008,755	2,488,373	3,008,755	2,488,373
Total assets	<u>\$166,443,799</u>	<u>\$163,216,799</u>	<u>\$17,548,780</u>	<u>\$14,261,842</u>	<u>\$183,992,579</u>	<u>\$177,478,641</u>
Current liabilities	\$ 8,407,173	\$ 11,685,916	\$ 1,101,792	\$ 773,881	\$ 9,508,965	\$ 12,459,797
Long-term liabilities	<u>31,252,891</u>	<u>33,174,445</u>	<u>6,495,217</u>	<u>4,570,935</u>	<u>37,748,108</u>	<u>37,745,380</u>
Total liabilities	<u>\$ 39,660,064</u>	<u>\$ 44,860,361</u>	<u>\$ 7,597,009</u>	<u>\$ 5,344,816</u>	<u>\$ 47,257,073</u>	<u>\$ 50,205,177</u>
Net assets:						
Invested in capital assets, net of related debt	\$114,233,056	\$106,443,884	\$ 8,842,114	\$ 8,630,925	\$123,075,170	\$115,074,809
Restricted	7,594,398	12,019,836	3,008,755	2,488,373	10,603,153	14,508,209
Unrestricted	<u>4,956,281</u>	<u>(107,282)</u>	<u>(1,899,098)</u>	<u>(2,202,272)</u>	<u>3,057,183</u>	<u>(2,309,554)</u>
Total net assets	<u>\$126,783,735</u>	<u>\$118,356,438</u>	<u>\$ 9,951,771</u>	<u>\$ 8,917,026</u>	<u>\$136,735,506</u>	<u>\$127,273,464</u>

**Governmental Activities**

Governmental activities increased the City's net assets by \$8,427,297, thereby accounting for 90% of total growth in net assets of the City. Increases in net capital assets of \$9,632,939 and a decrease in current liabilities of \$2,570,171 and an increase in long-term liabilities of \$1,921,554 were offset by a decrease in current and other assets of \$6,405,939.

Sales tax represented 67.1% of the City's governmental revenue in 2010. Property tax, franchise taxes, and state turn back tax revenue contributed 11.7%, 9.2%, and 10.0%, respectively, of the City's 2010 governmental revenue. Current year expenses were 84.3% of current year revenues at \$43,330,422, excluding money advanced for the new airport. Expenses include \$9,278,254 for park and recreation capital projects that were completed.

## **Business-type Activities**

Business-type activities increased the City's net assets by \$1,034,745, thereby accounting for 11% of total growth in net assets of the City. Net capital assets and long term liabilities increased \$2,154,189 and \$1,924,282, respectively primarily as a result of the new recycling equipment and loan. Current assets increased by \$634,711 due to an increase in the cash balance. Other non-current assets reflect the increase in funding for the landfill post closure fund and amounted to \$520,382. Current liabilities increased by \$350,255.

## **Financial Analysis of the Government's Funds**

The City uses fund accounting to demonstrate compliance with finance-related legal requirements.

**Government funds** – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. This information is useful in assessing the City's financing requirements. Unreserved fund balance serves as a measure of the City's net resources available for spending at the end of 2010. City governmental funds reported combined ending fund balances of \$15,827,516, a decrease of \$5,213,194 from 2009. Approximately 52% of this total amount, \$8,233,118, is unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved indicating that it is not available for spending because it has already been committed for debt service and capital projects.

The general fund is the chief operating fund of the City. At the end of 2010, unreserved fund balance of the general fund was \$2,831,264. Unreserved fund balance represents 10.7% of total general fund expenditures (as compared to 11.2% in 2009). The City's general fund balance increased \$517,181 in 2010. Sales tax increased from 2009 by about 5%. The return to positive sales tax growth was welcome. General fund capital outlay for City programs was limited to \$519,262 during the year, excluding spending on the new airport.

The street fund balance is \$2,238,091 at December 31, 2010. The net decrease in fund balance during 2010 totaled \$118,258. Street revenue (primarily state turn back) continued to show positive growth at 6.4%. Operating costs increased by \$630,098 from 2009. Street spending included \$1,098,336 in infrastructure improvements during the year. Street expenditures during 2010, excluding capital outlays and debt service payments, represent 81.8% of revenue, up from 74.8% in 2009.

The debt service fund has a total fund balance of \$3,335,311, all of which is reserved for the payment of note and bond obligations. At December 31, 2010, the City had \$27,330,000 in bonds outstanding from its bond issues, all of which are secured through the pledge of specific revenues.

The other special revenue fund has a total fund balance of \$3,040,639 at December 31, 2010. The net decrease in fund balance during the year totaled \$1,082,013. This fund generates revenue from impact fees, dedicated ad valorem tax, restaurant gross receipts tax, and dedicated court fines and fees that provide financing of capital outlays for parks and recreation and streets and highways and for debt service on specific borrowings. The decrease in fund balance during 2010 is primarily related to the timing difference between when revenue is received and improvement projects are initiated.

The capital projects fund has a total fund balance of \$4,259,087 at December 31, 2010, which is a decrease of \$5,156,696 and is related to spending on several ongoing projects. Substantial capital outlay were made in 2010 on the new Conway Station Park complex and the relocation of the fairgrounds. Dedicated sales tax revenue provided \$3,032,220 to fund pay-as-you-go projects for the fire and street departments, an increase of 5% from 2009 revenue.

## General Fund Budgetary Highlights

The final amended general fund budget had total appropriation of \$1,603,971 more than the original budget. The total original appropriations were \$26,072,222, and the final appropriations were \$27,676,193.

### General Fund Budget to Actual - Revenue

	<u>Original</u>	<u>Adjustments</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Revenues					
Sales taxes	\$14,487,285	\$ -	\$14,487,285	\$14,938,880	\$ 451,595
General property taxes	2,134,199	-	2,134,199	2,209,767	75,568
Licenses and permits	1,116,500	218	1,116,718	1,391,531	274,813
Intergovernmental	1,799,500	1,153,740	2,953,240	3,265,414	312,174
Fines and fees	1,056,500	-	1,056,500	838,519	(217,981)
Franchise fees	2,941,000	-	2,941,000	2,647,067	(293,933)
Investment income and unrealized gains, net	105,000	-	105,000	11,401	(93,599)
Miscellaneous	<u>1,712,874</u>	<u>143,867</u>	<u>1,856,741</u>	<u>1,080,320</u>	<u>(776,421)</u>
Total revenues	<u>\$25,352,858</u>	<u>\$1,297,825</u>	<u>\$26,650,683</u>	<u>\$26,382,899</u>	<u>\$ (267,784)</u>

### General Fund Budget to Actual - Expenditures

	<u>Original</u>	<u>Adjustments</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Expenditures					
Law enforcement	\$10,608,710	\$ 713,230	\$11,321,940	\$11,285,212	\$ 36,728
Fire	7,950,027	(247,447)	7,702,580	7,640,480	62,100
General administration	4,174,085	(832,964)	3,341,121	3,200,601	140,520
Parks & recreation	2,454,892	(31,381)	2,423,511	2,066,653	356,858
Airport	27,000	6,000	33,000	32,771	229
Capital outlay	<u>857,508</u>	<u>1,996,533</u>	<u>2,854,041</u>	<u>2,122,220</u>	<u>731,821</u>
Total general fund expenditures	<u>26,072,222</u>	<u>1,603,971</u>	<u>27,676,193</u>	<u>26,347,937</u>	<u>1,328,256</u>
Excess (deficiency) of revenues over expenditures	<u>(719,364)</u>	<u>(306,146)</u>	<u>(1,025,510)</u>	<u>34,962</u>	<u>(1,060,472)</u>
Other Financing Sources (Uses):					
Transfers in	1,145,000	939,687	2,084,687	563,525	(1,521,162)
Transfers out	<u>(540,250)</u>	<u>(603,502)</u>	<u>(1,143,752)</u>	<u>(81,306)</u>	<u>1,062,446</u>
Net other financing	<u>604,750</u>	<u>336,185</u>	<u>(940,935)</u>	<u>482,219</u>	<u>(458,716)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (114,614)</u>	<u>\$ 30,039</u>	<u>\$ (84,575)</u>	<u>\$ 517,181</u>	<u>\$ 601,756</u>

## **Capital Asset and Debt Administration**

**Capital Assets** – The City’s investment in capital assets for its governmental and business-type activities as of December 31, 2010, reached \$154,507,252 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, and infrastructure. The net increase in the City’s investment during 2010 was 8.3%.

Major capital asset events during 2010 included:

- Governmental activity capital assets increased by \$9.6 million. Major projects included were the new Conway Station Park baseball complex, new fairgrounds, infrastructure improvements to North Salem Road and Meadows Technology Park, and infrastructure improvements funded by the street impact fee receipts.
- Business-type activity capital net assets grew \$2.1 million. The new recycling equipment was the bulk of this net change.

Balances remained on construction contracts for projects which were in process, but uncompleted, at December 31, 2010. Please see Note 5 on pages 39-41 of this report for additional information on City capital assets, including the increases and decreases of each asset category.

**Long-term Debt** – At December 31, 2010, the City had total long-term liabilities of \$37,748,108. Of this amount 67.1% (\$25,345,000) was the remaining long-term balance of the \$9.8 million Sales and Use Tax Refunding Bonds, Series 2006A, \$7.5 million Sales and Use Tax Capital Refunding and Improvement Bonds, Series 2006, \$14.1 million Restaurant Gross Receipts Tax Capital Improvement Bonds, Series 2007 and the \$2.2 million Electrical Franchise Fee Revenue Bonds. Arkansas state statutes limit the amount of general obligation debt secured by property tax receipts that a city may issue to 20 percent of its total assessed valuation. The current debt limitation for the City is approximately \$176 million. Because the City’s bond issues are all special obligations secured by pledged receipts from sales tax, franchise fees, and restaurant gross receipt taxes, the City’s bonds payable outstanding does not constitute an indebtedness of the City within the meaning of the statutory debt limitation. The City is allowed to issue short-term financing (maturities of less than five years) for up to 5% of total assessed valuation. Outstanding short-term financings at December 31, 2010, of \$5.2 million are well below the statutory limit. Additional information on the City’s long-term liabilities can be found in Note 10 on pages 53-57 of this report.

## **Economic Factors and the 2011 Budget**

Having experienced a sales tax downturn in 2009, the City began adjusting its budgets early in 2010. Fortunately, sales tax turned up to a growth of 5% during the year and that additional revenue along with tight spending control allowed the City to improve its general fund balance for the year to \$2.8 million. This amount is mostly held in sales tax receivables, which were \$2.7 million, at December 31, 2010. The step increase practice provides for scheduled pay increases over the first seven years of an employee’s tenure with the City. Funding was not available to

continue this practice. Capital spending has been severely limited. Twenty two police cars were purchased in early 2011 out of a one-time savings experienced in the Sanitation department. No reliable ongoing fund source has been identified to replace these cars as necessary.

Issues that are still City priorities include:

- vehicle and equipment replacement and repair
- staffing and compensation levels
- economic development
- law enforcement and fire service levels, and
- sustainability, management of growth demands

The City's general fund 2011 budget is balanced with total resources equal to total expense appropriation within each fund, as well as in the aggregate. Total estimated general fund revenue and expense for 2011 amount to \$25,930,267 for the City of Conway.

### **Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**

City of Conway, Arkansas

Statement of Net Assets, December 31, 2010

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 10,025,106	\$ 3,024,285	\$ 13,049,391	\$ 8,366,560
Certificates of deposit	365,048	-	365,048	25,495,034
Stocks	-	-	-	-
Accounts receivable, net	5,093,489	-	5,093,489	7,352,650
Interest receivable	32	-	32	105,523
Taxes receivable	3,807,721	-	3,807,721	-
Grants receivable	-	-	-	-
Due from component unit	415,408	685,873	1,101,281	-
Internal balances	(42,631)	42,631	-	-
Inventory	-	-	-	6,540,368
Other current assets	51,180	2,122	53,302	488,394
Restricted assets				
Cash and cash equivalents	3,006,308	-	3,006,308	-
<b>Total current assets</b>	<b>22,721,661</b>	<b>3,754,911</b>	<b>26,476,572</b>	<b>48,348,529</b>
<b>Noncurrent assets</b>				
Restricted assets				
Cash and cash equivalents	-	3,008,755	3,008,755	21,214,162
Certificates of deposit	-	-	-	879,965
<b>Total restricted assets</b>	<b>-</b>	<b>3,008,755</b>	<b>3,008,755</b>	<b>22,094,127</b>
<b>Capital assets</b>				
Capital assets - nondepreciable	33,924,917	1,704,100	35,629,017	29,707,563
Capital assets - depreciable, net	109,797,221	9,081,014	118,878,235	191,143,778
<b>Capital assets, net</b>	<b>143,722,138</b>	<b>10,785,114</b>	<b>154,507,252</b>	<b>220,851,341</b>
<b>Other assets</b>				
Land held for resale	-	-	-	410,296
Unamortized bond issuance costs	-	-	-	658,867
<b>Total other assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,069,163</b>
<b>Total noncurrent assets</b>	<b>143,722,138</b>	<b>13,793,869</b>	<b>157,516,007</b>	<b>244,014,631</b>
<b>Total assets</b>	<b>\$ 166,443,799</b>	<b>\$ 17,548,780</b>	<b>\$ 183,992,579</b>	<b>\$ 292,363,160</b>

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities payable from unrestricted assets</b>				
Accounts payable	\$ 1,721,343	\$ 104,838	\$ 1,826,181	\$ 5,085,357
Accrued expenses and other	1,153,202	142,200	1,295,402	1,156,987
Due to primary government	-	-	-	1,101,281
Customer deposits	-	-	-	1,605,468
Notes and leases payable - current portion	3,091,325	367,219	3,458,544	-
Compensated absences due within one year	110,987	11,904	122,891	-
Landfill closure and post closure care	-	475,631	475,631	-
Unearned revenue	291,987	-	291,987	246,499
<b>Total current liabilities payable from unrestricted assets</b>	<b>6,368,844</b>	<b>1,101,792</b>	<b>7,470,636</b>	<b>9,195,592</b>
<b>Current liabilities payable from restricted assets</b>				
Accrued expenses and other liabilities	-	-	-	608,766
Accrued interest payable	53,329	-	53,329	363,815
Developer deposits	-	-	-	314,076
Bonds payable - current portion	1,985,000	-	1,985,000	3,340,956
<b>Total current liabilities payable from restricted assets</b>	<b>2,038,329</b>	<b>-</b>	<b>2,038,329</b>	<b>4,627,613</b>
<b>Total current liabilities</b>	<b>8,407,173</b>	<b>1,101,792</b>	<b>9,508,965</b>	<b>13,823,205</b>
<b>Noncurrent liabilities</b>				
Net pension obligation	3,504,260	855,700	4,359,960	-
Notes payable	212,628	1,575,781	1,788,409	-
Leases payable	766,653	-	766,653	-
Bonds payable, net	25,345,000	-	25,345,000	47,824,121
Compensated absences	1,424,350	152,777	1,577,127	-
Postemployment benefits	-	-	-	740,990
Estimated liability for landfill closure and post closure care costs	-	3,910,959	3,910,959	-
<b>Total noncurrent liabilities</b>	<b>31,252,891</b>	<b>6,495,217</b>	<b>37,748,108</b>	<b>48,565,111</b>
<b>Total liabilities</b>	<b>39,660,064</b>	<b>7,597,009</b>	<b>47,257,073</b>	<b>62,388,316</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	114,233,056	8,842,114	123,075,170	183,233,832
Restricted for:				
Debt service	3,335,311	3,008,755	6,344,066	3,274,297
Capital projects	4,259,087	-	4,259,087	-
Unrestricted	4,956,281	(1,899,098)	3,057,183	43,466,715
<b>Total net assets</b>	<b>126,783,735</b>	<b>9,951,771</b>	<b>136,735,506</b>	<b>229,974,844</b>
<b>Total liabilities and net assets</b>	<b>\$ 166,443,799</b>	<b>\$ 17,548,780</b>	<b>\$ 183,992,579</b>	<b>\$ 292,363,160</b>

# City of Conway, Arkansas

## Statement of Activities, Year Ended December 31, 2010

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Functions/Programs</b>				
<b>Primary Government</b>				
<b>Governmental activities</b>				
General administration	\$ 3,471,343	\$ 839,216	\$ 424,320	\$ -
Airport	57,436	85,772	-	1,341,730
Cemeteries	16,709	-	-	-
Community Development Block Grant	414,686	-	614,656	-
Fire	8,212,846	18,302	454,435	106,133
Highways and streets	7,319,911	1,318,693	5,822	503,509
Parks and recreation	2,366,967	831,062	125,494	155,583
Law enforcement	12,446,182	1,578,707	659,280	-
Interest expense on long-term debt	1,419,247	-	-	-
Total governmental activities	35,725,327	4,671,752	2,284,007	2,106,955
<b>Business-type activities</b>				
Sanitation	6,372,428	7,379,209	-	-
Total primary government	\$ 42,097,755	\$ 12,050,961	\$ 2,284,007	\$ 2,106,955
Component Units	\$ 91,857,834	\$ 95,339,730	\$ -	\$ 2,414,821

### **General revenues**

General property taxes

Franchise taxes

Sales taxes

State gasoline tax turned back to City

Investment income and unrealized gains, net

Other

### **Transfers**

### **Total general revenues and transfers**

### **Change in net assets**

Net assets, beginning of year, as restated

Net assets, end of year

**Net (Expense) Revenue and  
Changes in Net Assets**

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total		
\$ (2,207,807)	\$ -	\$ (2,207,807)		
1,370,066	-	1,370,066		
(16,709)	-	(16,709)		
199,970	-	199,970		
(7,633,976)	-	(7,633,976)		
(5,491,887)	-	(5,491,887)		
(1,254,828)	-	(1,254,828)		
(10,208,195)	-	(10,208,195)		
(1,419,247)	-	(1,419,247)		
(26,662,613)	-	(26,662,613)		
-	1,006,781	1,006,781		
(26,662,613)	1,006,781	(25,655,832)		
-	-	-	\$	5,896,717
4,094,943	-	4,094,943		-
3,244,187	-	3,244,187		-
23,553,097	-	23,553,097		694,055
3,526,296	-	3,526,296		-
111,187	36,856	148,043		631,410
-	551,308	551,308		-
560,200	(560,200)	-		-
35,089,910	27,964	35,117,874		1,325,465
8,427,297	1,034,745	9,462,042		7,222,182
118,356,438	8,917,026	127,273,464		222,752,662
\$ 126,783,735	\$ 9,951,771	\$ 136,735,506	\$	229,974,844

**City of Conway, Arkansas**

**Balance Sheet -  
Governmental Funds, December 31, 2010**

	General Fund	Street Fund	Debt Service Fund	Other Special Revenue Fund	Capital Projects Fund	Non-Major Governmental Funds	Total
<b>Assets</b>							
Cash and cash equivalents	\$ 1,012,705	\$ 753,106	\$ 3,006,308	\$ 3,288,008	\$ 4,607,299	\$ 359,341	\$ 13,026,767
Certificates of deposit	-	300,000	-	-	65,048	-	365,048
Accounts receivable	3,368,321	1,692,780	-	2,174	-	30,214	5,093,489
Taxes receivable	2,678,460	41,341	543,960	-	543,960	-	3,807,721
Due from component unit	28,084	-	-	387,324	-	-	415,408
Due from other funds	131,279	883,742	-	219,782	588,011	14,766	1,837,580
Interest receivable	1	31	-	-	-	-	32
Prepaid expenditures and other	36,919	-	-	-	-	-	36,919
<b>Total assets</b>	<b>\$ 7,255,769</b>	<b>\$ 3,671,000</b>	<b>\$ 3,550,268</b>	<b>\$ 3,897,288</b>	<b>\$ 5,804,318</b>	<b>\$ 404,321</b>	<b>\$ 24,582,964</b>
<b>Liabilities and fund balances</b>							
<b>Liabilities</b>							
Accounts payable	\$ 94,067	\$ 97,381	\$ -	\$ -	\$ 1,443,100	\$ 86,424	\$ 1,720,972
Accrued interest	-	-	214,957	-	-	-	214,957
Accrued wages payable and related liabilities	870,855	62,214	-	-	-	2,040	935,109
Due to other funds	1,020,414	8,560	-	564,662	102,131	192,733	1,888,500
Deferred revenue	2,439,169	1,264,754	-	291,987	-	-	3,995,910
<b>Total liabilities</b>	<b>4,424,505</b>	<b>1,432,909</b>	<b>214,957</b>	<b>856,649</b>	<b>1,545,231</b>	<b>281,197</b>	<b>8,755,448</b>
<b>Fund balances</b>							
<b>Reserved</b>							
Debt service	-	-	3,335,311	-	-	-	3,335,311
Capital projects	-	-	-	-	4,259,087	-	4,259,087
<b>Total reserved</b>	<b>-</b>	<b>-</b>	<b>3,335,311</b>	<b>-</b>	<b>4,259,087</b>	<b>-</b>	<b>7,594,398</b>
<b>Unreserved</b>							
General fund	2,831,264	-	-	-	-	-	2,831,264
Special revenues	-	2,238,091	-	3,040,639	-	123,124	5,401,854
<b>Total unreserved</b>	<b>2,831,264</b>	<b>2,238,091</b>	<b>-</b>	<b>3,040,639</b>	<b>-</b>	<b>123,124</b>	<b>8,233,118</b>
<b>Total fund balances</b>	<b>2,831,264</b>	<b>2,238,091</b>	<b>3,335,311</b>	<b>3,040,639</b>	<b>4,259,087</b>	<b>123,124</b>	<b>15,827,516</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,255,769</b>	<b>\$ 3,671,000</b>	<b>\$ 3,550,268</b>	<b>\$ 3,897,288</b>	<b>\$ 5,804,318</b>	<b>\$ 404,321</b>	

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

Capital assets used in governmental activities are not financial and are not reported in the funds	143,722,138
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(36,493,532)
An internal service fund is used by management to charge the costs of fleet maintenance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets	23,690
Amounts reported as deferred revenue not recognized at the fund level on the modified accrual basis reported as revenues on the full accrual basis in the government-wide statements	<u>3,703,923</u>
<b>Net assets of governmental activities</b>	<b><u>\$ 126,783,735</u></b>

**City of Conway, Arkansas**

**Statement of Revenues, Expenditures and Changes in Fund Balances -  
Governmental Funds, Year Ended December 31, 2010**

	General	Street Fund	Debt Service Fund	Other Special Revenue Fund	Capital Projects Fund	Non-Major Governmental Funds	Total
<b>Revenues</b>							
General property taxes	\$ 2,209,767	\$ 1,143,804	\$ -	\$ 31,543	\$ -	\$ 17,336	\$ 3,402,450
Sales taxes	14,938,880	2,877,879	3,032,657	2,318,764	3,032,220	-	26,200,400
Licenses and permits	1,391,531	540	-	-	-	-	1,392,071
Intergovernmental	3,265,414	668,735	-	-	155,583	614,656	4,704,388
Charges for services	-	-	-	1,799,601	-	-	1,799,601
Fines and fees	838,519	6,300	-	70,872	-	-	915,691
Franchise fees	2,647,067	9,109	-	-	588,011	-	3,244,187
Investment income and unrealized gains, net	11,401	3,725	16,086	8,901	70,443	631	111,187
Miscellaneous	1,080,320	6,475	-	-	-	43,161	1,129,956
<b>Total revenues</b>	<b>26,382,899</b>	<b>4,716,567</b>	<b>3,048,743</b>	<b>4,229,681</b>	<b>3,846,257</b>	<b>675,784</b>	<b>42,899,931</b>
<b>Expenditures</b>							
Current general government							
General administration	3,200,601	-	-	-	-	-	3,200,601
Airport	32,771	-	-	-	-	-	32,771
Cemetaries	-	-	-	-	-	16,709	16,709
Community Development Block Grant	-	-	-	-	-	412,747	412,747
Fire	7,640,480	-	-	-	-	-	7,640,480
Highways and streets	-	3,860,205	-	338	-	-	3,860,543
Parks and recreation	2,066,653	-	-	16,600	-	-	2,083,253
Law enforcement	11,285,212	-	-	-	-	10,852	11,296,064
Debt service							
Principal	-	-	2,732,182	201,570	642,256	-	3,576,008
Interest	-	-	1,250,737	20,743	152,136	-	1,423,616
Fees	-	-	10,978	-	-	-	10,978
Capital outlay							
General administration	184,775	-	-	-	253,652	104,206	542,633
Airport	1,602,958	-	-	-	-	-	1,602,958
Fire	59,444	-	-	-	327,139	-	386,583
Highways and streets	-	1,098,336	-	66,229	1,885,538	-	3,050,103
Parks and recreation	131,940	-	-	-	9,146,314	-	9,278,254
Law enforcement	143,103	-	-	-	-	115,921	259,024
<b>Total expenditures</b>	<b>26,347,937</b>	<b>4,958,541</b>	<b>3,993,897</b>	<b>305,480</b>	<b>12,407,035</b>	<b>660,435</b>	<b>48,673,325</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>34,962</b>	<b>(241,974)</b>	<b>(945,154)</b>	<b>3,924,201</b>	<b>(8,560,778)</b>	<b>15,349</b>	<b>(5,773,394)</b>
<b>Other financing sources (uses)</b>							
Transfers in	563,525	123,716	1,676,412	-	3,965,140	-	6,328,793
Transfers out	(81,306)	-	-	(5,006,214)	(561,058)	(120,015)	(5,768,593)
<b>Total other financing sources (uses)</b>	<b>482,219</b>	<b>123,716</b>	<b>1,676,412</b>	<b>(5,006,214)</b>	<b>3,404,082</b>	<b>(120,015)</b>	<b>560,200</b>
<b>Net change in fund balance</b>	<b>517,181</b>	<b>(118,258)</b>	<b>731,258</b>	<b>(1,082,013)</b>	<b>(5,156,696)</b>	<b>(104,666)</b>	<b>(5,213,194)</b>
<b>Fund balance, beginning of year, as restated</b>	<b>2,314,083</b>	<b>2,356,349</b>	<b>2,604,053</b>	<b>4,122,652</b>	<b>9,415,783</b>	<b>227,790</b>	<b>21,040,710</b>
<b>Fund balance, end of year</b>	<b>\$ 2,831,264</b>	<b>\$ 2,238,091</b>	<b>\$ 3,335,311</b>	<b>\$ 3,040,639</b>	<b>\$ 4,259,087</b>	<b>\$ 123,124</b>	<b>\$ 15,827,516</b>

City of Conway, Arkansas

**Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities, Year Ended December 31, 2010**

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

Net change in fund balance - total governmental funds	\$ (5,213,194)
Governmental funds report capital outlays as expenditures. However, for government-wide statements, the cost or contributed value of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	9,635,256
Revenues that do not provide current financial resources are not reported as revenues for the funds but are reported as revenues in the statement of activities.	692,493
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.	(309,032)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the 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.	3,591,355
Internal service funds are used by management to charge the costs of fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>30,419</u>
Change in net assets of governmental activities	<u>\$ 8,427,297</u>

City of Conway, Arkansas

**Statement of Fund Net Assets -  
Proprietary Funds, December 31, 2010**

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	<b>Business-type Activities - Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 3,024,285	\$ 4,647
Due from component unit	685,873	-
Due from other funds	64,975	11,266
Other current assets	2,122	14,261
	<hr/>	<hr/>
<b>Total current assets</b>	<b>3,777,255</b>	<b>30,174</b>
<b>Capital assets:</b>		
Land and buildings	4,394,619	-
Constuction in progress	689,767	-
Equipment	9,939,497	75,762
Infrastructure	691,618	-
Less accumulated depreciation	(4,930,387)	(57,780)
	<hr/>	<hr/>
<b>Capital assets, net</b>	<b>10,785,114</b>	<b>17,982</b>
	<hr/>	<hr/>
<b>Restricted assets - cash and cash equivalents</b>	<b>3,008,755</b>	<b>-</b>
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 17,571,124</b>	<b>\$ 48,156</b>
	<hr/> <hr/>	<hr/> <hr/>

See Notes to Financial Statements.

	<b>Business-type Activities - Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 104,838	\$ 371
Accrued wages payable and related liabilities	102,182	3,136
Accrued interest	40,018	-
Current portion of note payable	367,219	-
Due to other funds	22,344	2,977
Compensated absences due within one year	11,904	-
Landfill closure and post closure care	475,631	-
<b>Total current liabilities</b>	<b>1,124,136</b>	<b>6,484</b>
<b>Long-term liabilities</b>		
Compensated absences	152,777	-
Note payable	1,575,781	-
Landfill closure and post closure care costs	3,910,959	-
Net pension obligation	855,700	-
<b>Total long-term liabilities</b>	<b>6,495,217</b>	<b>-</b>
<b>Total liabilities</b>	<b>7,619,353</b>	<b>6,484</b>
<b>Net assets</b>		
Invested in capital assets	8,842,114	17,982
Restricted for debt service	3,008,755	-
Unrestricted	(1,899,098)	23,690
<b>Total net assets</b>	<b>9,951,771</b>	<b>41,672</b>
<b>Total liabilities and net assets</b>	<b>\$ 17,571,124</b>	<b>\$ 48,156</b>

**City of Conway, Arkansas**

**Statement of Revenues, Expenses, and Changes in Fund Net Assets -  
Proprietary Funds, Year Ended December 31, 2010**

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	<b>Business-type Activities - Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues</b>		
Charges for services	\$ 7,379,209	\$ 122,958
Miscellaneous	534,158	-
Total operating revenues	<u>7,913,367</u>	<u>122,958</u>
<b>Operating expenses</b>		
General administration	-	90,222
Sanitation operations	5,495,031	-
Depreciation	877,397	5,817
Total operating expenses	<u>6,372,428</u>	<u>96,039</u>
<b>Operating income</b>	<u>1,540,939</u>	<u>26,919</u>
<b>Nonoperating revenues and expenses:</b>		
Investment income	36,856	-
Gain (loss) on sale of assets	17,150	(2,317)
Total nonoperating revenue (expense) before transfer	<u>54,006</u>	<u>(2,317)</u>
Income before other revenues, expenses, gains, losses, and transfers	1,594,945	24,602
Transfers out, net	<u>(560,200)</u>	<u>-</u>
<b>Change in total net assets</b>	1,034,745	24,602
<b>Total net assets, beginning of year</b>	<u>8,917,026</u>	<u>17,070</u>
<b>Total net assets, end of year</b>	<u>\$ 9,951,771</u>	<u>\$ 41,672</u>

**City of Conway, Arkansas**

**Statement of Cash Flows - Proprietary Funds,  
Year Ended December 31, 2010**

	<b>Business-type Activities - Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 7,388,454	\$ 122,958
Receipts from other sources	534,158	-
Payment to suppliers	(1,955,994)	(14,434)
Payment to employees	(3,229,844)	(83,294)
Net cash provided by operating activities	<u>2,736,774</u>	<u>25,230</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Advances from (to) other funds	<u>750,807</u>	<u>(20,583)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Borrowings on notes payable	1,943,000	
Purchases of capital assets	(3,014,436)	-
Net cash used in capital and related financing activities	<u>(1,071,436)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<u>36,856</u>	<u>-</u>
Cash and cash equivalents, beginning of year	<u>3,580,039</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 6,033,040</u>	<u>\$ 4,647</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 1,540,939</u>	<u>\$ 26,919</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	877,397	5,817
Change in operating assets and liabilities		
Receivables	9,245	-
Prepaid expenses	-	(1,967)
Accounts payable	(56,995)	(6,447)
Accrued wages payable and related liabilities	(13,897)	908
Accrued interest	40,018	-
Compensated absences payable	23,451	-
Landfill closure and post closure cost	99,536	-
Net pension obligation	217,080	-
Total adjustments	<u>1,195,835</u>	<u>(1,689)</u>
Net cash provided by operating activities	<u>\$ 2,736,774</u>	<u>\$ 25,230</u>

City of Conway, Arkansas

**Statement of Fiduciary Net Assets -  
Fiduciary Funds, December 31, 2010**

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	<b>Total Pension Funds</b>	<b>Agency Fund</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 478,259	\$ 303,923
Receivables:		
Taxes contributed from general fund	402,417	-
Due from other funds	66,083	-
Interest and dividends	9,883	-
Total receivables	<u>478,383</u>	<u>-</u>
Investments, at fair value:		
U. S. government obligations	125,775	-
Corporate bonds	467,530	-
Stocks	6,079,221	-
Municipal bonds	104,432	-
Total investments	<u>6,776,958</u>	<u>-</u>
<b>Total assets</b>	<u>7,733,600</u>	<u>303,923</u>
<b>LIABILITIES</b>		
Due to other agencies	-	162,883
Due to other funds	14,561	4,174
Bonds, fines, and costs pending	-	136,866
Total liabilities	<u>14,561</u>	<u>303,923</u>
<b>NET ASSETS</b>		
Net assets held in trust for pension benefits	<u>\$ 7,719,039</u>	<u>\$ -</u>

City of Conway, Arkansas

**Statement of Changes in Fiduciary Net Assets -  
Pension Funds, Year Ended December 31, 2010**

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**ADDITIONS**

Contributions:

Employer	\$ 467,059
Taxes contributed from general fund	337,407
Plan members	467,059
Total contributions	<u>1,271,525</u>

Investment Income:

Net increase in fair value of investments	670,672
Interest	79,857
Dividends	100,153
Less investment expense	(55,933)
Net investment income	<u>794,749</u>
Total additions	<u>2,066,274</u>

**DEDUCTIONS**

Benefits	900,224
Refunds of contributions	104,701
Administrative expense	3,900
Total deductions	<u>1,008,825</u>

**Net increase in net assets** 1,057,449

**Net assets held in trust for pension benefits, beginning of year** 6,661,590

**Net assets held in trust for pension benefits, end of year** \$ 7,719,039

**City of Conway, Arkansas**

**Combining Statement of Net Assets - Component Units, December 31, 2010**

	Component Units		
	Conway Corporation	A & P Commission	Total
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 7,594,696	\$ 771,864	\$ 8,366,560
Certificate of deposit	25,495,034	-	25,495,034
Accounts receivable, net	7,093,645	259,005	7,352,650
Interest receivable	105,523	-	105,523
Inventory	6,540,368	-	6,540,368
Other current assets	486,342	2,052	488,394
<b>Total current assets</b>	<b>47,315,608</b>	<b>1,032,921</b>	<b>48,348,529</b>
<b>Noncurrent assets</b>			
Restricted assets			
Cash and cash equivalents	21,214,162	-	21,214,162
Certificate of deposit	879,965	-	879,965
<b>Total restricted assets</b>	<b>22,094,127</b>	<b>-</b>	<b>22,094,127</b>
<b>Capital assets</b>			
Capital assets - nondepreciable	29,707,563	-	29,707,563
Capital assets - depreciable, net	191,143,778	-	191,143,778
<b>Capital assets, net</b>	<b>220,851,341</b>	<b>-</b>	<b>220,851,341</b>
<b>Other assets</b>			
Land held for resale	410,296	-	410,296
Unamortized bond issuance costs	658,867	-	658,867
<b>Total other assets, net</b>	<b>1,069,163</b>	<b>-</b>	<b>1,069,163</b>
<b>Total noncurrent assets</b>	<b>244,014,631</b>	<b>-</b>	<b>244,014,631</b>
<b>Total assets</b>	<b>\$ 291,330,239</b>	<b>\$ 1,032,921</b>	<b>\$ 292,363,160</b>

	Component Units		
	Conway Corporation	A & P Commission	Total
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities payable from unrestricted assets</b>			
Accounts payable	\$ 4,985,158	\$ 100,199	\$ 5,085,357
Accrued expenses and other	1,156,987	-	1,156,987
Due to primary government	713,957	387,324	1,101,281
Customer deposits	1,605,468	-	1,605,468
Unearned revenue	246,499	-	246,499
<b>Total current liabilities payable from unrestricted assets</b>	<b>8,708,069</b>	<b>487,523</b>	<b>9,195,592</b>
<b>Current liabilities payable from restricted assets</b>			
Accrued expenses and other liabilities	608,766	-	608,766
Accrued interest payable	363,815	-	363,815
Developer deposits	314,076	-	314,076
Bonds payable - current portion	3,340,956	-	3,340,956
<b>Total current liabilities payable from restricted assets</b>	<b>4,627,613</b>	<b>-</b>	<b>4,627,613</b>
<b>Total current liabilities</b>	<b>13,335,682</b>	<b>487,523</b>	<b>13,823,205</b>
<b>Noncurrent liabilities</b>			
Bonds payable, net	47,824,121	-	47,824,121
Postemployment benefits	740,990	-	740,990
<b>Total noncurrent liabilities</b>	<b>48,565,111</b>	<b>-</b>	<b>48,565,111</b>
<b>Total liabilities</b>	<b>61,900,793</b>	<b>487,523</b>	<b>62,388,316</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	183,233,832	-	183,233,832
Restricted for:			
Debt service	3,274,297	-	3,274,297
Unrestricted	42,921,317	545,398	43,466,715
<b>Total net assets</b>	<b>229,429,446</b>	<b>545,398</b>	<b>229,974,844</b>
<b>Total liabilities and net assets</b>	<b>\$ 291,330,239</b>	<b>\$ 1,032,921</b>	<b>\$ 292,363,160</b>

# City of Conway, Arkansas

## Combining Statement of Activities - Component Units, Year Ended December 31, 2010

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
<b>Governmental activities</b>				
Other component units	\$ 552,901	\$ -	\$ -	\$ -
Total governmental activities	552,901	-	-	-
<b>Business-type activities</b>				
Conway Corporation	91,304,933	95,339,730	-	2,414,821
Total business-type activities	91,304,933	95,339,730	-	2,414,821
Total component units	\$ 91,857,834	\$ 95,339,730	\$ -	\$ 2,414,821
<b>General revenues</b>				
Sales taxes				
Investment income and unrealized gains, net				
<b>Total general revenues and transfers</b>				
<b>Change in net assets</b>				
<b>Net assets, beginning of year</b>				
<b>Net assets, end of year</b>				

See Notes to Financial Statements.

**Net (Expense) Revenue and  
Changes in Net Assets**

Conway Corporation	Other Component Unit	Total
\$ -	\$ (552,901)	\$ (552,901)
-	(552,901)	(552,901)
6,449,618	-	6,449,618
6,449,618	-	6,449,618
6,449,618	(552,901)	5,896,717
-	694,055	694,055
623,466	7,944	631,410
623,466	701,999	1,325,465
7,073,084	149,098	7,222,182
222,356,362	396,300	222,752,662
\$ 229,429,446	\$ 545,398	\$ 229,974,844

# CITY OF CONWAY, ARKANSAS

## NOTES TO FINANCIAL STATEMENTS, DECEMBER 31, 2010

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### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Conway, Arkansas (the "City"), which was first incorporated in 1875 and subsequently incorporated as a city of first class on July 3, 1930, is governed by an elected Mayor/City Council form of government. The City is responsible for providing a full range of governmental services, including police and fire protection, recreational facilities and programs, planning, sanitation services, airport facilities, and district court to its approximately 59,000 residents.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for state and local governments as defined by the Governmental Accounting Standards Board ("GASB"). Enterprise funds and similar component units also apply Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The following is a summary of the significant accounting and reporting policies of the City.

#### **(A) Reporting Entity**

The accompanying government-wide financial statements present the financial statements of the City of Conway 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 government 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. The 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 plan, being fiduciary in nature, is reported as a fiduciary fund.

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 Unit**

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**

The City has entered into several agreements with Conway Corporation (the “Corporation”) for the operation of city-owned utilities. As a result, the Corporation operates the electric department, water department, wastewater department, and cable television department. The Corporation provides electric, water, waste water treatment, cable, internet and telephone services to industrial, residential, commercial, and institutional customers in the City of Conway, Arkansas, and recognizes revenue for utility services in the period in which the services are provided. The Corporation is exempt from income taxes under Section 115 of the Internal Revenue Code. The City receives financial benefits through franchise fees and contributions to operations as a result of the Corporation leasing the utilities. Appointments to the Corporation’s Board of Directors, issues of additional indebtedness, rate changes, and changes in services are subject to approval of the City Council. The financial statements, which include the financial position and results of operations of the Corporation, are included as a discretely presented component unit in a separate column to emphasize that it is legally separate from the City. Audited financial statements of the Corporation can be obtained at the offices of Conway Corporation, 1307 Prairie Street, Conway, Arkansas, 72032.

The City of Conway Advertising and Promotion Commission (the “Commission”) was established by ordinance of the City in January 2000. The City Council initially appointed the members of the Commission, and vacancies are filled with City Council approval. They consist of four members who are owners or managers in the tourism industry who reside in the City, two members of the City’s council, and one member from the public at-large. The Commission derives its revenues from a tax on the gross receipts or proceeds received from renting, leasing, or furnishing hotel, motel, or short-term condominium rental, and meeting or party-room facilities levied and revocable by the City, and through a prepared food tax. All room rental funds received by the Commission pursuant to the tax levied are to be used for advertising and promoting the City and its environs. The majority of the revenue generated by the Commission consists of the prepared food tax, which is to be used for parks and recreation improvements at the discretion of the Mayor and City Council. Bonds issued by the City in 2007 are secured by the City’s pledge of this revenue stream. Audited financial statements of the Commission may be obtained by request at City of Conway Advertising and Promotion Commission, P.O. Box 2229, Conway, Arkansas 72033.

The Public Facilities Board of the City of Conway, Arkansas (the “Facilities Board”) was established for the purpose of undertaking public facilities projects. It currently exists to issue and service capital improvement revenue bond and health care refunding revenue bond debt applicable to facilities within the City. The City Council confirms Facilities Board members after election by a majority of the Facilities Board and can alter or change the structure, organization, programs or activities of the Facilities Board including terminating the Facilities Board at will. Additionally, the City Council must approve the issuance of any bonds. The Facilities Board does not derive revenue from the bonds it issues and does not issue separate financial statements nor have any financial statement activity.

### **(B) 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.

#### **Government-wide Statements**

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report information on all of the non-fiduciary 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 non-exchange 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 expense of a given function or identifiable activity is 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—governmental, proprietary, and fiduciary—are presented.

The emphasis of fund financial statements is on major funds, each displayed in a separate column. All other governmental funds are aggregated and reported as non-major funds.

The City reports the following governmental funds:

**The General Fund** is the City's primary operating fund and accounts for all financial resources of the City except those required to be accounted for in another fund.

**The Debt Service Fund** is used to account for the accumulation of resources for, and the payment of, governmental long-term debt principal, interest and related costs. The debt service fund is considered a major fund in the fund financial statements.

**The Capital Projects Fund** is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the enterprise fund) and is considered a major fund for reporting purposes in the fund financial statements.

**Special Revenue Funds** are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. There are six Special Revenue Funds which account for the activities related to street and drainage activities, grant programs and funds designated for specific service programs. They are as follows:

- The Street Fund
- The Grant Fund
- The Asset Forfeiture Fund
- The Community Development Block Grant Fund
- The Police Equipment Fund
- The Other Special Revenue Fund

**The Street Fund** accounts for the activities of the City's street and related drainage projects, and is considered a major fund for reporting purposes in the fund financial statements.

**The Other Special Revenue Fund** accounts for the City's impact fees and prepared food tax receipts, and is considered a major fund for reporting purposes in the fund financial statements.

**The Internal Service Fund** is used to account for the financing of goods or services provided by one department or agency to other City departments on a cost-plus basis. The City's Internal Service Fund consists of the Fleet Maintenance Department's operations.

The City reports one enterprise fund. **The Enterprise Fund** is used to account for the City's Sanitation Department operations, which is primarily supported by user charges.

The City reports the following fiduciary funds:

**The Pension Fund** is used to account for assets held in trust for the Non-Uniformed Employees' Pension Trust Fund. Plan trustees must act in accordance with the specific purposes and terms of this retirement plan.

**The Agency Fund** accounts for monies collected and held by the courts until they are disbursed to various governmental agencies.

### **(C) Measurement Focus and Basis of Accounting**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting, except for the fiduciary fund's agency fund which has no measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the fund. All revenues and expense not meeting this definition are reported as non-operating items.

Non-exchange 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 non-exchange 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 provided 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 financial sources) and decreases (expenditures and other financial uses) in spendable resources. General capital asset acquisitions are reported as expenditures and the proceeds of general long-term debt are reported as other financial 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 collected 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, and compensated absences, which are recognized as expenditures when payment is due. Pension expenditures are recognized when amounts are due to a plan.

#### **(D) Cash and Investments**

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

#### **(E) Receivables for Property Taxes**

In the governmental funds, property taxes are measurable when levied even though not available. As a result, the accompanying fund financial statements reflect receivables and deferred revenue for property taxes which were levied in November 2010. In the government-wide financial statements, property taxes are considered earned at the time levied. A lien attaches to the real property in January and to personal property in June of each year. Property taxes are collectible beginning the first business day of March of the year subsequent to the November in which they were levied. However, such taxes are not considered delinquent until after October 10 of the year in which they are collectible. Over time, substantially all property taxes are collected.

#### **(F) Prepaids Assets and Inventory**

Prepaid assets are payments to vendors that benefit future reporting periods and are reported on the consumption basis in government-wide and fund financial statements. For the Corporation, materials and supplies inventory are stated at average cost and coal inventories are stated at cost determined on a first-in, first-out basis.

#### **(G) Capital Assets**

Capital assets, which include infrastructure, are reported in the government-wide financial statements and the fund financial statements for the proprietary fund. All capital assets are stated at historical cost or estimated historical cost if actual historical cost is not available. Donated or contributed assets are valued at their estimated fair value on the date received. Contributed assets are generally received from individuals or developers who receive approval to connect to the Corporation's distribution system.

The City capitalizes assets based on the following criteria as to cost and estimated useful life.

<u>Asset category</u>	<u>Capitalized if cost exceeds</u>	<u>Depreciable life</u>
Small tools, equipment, furniture and fixtures	\$ 750	3 - 5 years
Vehicles, fire and heavy equipment	2,500	5 - 15 years
Buildings and improvements	10,000	10 - 50 years
Infrastructure	10,000	30 - 40 years

The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. Depreciation expense is charged directly to the department/function based on the department that utilizes the related asset.

**(H) Long-Term Liabilities**

In the government-wide financial statements, long-term debt and other obligations are reported as liabilities in the applicable governmental activities, business-type activities, or component units. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. Bond premiums and discounts, as well as issuance costs, are generally deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, government fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of any debt issued is reported as other financing sources.

**(I) Compensated Absences**

City employees are granted vacation and sick leave in varying amounts. The City records vested vacation and compensatory time benefits as earned. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Sick leave is recorded in the government-wide and proprietary fund financial statements utilizing a method that approximates the termination method; sick leave benefits are recorded only to the extent it is probable that the benefits will be paid upon termination.

A liability for these amounts is reported in governmental funds only as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. General revenues are used to liquidate the liability for compensated absences from the fund in which the employee retired.

**(J) Net Assets/Fund Balances**

Net assets of the City are classified in three components. Net assets invested in capital assets, net of related debt, consist 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 expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the City, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

When both restricted and unrestricted resources are available for use, generally it is the City’s policy to use unrestricted resources first. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are used first.

**(K) Reconciliation of government-wide and fund financial statements**

**Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets** – The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets of governmental activities as reported on the government-wide statement of net assets. One element of that reconciliation explains that, “Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows:

Bonds payable	\$27,330,000
Notes payable	3,277,352
Leases payable	793,254
Accrued interest on bonds, notes, and leases	53,329
Compensated absences	1,535,337
Net pension obligation	<u>3,520,941</u>
Net adjustment to reduce fund balances – total governmental funds to arrive at net assets of governmental activities	<u>\$36,510,213</u>

**Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities** – The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that, “Governmental funds report capital outlays as expenditures.

However, for government-wide statements, the cost or contributed value of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this difference are as follows:

Capital outlay	\$15,119,555
Depreciation expense	(5,395,667)
Loss on disposal of assets	<u>(88,632)</u>
Net adjustment to increase net changes in fund balance – total governmental funds to arrive at change in net assets of governmental activities	<u>\$ 9,635,256</u>

Another element of that reconciliation states that “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.” The difference is primarily related to recognition in the government-wide statement of the current year expense related to the net pension obligation and the landfill closure and post closure care costs.

**(L) Budgetary Controls**

The City prepares annual budgets on the modified accrual basis for the general fund, the Street Fund, the Other Special Revenue Fund, and the Sanitation Enterprise Fund. All annual appropriations lapse at year-end.

**(M) Use of Estimates**

The preparation of the financial statements in conformity with GAAP 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 these estimates.

**(N) Subsequent Events**

The City has evaluated events that occurred after December 31, 2010, but prior to October 11, 2011, the date the financial statements were issued. The City did not identify any events or transactions during this period of time that require recognition or disclosure in the financial statements for the period ended December 31, 2010, other than those disclosed.

**(O) New Accounting Pronouncements**

The GASB has issued the following statements which were adopted by the City in 2010:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes accounting and reporting requirements for intangible assets. There was no effect on beginning net assets for the implementation of GASB 51.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, establishes accounting and reporting requirements for the recognition, measurement, and disclosure of derivative instruments entered into by state and local governments. The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, establishes accounting and reporting requirements for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The implementation of this statement did not result in any change to the financial statements.

The GASB has issued the following statements which will be effective in future years as described below:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes accounting and reporting requirements for all governments that report governmental funds. This statement establishes the criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The City will implement this statement as required by the GASB during the year ended December 31, 2011. The City is still evaluating the impact of this statement on the financial statements.

GASB Statement No. 59, *Financial Instruments Omnibus*, establishes accounting and reporting requirements to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The City will implement this statement as required by the GASB during the year ended December 31, 2011. The City is still evaluating the impact of this statement on the financial statements.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, establishes accounting and reporting requirements to update and improve accounting and reporting requirements for and clarify guidance over service concession arrangements. The City will implement this statement as required by the GASB during the year ended December 31, 2012. The City is still evaluating the impact of this statement on the financial statements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* - an amendment of GASB Statements No. 14 and No. 34, establishes reporting and presentation requirements to update and improve information presented on the financial reporting entity and its components units. The City will implement this statement as required by the GASB during the year ended December 31, 2013. The City is still evaluating the impact of this statement on the financial statements.

GASB Statement No. 62, *Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into GASB authoritative literature for certain accounting and financial reporting guidance that was issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements as included in Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedure. The City will implement this statement as required by the GASB during the year ended December 31, 2012. The City is still evaluating the impact of this statement on the financial statements.

## 2. CASH AND INVESTMENTS

Custodial Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law. The City requires that deposits in financial institutions be collateralized with federal depository insurance and bonds and other interest-bearing securities of the United States, the State of Arkansas, Arkansas political subdivisions or agencies, or instrumentalities of these entities at 100%. At December 31, 2010, none of the City's governmental bank balances were exposed to custodial credit risk.

Arkansas statutes authorize the City to invest in certain permissible investments which include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. government obligations), repurchase agreements, corporate debt and equity obligations, and state and local government securities. The pension trust fund is authorized to also invest in common stocks, investment grade corporate bonds, and other appropriate securities.

As of December 31, 2010, the City had the following investments and maturities:

### *Primary Government*

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>
U. S. Treasuries	\$ 125,775	\$ 125,775	\$ -	\$ -	\$ -
Corporate Bonds	467,530	-	243,487	224,043	-
Municipal Bonds	104,432	-	104,432	-	-
Stocks	<u>6,079,221</u>	<u>6,079,221</u>	-	-	-
Total	<u>\$6,776,958</u>	<u>\$6,204,996</u>	<u>\$347,919</u>	<u>\$224,043</u>	<u>\$ -</u>

The primary government's investments were reported by the Fiduciary Fund.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City does not have a policy specifically formulated to address interest rate risk. Investment policies for the Non-Uniformed Pension and Relief Plan stipulate that investments in mortgage-backed investments are to be rated AAA, and investments in corporate bond issues are to be rated A at time of purchase.

Credit risk is the risk that the issuer or other counterparty will not fulfill its obligations. It is the City's policy, excluding fiduciary funds, to invest almost exclusively in government-issued treasuries and agencies or insured time deposits. The Municipal Bond investment is rated A by Standard & Poor's and is not rated by Moody's. The credit exposure for the City's corporate bonds as rated by Standard & Poor's/Moody's is as follows:

<u>Credit Quality Rating</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
A/A	\$254,965	3.22%
BBB/A	28,253	0.36%
BBB/Baa	<u>184,312</u>	2.33%
	<u>\$467,530</u>	

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investments in a single issuer. Excluding U.S. Treasury and Agency obligations, the Non-Uniformed Employees' Pension and Relief Plan limits the maximum amount of the pension fund's portfolio may be placed in any single issuer without approval by the applicable board to 5%. At December 31, 2010, the Non-Uniformed Employees' Pension and Relief Plan contained investments (other than those issued or guaranteed by the U.S. government) in issuers that represent 5% or more of total investments. Those investments were comprised of Vanguard Exchange Traded Funds totaling \$1,685,206.

### 3. RESTRICTED ASSETS

Restricted assets of the primary government consist of bank balances restricted to provide financial assurance of the City's landfill closure and post closure liability. Certain proceeds of the Corporation's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants for meeting debt service requirements for various bond issues.

Developer deposits are collected from individuals or entities engaged in residential and commercial development activities and are held by the Corporation and paid to subcontractors upon the satisfactory execution of work related to the construction of utility plant in service

#### 4. ACCOUNTS RECEIVABLE

Accounts receivable for the primary government and the Commission have been deemed to be fully collectible, thus, no allowance for doubtful accounts is recorded. An allowance for doubtful accounts balance of approximately \$195,000 at December 31, 2010, is recorded related to the Corporation.

#### 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010, was as follows:

<b>Governmental activities:</b>	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>
Capital assets, not being depreciated:				
Land	\$ 13,397,924	\$ 1,358,679	\$ —	\$ 14,756,603
Construction in progress	<u>25,164,980</u>	<u>12,703,304</u>	<u>(18,699,970)</u>	<u>19,168,314</u>
Total capital assets, not being depreciated	<u>38,562,904</u>	<u>14,061,983</u>	<u>(18,699,970)</u>	<u>33,924,917</u>
Capital assets, being depreciated:				
Buildings and improvements	23,227,336	9,284,919	—	32,512,255
Equipment	22,179,160	1,070,631	(552,127)	22,697,664
Infrastructure	<u>107,770,499</u>	<u>9,320,626</u>	<u>—</u>	<u>117,091,125</u>
Total capital assets, being depreciated	<u>153,176,995</u>	<u>19,676,176</u>	<u>(552,127)</u>	<u>172,301,044</u>
Less accumulated depreciation for:				
Buildings and improvements	4,033,830	582,628	—	4,616,458
Equipment	15,182,710	1,690,718	(539,985)	16,333,443
Infrastructure	<u>38,434,160</u>	<u>3,122,321</u>	<u>(2,559)</u>	<u>41,553,922</u>
Total accumulated depreciation	<u>57,650,700</u>	<u>5,395,667</u>	<u>(542,544)</u>	<u>62,503,823</u>
Capital assets, being depreciated, net	<u>95,526,295</u>	<u>14,280,509</u>	<u>(9,583)</u>	<u>109,797,221</u>
Governmental activities capital assets, net	<u>\$134,089,199</u>	<u>\$28,342,492</u>	<u>\$(18,709,553)</u>	<u>\$143,722,138</u>

<b>Business-type activities:</b>	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>
Capital assets, not being depreciated:				
Land	\$ 1,014,332	\$ –	\$ –	\$ 1,014,332
Construction in progress	<u>494,271</u>	<u>689,768</u>	<u>(494,271)</u>	<u>689,768</u>
Total capital assets, not being depreciated	<u>1,508,603</u>	<u>689,768</u>	<u>(494,271)</u>	<u>1,704,100</u>
Capital assets, being depreciated:				
Buildings and improvements	3,201,790	490,496	(312,000)	3,380,286
Equipment	7,734,223	2,413,436	(208,162)	9,939,497
Infrastructure	<u>691,618</u>	<u>–</u>	<u>–</u>	<u>691,618</u>
Total capital assets, being depreciated	<u>11,627,631</u>	<u>2,903,932</u>	<u>(520,162)</u>	<u>14,011,401</u>
Less accumulated depreciation for:				
Buildings and improvements	1,641,817	82,683	(312,000)	1,412,500
Equipment	2,590,586	760,569	(140,319)	3,210,836
Infrastructure	<u>272,906</u>	<u>34,145</u>	<u>–</u>	<u>307,051</u>
Total accumulated depreciation	<u>4,505,309</u>	<u>877,397</u>	<u>(452,319)</u>	<u>4,930,387</u>
Capital assets, being depreciated, net	<u>7,122,322</u>	<u>2,026,535</u>	<u>(67,843)</u>	<u>9,081,014</u>
Business activities capital assets, net	<u>\$ 8,630,925</u>	<u>\$2,716,303</u>	<u>\$(562,114)</u>	<u>\$10,785,114</u>

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

Depreciation by function:		
Governmental activities –		
General administration		\$ 103,959
Airport		24,665
Fire		579,279
Highways and streets		3,391,511
Parks and recreation		219,734
Law enforcement		<u>1,076,519</u>
Total depreciation expenses – governmental activities		<u>\$ 5,395,667</u>
Business-type activities –		
Sanitation		<u>\$ 877,397</u>

**Discretely presented component unit – The Corporation:**

Activity for the Corporation for the year ended December 31, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land and land rights	\$ 16,949,220	\$ 175,299	\$ –	\$ 17,124,519
Building and improvements	15,195,222	2,155,045	–	17,350,267
Supply, treatment and distribution facilities	174,289,586	5,562,269	(1,254,616)	178,597,239
Equipment	102,783,595	6,875,646	(1,241,653)	108,417,588
Undivided interest in coal plants	44,443,112	510,934	–	44,954,046
Construction in progress	<u>8,398,207</u>	<u>9,836,948</u>	<u>(5,652,111)</u>	<u>12,583,044</u>
	362,058,942	25,116,141	(8,148,380)	379,026,703
Accumulated depreciation	<u>146,994,670</u>	<u>13,311,192</u>	<u>(2,130,500)</u>	<u>158,175,362</u>
Net utility plant in service	<u>\$215,064,272</u>	<u>\$11,804,949</u>	<u>\$(6,017,880)</u>	<u>\$220,851,341</u>

**6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of December 31, 2010, which are eliminated in the accompanying government-wide financial statements, except as it relates to fiduciary activity, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Street Fund	\$ 8,560
	Enterprise Fund	11,078
	Other Government Funds	107,319
	Other Special Revenue Fund	<u>4,322</u>
		<u>\$ 131,279</u>
Street Fund	General Fund	\$ 676,197
	Other Governmental Funds	85,414
	Other Special Revenue Funds	20,000
	Capital Projects Funds	<u>102,131</u>
	<u>\$ 883,742</u>	
Other Special Revenue Fund	General Fund	<u>\$ 219,782</u>
Other Government Funds	General Fund	<u>\$ 14,766</u>
Enterprise Fund	General Fund	\$ 61,998
	Internal Service Fund	<u>2,977</u>
		<u>\$ 64,975</u>
Capital Projects Fund	Other Special Revenue Funds	\$ 540,340
	General Fund	<u>47,671</u>
		<u>\$ 588,011</u>
Internal Service Fund	Enterprise Fund	<u>\$ 11,266</u>

The outstanding balances between funds result mainly from the time lag between the dates that (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.

Transfers are used to (1) move revenues from the fund with collection authorization to the sanitation enterprise fund as funding of post closure costs become due; (2) move revenues from the special revenue fund with collection authorization to the street fund as funding for projects supported by impact fees become due, to the debt service fund for bond payments, and to the capital projects funds to cover costs in excess of financing for capital improvements; (3) move revenues from the capital projects fund to the debt service fund for bond payments; and (4) move unrestricted general fund revenues to finance various programs that the City must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. The government-wide statement of activities eliminates transfers reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement. Interfund transfers during the year ended December 31, 2010, are comprised of the following:

<b>Transfers In</b>					
	<b><u>General Fund</u></b>	<b><u>Street Fund</u></b>	<b><u>Debt Service Fund</u></b>	<b><u>Capital Projects Fund</u></b>	<b><u>Total</u></b>
<b><u>Transfers Out</u></b>					
General Fund	\$ -	\$ -	\$ 76,120	\$ 5,186	\$ 81,306
Other Special Revenue Fund	-	20,000	1,039,234	3,946,980	5,006,214
Capital Projects Fund	-	-	561,058	-	561,058
Non-major Governmental Funds	3,325	103,716	-	12,974	120,015
Sanitation Enterprise Fund	<u>560,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>560,200</u>
Total Transfers	<u>\$563,525</u>	<u>\$123,716</u>	<u>\$1,676,412</u>	<u>\$3,965,140</u>	<u>\$6,328,793</u>

Due to/from primary government and component unit:

<b><u>Receivable Entity</u></b>	<b><u>Payable Entity</u></b>	<b><u>Amount</u></b>
City – General Fund	The Corporation	\$ 28,084
City – Proprietary Fund	The Corporation	<u>685,873</u>
		<u>\$ 713,957</u>
City – Other Special Revenue Fund	A&P Commission	<u>\$ 387,324</u>

**7. PENSION PLANS**

The City has contributed to three single-employer defined benefit pension plans: Firemen’s Pension and Relief Plan, Policemen’s Pension and Relief Plan, and Non-Uniformed Employees’ Pension and Relief Plan and one agent multiple employer retirement system: Arkansas Local Police and Fire Retirement System (“LOPFI”). The Firemen’s Pension and Relief Plan and the Policemen’s Pension and Relief Plan are administered by LOPFI.

The Non-Uniformed Employees’ Pension and Relief Plan provides retirement and disability benefits to its members who are general employees of the City. The Firemen’s Pension and Relief Plan and Policemen’s Pension and Relief Plan provide retirement and disability benefits to its members, municipal firemen and policemen employed by the City prior to January 1, 1983. These plans also provide survivor benefits to members’ survivors. In addition to providing retirement, disability, and death benefits, LOPFI, provides annual cost-of-living adjustments. LOPFI covers all municipal police officers and fire fighters employed subsequent to January 1, 1983, and their beneficiaries.

Plan membership for the Firemen’s Pension and Relief Plan, Policemen’s Pension and Relief Plan, and the Non-Uniformed Employees’ Pension and Relief Plan is detailed below.

	<b><u>Firemen's Pension &amp; Relief Plan</u></b>	<b><u>Policemen's Pension &amp; Relief Plan</u></b>	<b><u>Non-Uniformed Employees' Pension &amp; Relief Plan</u></b>
Retirees and beneficiaries currently receiving benefits	21	39	71
DROP Participants	6	2	–
Terminated members entitled to, but not yet receiving benefits	–	–	6
Active members	–	–	231

**Funding Policy and Annual Pension Cost** – Benefit and contribution provisions of the Non-Uniformed Employees’ Pension and Relief Plan and LOPFI administered plans are established by state law and can be amended only by the Arkansas General Assembly. The Non-Uniformed Employees’ Pension and Relief Plan does not provide for post-retirement benefit increases. The contribution requirements of the City for LOPFI are established and may be amended by the LOPFI Board of Trustees.

The City is not obligated to pay the statutorily required benefits if the Non-Uniformed Employees’ Pension and Relief Plan assets are not sufficient. If the funds in the Plan should be insufficient to make full payment of the amount of pensions to all persons entitled, then the funds shall be prorated among those entitled in accordance with the respective benefits being received by them.

Plan member and City contributions to each Plan are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Non-Uniformed Employees' Pension and Relief Fund. To help fund the required employer contribution, the City contributed voter mandated property tax on real estate and personal property to the Firemen's Pension and Relief Plan and the Policemen's Pension and Relief Plan. The State of Arkansas provided an insurance premium turnback collected by the State Insurance Commissioner which totaled approximately \$263,000 and \$416,000 which the City used to fund employer contributions to the Firemen's Pension and Relief Plan and the Policemen's Pension and Relief Plan, respectively. Furthermore, the Policemen's Pension and Relief Plan used all forfeitures and fines imposed upon any member of the police department by way of discipline, all money given or donated to such fund, all money deducted from the salary of any member of the police department on account of absence or loss of time, all rewards paid for any purpose, and 10% of all fines and forfeitures collected by the police department of the City to fund employer contributions. Administrative costs of the Plans were financed through fund assets approved by the Board of Directors. The City's annual pension cost from the most recent actuarial valuation and related information for each plan is as follows:

	<b><u>Firemen's Pension &amp; Relief Plan</u></b>	<b><u>Policemen's Pension &amp; Relief Plan</u></b>	<b><u>Non- Uniformed Employees' Pension &amp; Relief Plan</u></b>	<b><u>LOPFI Paid Service Fire</u></b>	<b><u>LOPFI Paid Service Police</u></b>
Actuarial valuation date	12/31/2010	12/31/2010	12/31/2010	12/31/2010	12/31/2010
Contribution rates as a percent of gross pay:					
City	8.28%	8.56%	6%	17.40%	21.22%
Plan members	6%	6%	6%	**	**
Annual pension cost	\$452,479	\$426,089	\$1,473,145	\$774,716	\$1,076,861
Contributions made:					
City	\$463,270	\$431,979	\$804,466	\$763,925	\$1,070,972
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level % closed	Level % closed	Level % open	Level % open	Level % open
Remaining amortization period	15 years	15 years	30 years	28 years	28 years

(continued)	<u>Firemen's Pension &amp; Relief Plan</u>	<u>Policemen's Pension &amp; Relief Plan</u>	<u>Non- Uniformed Employees' Pension &amp; Relief Plan</u>	<u>LOPFI Paid Service Fire</u>	<u>LOPFI Paid Service Police</u>
Asset valuation method	Smooth market	Smooth market	Market value	Smooth market	Smooth market
Actuarial assumptions:					
Investment rate of return	8%	8%	7%	8%	8%
Projected salary increases (a)	4-10%	4-10%	3.5%	4-10%	4-10%
(a) includes inflation at	4%	4%	3.5%	4%	4%
Cost-of-living adjustments	3%	3%	None	3%	3%
Actuarial Value of Assets (b)	\$12,852,558	\$615,393	\$7,724,443	\$13,346,456	\$5,066,075
Actuarial Accrued Liability (AAL) (c)	\$21,329,522	\$15,490,433	\$21,007,350	\$16,746,343	\$15,490,433
Unfunded AAL (c – b)	\$8,476,964	\$14,875,040	\$13,282,907	\$3,399,887	\$10,424,358
Funded Ratio (b/c)	60%	4%	37%	80%	33%
Covered Payroll (d)	\$ -	\$ -	\$7,525,542	\$4,369,944	\$4,993,380
UAAL as a Percentage of Covered Payroll ((c-b)/d)	n/a	n/a	177%	78%	209%

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

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

The net pension obligation as of December 31, 2010, for the following plans, which is reflected in the accompanying government-wide financial statements, and the annual pension cost for the year ended December 31, 2010, the date of the most recent actuarial valuation, are as follows:

	<b><u>Firemen's Pension &amp; Relief Plan</u></b>	<b><u>Policemen's Pension &amp; Relief Plan</u></b>	<b><u>Non- Uniformed Employees' Pension &amp; Relief Plan</u></b>
Actuarial required contribution	\$ 463,270	\$431,979	\$1,442,821
Interest on net pension obligation	95,709	52,239	129,663
Adjustment to annual required contribution	<u>(106,500)</u>	<u>(58,129)</u>	<u>(99,339)</u>
Annual pension cost	452,479	426,089	1,473,145
Contributions made	<u>463,270</u>	<u>431,979</u>	<u>798,172</u>
Increase (decrease) in net pension obligation	(10,791)	(5,890)	674,973
Net pension obligation, beginning of period	<u>1,196,357</u>	<u>652,985</u>	<u>1,852,326</u>
Net pension obligation, end of year	<u>\$1,185,566</u>	<u>\$647,095</u>	<u>\$2,527,299</u>

The activity of the net pension obligation includes the beginning net pension obligation for the Firemen's Pension & Relief Plan and Policemen's Pension & Relief plan as of December 31, 2008, and the Non-uniformed Employees' Pension & Relief Plan as of December 31, 2009.

The City is also required by state statute to provide retirement benefits to a small number of certain elected officials. The payment of such benefits is payable from the general fund of the City. Due to the size of the plan providing these benefits, the City has determined that the cost to obtain an actuarial valuation for such benefits was not warranted. Therefore, the annual pension cost and net pension obligation, as well as other actuarial information required to be disclosed in accordance with GASB, is not available.

### **Financial Statements**

The Non-Uniformed Employees' Pension and Relief Plan does not issue stand-alone financial reports. LOPFI issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by LOPFI. That report may be obtained by contacting:

Arkansas Local Police and Fire Retirement System  
P.O. Drawer 34164  
Little Rock, Arkansas 72203  
(501) 682-1745

The total pension funds in the Statement of Fiduciary Net Assets – Fiduciary Funds and the Statement of Changes in Fiduciary Net Assets – Pension Funds consists of the financial statements for the Non-Uniformed Employees’ Pension Relief Plan.

**Three-Year Trend Information**

<u>Year Ended</u> <u>December 31:</u>	<u>Employer Contributions</u>		<u>Net Pension</u> <u>Obligation</u>
	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>Contributed</u>	

***Firemen's Pension and Relief Plan***

2010	\$ 452,479	100%	\$1,185,566
2008	445,571	97%	1,196,357
2007	730,659	51%	1,265,000

***Policemen's Pension and Relief Fund***

2010	\$ 426,089	100%	\$ 647,095
2008	78,237	564%	652,985
2007	517,148	60%	1,155,490

***Non-Uniformed Employees' Pension and Relief Plan***

2010	\$1,473,145	54%	\$2,527,299
2008	1,005,830	79%	2,047,988
2007	940,705	65%	1,836,623

	<u>Paid Service Fire</u>		<u>Paid Service Police</u>	
	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>Contributed</u>	<u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>

***LOPFI***

2010	\$ 664,178	100%	\$1,070,972	100%
2009	752,921	100%	1,130,046	100%
2008	728,493	100%	1,016,737	100%

The schedule of funding progress, presented in the required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

The Municipal Judges' and Clerks' Retirement Plan was closed during 2005 and all assets held by the Plan were transferred to the Arkansas District Judges Retirement System. If the accumulated assets become deficient to pay the retirement benefits of district court personnel who were covered by the closed plan, the deficiency shall be met by payments from the City's general fund.

#### *Component Unit – The Corporation*

### **Retirement Plans**

The Corporation's employees participate in the Retirement Plan of the Conway Corporation (the "Plan"), a noncontributory, single-employer defined benefit pension plan administered by the Corporation. 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.

The net pension obligation is a standardized disclosure which is a measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. This measure, which is the actuarial present value of credited projected benefits, is intended to help assess the Plan's funding status on a going-concern basis and progress made in accumulating sufficient assets to pay benefits when due. There was no net pension obligation at August 1, 2010, the date of the most recent actuarial valuation performed (frozen actuarial liability cost method), for the Plan as a whole. The actuarial value of the Plan's assets available for benefits on August 1, 2010, was approximately \$13.6 million and the actuarial accrued liability was approximately \$15.4 million resulting in an unfunded actuarial accrued liability of approximately \$1.8 million. Annual covered payroll of active employees, was \$10.6 million, and the ratio of the UAAL to the covered payroll was 16.8%. The rates used in determining the actuarial present value of the obligation were 7.5% per year for the expected long-term rate of return on investments and 5.0% per year for the assumed rate of increase in future compensation levels, both of which include an inflation component of 3.0%. The remaining amortization period at August 1, 2010, was 24 years.

The Corporation's actuarially determined contribution payments were \$1,344,216 for 2010, which represents 100% of the annual required contribution amount calculated by the actuary. Significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation.

The Conway Corporation 457 Supplemental Retirement Plan is a supplemental defined contribution retirement program for employees. Participation is optional with the employer matching up to 25% of the first 3% of gross pay. Total matching contributions for 2010 were \$64,684.

## Postemployment Healthcare and Life Insurance

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 December 31, 2008. Copies of this report may be obtained by contacting the Corporation.

The required contribution is based on projected pay-as-you-go financing requirements.

The Corporation's annual other postemployment benefit ("OPEB") cost is calculated based on the annual required contribution of the employer. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Corporation's annual OPEB cost for the year, the amount actually contributed to the OPEB plan and changes in the Corporation's net OPEB obligation to the OPEB plan:

Annual required contribution	\$282,559
Interest on net OPEB obligation	20,381
Adjustment to annual required contribution	<u>(19,470)</u>
Annual OPEB cost	283,470
Contributions made	<u>(52,000)</u>
Increase in net OPEB obligation	231,470
Net OPEB obligation - beginning of year	<u>509,520</u>
Net OPEB obligation - end of year	<u>\$740,990</u>

The Corporation's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB plan and the net OPEB obligation for 2010, 2009, and 2008 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2008	\$282,559	Unknown	\$282,559
12/31/2009	284,961	4.9%	509,250
12/31/2010	283,470	18.3%	740,990

The funded status of the Plan as of December 31, 2010, was as follows:

Actuarial accrued liability (AAL)	\$3,108,424
Actuarial value of plan assets	—
Unfunded actual accrued liability (UAAL)	<u>\$3,108,424</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll ( active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the OPEB plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 healthcare 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.

In the December 31, 2008, actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 7.7% initially, reduced by decrements to an ultimate rate of 4.5% after eighty 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, 2010, was 28 years.

## 8. COMMITMENTS

From time to time, the City enters into agreements that will likely affect future operating results by requiring future expenditures. Contractual obligations do not necessarily represent the remaining expected expenditures to complete a project. At December 31, 2010, the City was contractually obligated for the following:

<u>Capital Improvement Project Name</u>	<u>Estimated or Actual Completion Date</u>	<u>Contract Balance</u>
Lollie Bottoms Airport	December 31, 2014	\$ 554,026
Western Loop Study	December 31, 2014	2,540,816
Conway Station Park	May 31, 2011	33,600
Museum Road Extension	August 10, 2011	1,053,925
Donaghey/Dave Ward Drive	August 8, 2011	159,030
Landfill Zones 18 and 19	March 31, 2011	31,408
College Avenue and Elm	October 31, 2011	<u>767,447</u>
Total contracts		<u>\$5,140,252</u>

The City has estimated the total construction costs of the Lollie Bottoms Airport to be approximately \$31 million with a completion date of 2014. Total costs incurred through December 31, 2010 were approximately \$3 million.

## 9. LEASES

The City acts as lessee and lessor under a variety of operating and capital lease agreements.

The airport and related facilities are leased to a private business under a lease agreement expiring in 2039. The lease provides for a monthly rental payment plus additional amounts based upon the amount of fuel sold at the airport.

Property leased under this operating lease consists of the following at December 31, 2010:

Land and buildings	\$1,325,536
Infrastructure	131,467
Equipment	24,639
Less: accumulated depreciation	<u>(831,032)</u>
Total	<u>\$ 650,610</u>

Depreciation expense on property leased to others was \$24,665 for the year ended December 31, 2010.

In connection with the above referenced lease, the City also has a management agreement with a private business to maintain the airport facilities. The management agreement, which runs concurrently with the lease, requires payments equal to approximately 80% of the lease payments received in consideration for management of the airport facilities.

In connection with the airport, the City also has a lease agreement with another private business in which the private business leases land where its hangar is located under a lease agreement expiring in 2039. At the end of the lease term, any improvements made to the land will become property of the City.

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

The City has a lease agreement with the University of Central Arkansas, whereby the City leases facilities for use by the Conway Fire Department, for \$20,000 per year under a lease agreement expiring in 2013. At the end of the lease term, the City has the option to renew for three five-year terms under the same terms and conditions.

The City has a capital lease agreement in which the City is acquiring certain energy efficiency improvements to City facilities. Improvements totaling approximately \$847,000 are included in depreciable capital assets with accumulated depreciation of approximately \$46,000 as of December 31, 2010, in the accompanying government-wide activities statement of net assets. The lease agreement requires quarterly payments through July 2023.

At December 31, 2010, future minimum lease payments receivable and payable under the City's lease and management agreements are as follows:

	<b>Operating Lease Payments Receivable</b>	<b>Management Agreement Payments Payable</b>	<b>Operating Lease Payments Payable</b>	<b>Capital Lease Payments Payable</b>
2011	\$ 71,899	\$ 22,314	\$20,000	\$ 69,200
2012	71,899	22,314	20,000	79,436
2013	71,899	22,314	20,000	81,398
2014	71,899	22,314	—	83,408
2015	71,899	22,314	—	85,470
2016-2020	359,495	113,031	—	460,174
2021-2024	359,495	113,256	—	262,073
2025-2029	359,495	113,256	—	—
2030-2034	359,495	113,256	—	—
2036-2040	252,773	105,706	—	—
2041-2098	<u>1,450</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<b><u>\$2,051,698</u></b>	<b><u>\$670,075</u></b>	<b><u>\$60,000</u></b>	<b><u>\$1,121,159</u></b>

**10. LONG-TERM LIABILITIES**

The following is a summary of long-term obligations of the City for the year ended December 31, 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Bonds payable	\$30,030,000	\$ –	\$(2,700,000)	\$27,330,000	\$1,985,000
Leases payable	825,436	–	(32,182)	793,254	26,601
Notes payable	4,121,178	–	(843,826)	3,277,352	3,064,724
Compensated absences	1,471,855	1,692,183	(1,628,701)	1,535,337	110,987
Net pension obligation	<u>3,258,710</u>	<u>245,550</u>	<u>–</u>	<u>3,504,260</u>	<u>–</u>
Governmental activity Long-term liabilities	<u>\$39,707,179</u>	<u>\$1,937,733</u>	<u>\$(5,204,709)</u>	<u>\$36,440,203</u>	<u>\$5,187,312</u>
<b>Business-type activities:</b>					
Notes payable	\$ –	\$1,943,000	\$ –	\$1,943,000	\$367,219
Compensated absences	141,230	159,732	(136,281)	164,681	11,904
Landfill closure and post closure costs	4,287,054	99,536	–	4,386,590	475,631
Net pension obligation	<u>638,620</u>	<u>217,080</u>	<u>–</u>	<u>855,700</u>	<u>–</u>
Business-type activity Long-term liabilities	<u>\$5,066,904</u>	<u>\$2,419,348</u>	<u>\$(136,281)</u>	<u>\$7,349,971</u>	<u>\$854,754</u>

The governmental activities' compensated absences and net pension obligations are generally liquidated by the general fund. Bond payments are made from the Debt Service Fund, which had a reserve balance at December 31, 2010 of \$3,335,311. The notes payable are liquidated by the other special revenue fund and capital projects fund through dedicated taxes.

**2008 Electric Franchise Fee Revenue Bonds** – The City issued \$2,220,000 Electric Franchise Tax Bonds, Series 2008, which are due in semiannual installments of \$60,000 - \$95,000, plus interest at 6.25% with the final payment due January 1, 2019. The bonds were issued to finance the cost of site improvements at an industrial site. The bonds, which have an outstanding balance at December 31, 2010, of \$1,285,000, 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 prior pledge of such receipts securing the City's outstanding Franchise Fee Revenue Improvement Bonds, Series 2006 and the City's

obligations under the Franchise Fee Revenue Lease-Purchase Agreement. Electric franchise fee revenue received by the City during the year ended December 31, 2010, totaled approximately \$1,590,000.

***2007 Restaurant Gross Receipts Tax Capital Improvement Bonds*** – 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, which have an outstanding balance at December 31, 2010, of \$12,745,000, 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. Principal payments ranging from \$490,000 to \$1,005,000 are due annually on December 1. Interest payments at 4.0% to 5.00% are due annually on December 1. Revenue pledged under this financing arrangement totaled approximately \$2,320,000 during the year ended December 31, 2010.

***2006 Franchise Fee Revenue Improvement Bonds*** – The City issued \$5,100,000 Franchise Fee Revenue Improvement Bonds, Series 2006, which are due in annual installments of \$150,000 – \$185,000, plus interest at 4.00% through 2016, followed by two five-year term payments of \$1,035,000 and \$1,280,000, plus interest at 4.25%, followed by a four-year term payment of \$1,235,000, plus interest at 4.375%, with the final payment due December 1, 2030. The bonds were issued to finance the costs of acquiring, constructing, extending, and equipping certain improvements to the City's wastewater and electric systems and certain roadway infrastructure and related improvements in the Guy Murphy Industrial Park and the Meadows Technology Park. The bonds, which have an outstanding balance at December 31, 2010, of \$4,550,000, are special obligations of the City secured by and payable solely from receipts of franchise fees which are pledged for this purpose. The excess of franchise fee revenue received by the City during the year ended December 31, 2010, over debt service requirements totaled approximately \$2,937,000, and is available for debt service on the lease purchase agreement, 2008 Electric Franchise Fee Revenue Bonds, and thereafter for City operations.

***2006 Sales and Use Tax Refunding Bonds and Capital Improvement Bonds*** – The City issued \$9,755,000 Sales and Use Tax Refunding Bonds, Series 2006A and \$7,525,000 Sales and Use Tax Capital Improvements Bonds, Series 2006B, which are due in annual installments ranging from \$1,225,000 to \$2,285,000, plus interest at 3.625% to 3.95%. The bonds have an outstanding balance at December 31, 2010 of \$8,750,000. These bonds are special obligations of the City secured by and payable solely from receipts of the quarter cent special sales and use tax and the quarter cent general sales and use tax. The general sales and use tax shall continue until sufficient monies are accumulated to retire the bonds and cannot be used for any purpose other than payment of debt service on the bonds. The special sales and use tax shall continue until the bonds are retired and can be used to fund pay-as-you-go capital projects for the City. The taxes generated that were attributable to repayment of the bonds totaled approximately \$6,065,000 during the year ended December 31, 2010.

Annual requirements to amortize all bonds outstanding of the primary government – governmental activities as of December 31, 2010, are as follows:

<b><u>Year Ending December 31:</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2011	\$ 1,985,000	\$ 879,561	\$ 2,864,561
2012	2,090,000	1,093,340	3,183,340
2013	3,030,000	1,010,190	4,040,190
2014	3,150,000	889,253	4,039,253
2015	2,630,000	762,275	3,392,275
2016-2020	4,820,000	2,841,165	7,661,165
2021-2025	5,230,000	1,733,748	6,963,748
2026-2030	<u>4,395,000</u>	<u>474,525</u>	<u>4,869,525</u>
Totals	<u>\$27,330,000</u>	<u>\$9,684,057</u>	<u>\$37,014,057</u>

Notes payable includes an unsecured note with an outstanding balance as of December 31, 2010, of approximately \$2,900,000 to a financial institution included in the amount due within one year as the note is due on demand. If no demand is made, the principal expected amount due within one year is approximately \$669,000. The note is due in equal annual installments of approximately \$794,000, with interest at 4.37% through August 2014.

Notes payable also includes an unsecured note to a financial institution due in equal semiannual installments of approximately \$111,000, with interest at 4.13% through August 2012. The outstanding balance at December 31, 2010, of approximately \$420,000 includes the current portion due of approximately \$207,000.

Notes payable for business-type activities includes an unsecured note for approximately \$2,000,000, including the current portion due of approximately \$367,000, borrowed by the City from a financial institution during the year ended December 31, 2010. The note is due in equal annual installments of approximately \$422,000, with interest at 2.83% through April 2015. The note is a general obligation of the City.

**Legal Debt Limit** – The City is subject to a constitutional limitation for property tax secured bonded indebtedness equal to 20% of the total assessed value of real and personal property as determined by the last tax assessment. At December 31, 2010, the legal debt limit for the City was approximately \$176 million. The City’s outstanding bonds payable debt totaling \$27,330,000 was not secured by real and personal property taxes.

**Conduit Debt Obligations** – From time to time, the City or its components have issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities 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. Those issues are detailed as follows:

*Primary Government*

The following revenue bonds were issued for securing and developing industry within the City of Conway. The bonds are being retired by a lease-rental plan with the following corporations:

<u>Corporation</u>	<u>Date of Issue</u>	<u>Original Amount of Bonds Issued</u>	<u>Bonds Outstanding as of December 31, 2010</u>
Nucor Corporation	Dec-95	\$ 36,000,000	\$ 17,042,639
Kimberly-Clark Corporation	Jan-96	20,000,000	20,000,000
Interstate Group LLC Project	Apr-03	2,000,000	1,123,333
Kimberly-Clark Corporation	Oct-05	30,000,000	30,000,000
Hewlett-Packard Company Project	Dec-08	30,500,000	29,207,315
Kimberly-Clark Corporation	Nov-10	<u>75,000,000</u>	<u>75,000,000</u>
Totals		<u>\$193,500,000</u>	<u>\$172,373,287</u>

The bonds are special obligation bonds of the City and do not constitute an indebtedness of the City within any constitutional or statutory limitation, but are payable solely from lease-rentals of certain properties, and are secured by a statutory mortgage lien on the same. Accordingly, these bonds are not reflected on the accompanying financial statements.

*Component Units*

The Facilities Board has issued capital improvement revenue bonds and health care refunding revenue bonds for facilities within the City. These bonds, detailed below, are secured by the properties financed, as well as revenues and other payments, and are payable solely from payments received from the private organizations benefiting from the issuance of the bonds. The facilities acquired or constructed from the bond proceeds are owned by the private organizations.

<u>Organization</u>	<u>Date of Issue</u>	<u>Original Amount of Bonds Issued</u>	<u>Bonds Outstanding as of December 31, 2010</u>
Conway Health Care Living Project	Aug-99	\$ 365,000	\$ 220,000
Hendrix College	Feb-05	35,160,000	30,950,000
UCA Foundation Project	May-05	13,050,000	11,820,000
Hendrix College	Mar-06	4,200,000	3,885,000
Conway Christian School Project	Dec-06	6,500,000	5,750,000
Hendrix College	Oct-08	23,925,000	19,170,000
Conway Regional Medical Center	Dec-09	30,000,000	29,460,000
USABLE	Feb-10	<u>13,200,000</u>	<u>8,796,141</u>
Totals		<u>\$126,400,000</u>	<u>\$110,051,141</u>

The bonds are special obligations of the Facilities Board and do not constitute an indebtedness of the Facilities Board or the City within any constitutional or statutory limitation, but are payable solely from the revenues of the properties and organizations, and are secured by a statutory mortgage lien on the same. Accordingly, these bonds are not reflected on the accompanying financial statements.

*Long-Term Debt – Component Units*

The Corporation has secured all long-term debt by its future revenues. Detailed information about specific component unit debt is available in their separately issued financial statements. A summary of the component unit's debt at December 31, 2010, follows.

\$8,295,000 Water Revenue bonds, Series 2005	\$ 3,035,000
\$13,100,000 Water Revenue bonds, Series 2010	13,015,000
\$723,417 Mid-Arkansas Water Alliance note payable	682,627
\$13,700,000 Sewer Revenue bonds, Series 1992	3,686,111
\$8,300,000 Wastewater Revenue Improvement bonds, Series 2004	5,405,000
\$12,000,000 Waste Water Revenue bonds, Series 2009	11,560,000
\$14,995,000 Waste Water Revenue bonds, Series 2010	<u>14,955,000</u>
Total	<u>52,338,738</u>
Unamortized discounts, net	(186,075)
Unamortized losses on bond refundings	(987,586)
Current portions	<u>(3,340,956)</u>
Total long-term debt – component unit	<u>\$47,824,121</u>

Maturities of long-term debt for years subsequent to 2010, are as follows:

**Year Ending**  
**December 31:**

2011	\$ 3,340,956
2012	3,137,316
2013	3,229,942
2014	3,343,887
2015	3,037,598
2016-2020	13,433,950
2021-2025	9,792,753
2026-2030	5,805,769
2031-2035	3,233,939
2036-2040	<u>3,982,628</u>
Totals	<u>\$52,338,738</u>

## **11. CLOSURE AND POST CLOSURE CARE COSTS**

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 post closure 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 post closure care costs as an operating expense in each year based on landfill capacity used as of each balance sheet date. The estimated liability for landfill closure and post closure care costs is approximately \$4,387,000 as of December 31, 2010, which is based on the complete use of the estimated capacity of one landfill site and of 64% of the estimated capacity of the landfill site currently being used.

The City will recognize the remaining estimated cost of closure and post closure care of approximately \$2,489,000 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2010. 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, of an amount that would fund the required financial assurance amount of approximately \$3,960,000 by January 2013. At December 31, 2010, the trust held funds of approximately \$3,000,000. The financial assurance is funded by a capital improvement sanitation surcharge that also funds sanitation capital improvements.

## **12. RELATED ORGANIZATIONS**

The City provided authority for the Housing Authority of the City of Conway, Arkansas (the "Housing Authority") to transact business in 1968. The City Council is responsible for confirmation of commissioners of the Housing Authority after nomination by the current commissioners. The City's accountability does not extend beyond such actions. The Housing Authority exists to administer Public Housing Programs as authorized by the United States Housing Act. Any assets and related debts are those of the Housing Authority and not of the City.

## **13. RELATED PARTY TRANSACTIONS**

The City has entered into lease and franchise fee 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.

Electric Department – The Corporation operates the Electric Department for the City pursuant to an exclusive franchise agreement requiring the Corporation to assess each customer a 2.5% franchise fee on certain revenues. The Department also pays the City \$120,000 in annual rent. Amounts remitted to the City by the Electric Department totaled approximately \$1,590,000 during the year ended December 31, 2010. At the end of the lease period, the Corporation is required to return the net assets of the Electric Department to the City. Charges for electric service paid by the City to the Corporation totaled approximately \$690,000 during the year ended December 31, 2010.

Cable Television Department – The Corporation operates the Cable Television Department for the City under a lease agreement which expires December 31, 2015. The agreement requires the Corporation to pay rent of \$25,000 per month to the City reduced by 1/12 of the increase in total cable franchise fees paid for the preceding year. The agreement also requires the Corporation to pay the City a franchise fee of 5% of gross revenues. The Corporation paid the City approximately \$801,000 during the year ended December 31, 2010.

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 \$7,648,000 to the City in gross receipts during the year ended December 31, 2010.

The City paid the Corporation approximately \$720,000 during 2010 for utility services provided to the City, and approximately \$430,000 for construction work provided for capital purchases.

#### 14. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage, and destruction of assets, errors and omissions, injuries to employees, and natural disasters for which the City participates in a variety of risk pools and trust funds.

##### ***General Liability Coverage, Fidelity Bond Coverage, Property and Vehicle Coverage***

The City and its component units have various insurance policies to cover their potential liability risk areas (i.e., automobile, personal property, contents and outside structures and workers' compensation). The type of coverage and the liability limits vary with each entity. Coverage is provided both commercially and through the Arkansas Municipal League ("AML"), which is an association of local governments. AML provides the City with automobile and legal defense coverage. Fixed premiums are set annually by AML based on such factors as claims experience, employee class multipliers, and population. For risks covered by AML, the City pays no deductible; however, the City pays a \$3,000 fee to AML for each legal matter it handles. There have been no significant reductions in coverage from 2006 to 2010; nor have settlement amounts exceeded insurance coverage for each of the past three years.

#### *Unemployment Insurance*

The City has opted out of paying unemployment tax and has elected a reimbursable payment option. The City makes estimated payments quarterly based upon the benefits paid to former employees on the City's behalf by the Arkansas Employment Security Department in the previous year and is then responsible for reimbursing the Arkansas Employment Security Department for benefit payments made in excess of estimates.

#### *Workers' Compensation Coverage*

The City participates in the Municipal League Workers' Compensation Trust (the "Trust"). The Trust, established to help cities and towns meet their statutory responsibilities for on-the-job employee injuries and loss-of-time claims, processes all claims. The cost of servicing claims and payments are charged annually through premiums to participating municipalities.

### **15. CONTINGENT LIABILITIES**

#### *Litigation*

The City is a party to various legal proceedings that generally involve claims of civil rights violations, liabilities, and employment issues. These proceedings are, in the opinion of the City, ordinary routine matters incidental to the normal business conducted by the City. In the opinion of the City's attorney, such proceedings are not expected to have a material adverse effect on the City's financial position, results of operations, or cash flows. However, litigation is subject to inherent uncertainties. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the City's operations in the period in which the ruling occurs. The estimate of the potential impact from the various legal proceedings on the City's financial position or overall results of operations could change in the future.

#### *Federal Grants*

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

#### *Claims and Judgments*

The City has potential claims and judgments in connection with the operation of the City's landfill sites that could arise from any unknown claims of violations of state and federal law and regulations during ordinary operations at the landfill sites. At December 31, 2010, there were two outstanding Consent Administrative Orders that required financial obligation on the part of the City in the amount of approximately \$5,000. The Consent Administrative Order requirements were fulfilled in April and May 2011.

**16. PRIOR PERIOD ADJUSTMENT**

During the year ended December 31, 2010, the City restated its previously issued 2009 financial statements to reflect an adjustment to deferred revenue with property tax generated to fund the fire and police pension plans. This adjustment decreased previously reported net assets and fund balance for governmental activities by \$708,572 as follows:

<u>Government-Wide Statements</u>	<u>Net Assets</u>
As previously reported, as of December 31, 2009	\$119,065,010
To adjust deferred revenue for property tax generated to fund the fire and police pension plans	<u>(708,572)</u>
As restated, as of December 31, 2009	<u>\$118,356,438</u>
<u>Governmental Fund Statements</u>	<u>Fund Balance</u>
As previously reported, as of December 31, 2009	\$ 21,749,282
To adjust deferred revenue for property tax generated to fund the fire and police pension plans	<u>(708,572)</u>
As restated, as of December 31, 2009	<u>\$ 21,040,710</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Conway, Arkansas

**Required Supplementary Schedule of Employer Contributions (Unaudited)**  
**Defined Benefit Pension Plans**

	<b>Year Ended December 31</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
Firemen's Pension and Relief Fund	2010	\$ 463,270	100%
	2008	634,057	81%
	2006	763,482	34%
	2004	335,927	28%
	2002	268,554	19%
	2000	60,992	n/a
Policemen's Pension and Relief Fund	2010	\$ 431,979	100%
	2008	95,857	461%
	2007	250,406	100%
	2005	519,730	60%
	2003	176,085	30%
	2001	409,997	77%
Nonuniformed Employees' Pension and Relief Plan	2010	\$ 1,442,821	55%
	2009	1,442,821	116%
	2008	972,432	82%
	2006	915,910	67%
	2005	911,792	68%
	2004	830,340	69%
Local Police and Fire Retirement Plan - Paid Service Fire	2010	\$ 763,925	100%
	2009	752,921	100%
	2008	728,493	100%
	2007	689,763	100%
	2006	610,518	100%
	2005	437,243	100%
Local Police and Fire Retirement Plan - Paid Service Police	2010	\$ 1,070,972	100%
	2009	1,130,046	100%
	2008	1,016,737	100%
	2007	898,824	100%
	2006	804,967	104%
	2005	625,181	100%
Component Unit - Retirement Plan of the Corporation	2010	\$ 1,344,216	100%
	2009	1,292,424	100%
	2008	1,035,229	100%
	2007	1,020,870	100%
	2006	777,975	100%
	2005	955,969	100%
Component Unit - the Corporation - Other Postemployment Benefits	2010	\$ 282,559	100%
	2009	284,961	100%
	2008	283,470	100%

**CITY OF CONWAY, ARKANSAS**

**REQUIRED SUPPLEMENTARY SCHEDULE OF FUNDING PROGRESS (Unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a
						Percentage of Covered Payroll (b - a)/c
<b>NON-UNIFORMED EMPLOYEE'S PENSION AND RELIEF PLAN</b>						
12/31/2010	\$ 7,724,443	\$21,007,350	\$13,282,907	37%	\$7,525,542	177%
12/31/2008	6,261,361	18,321,174	12,059,813	34%	7,676,664	157%
12/31/2006	5,664,729	14,884,132	9,219,403	38%	6,521,226	141%
12/31/2005	5,110,865	13,889,207	8,778,342	37%	6,006,189	146%
12/31/2004	4,740,232	13,521,130	8,780,898	35%	5,801,874	151%
12/31/2002	3,184,350	11,333,142	8,148,792	28%	4,969,272	164%

**FIREMEN'S PENSION AND RELIEF PLAN**

12/31/2010	\$12,852,558	\$21,329,522	\$ 8,476,964	60%	\$ -	n/a
12/31/2008	7,827,713	10,913,543	3,085,830	72%	-	n/a
12/31/2007	8,277,163	11,402,486	3,125,323	73%	63,285	4939%
12/31/2005	7,019,002	11,024,580	4,005,578	64%	56,954	7033%
12/31/2003	6,245,658	8,801,159	2,555,501	71%	163,936	1559%
12/31/2001	6,208,042	7,929,876	1,721,834	78%	602,489	286%

**PLOICEMEN'S PENSION AND RELIEF PLAN**

12/31/2010	\$ 615,393	\$15,490,433	\$14,875,040	4%	\$ -	n/a
12/31/2008	6,709,196	7,612,467	903,271	88%	-	n/a
12/31/2007	6,146,109	7,850,465	1,704,356	78%	-	n/a
12/31/2005	5,712,239	8,812,606	3,100,367	65%	-	n/a
12/31/2003	5,274,834	7,300,875	2,026,041	72%	-	n/a
12/31/2001	4,950,415	7,634,730	2,684,315	65%	188,226	1426%

**CITY OF CONWAY, ARKANSAS**

**REQUIRED SUPPLEMENTARY SCHEDULE OF FUNDING PROGRESS (Unaudited) continued**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
<b>LOCAL POLICE AND FIRE RETIREMENT PLAN</b>						
Paid Service Fire:						
12/31/2010	\$13,346,456	\$16,746,343	\$ 3,399,887	80%	\$ 4,369,944	78%
12/31/2009	11,785,864	15,454,785	3,668,921	76%	4,395,550	83%
12/31/2008	11,110,928	14,618,792	3,507,864	76%	4,160,535	84%
12/31/2007	9,924,278	11,673,364	1,749,086	85%	3,942,145	44%
12/31/2006	8,036,286	9,587,819	1,551,533	84%	3,473,225	45%
12/31/2005	6,563,815	8,300,181	1,736,366	79%	3,328,875	52%
Paid Service Police:						
12/31/2010	\$ 5,066,075	\$15,490,433	\$10,424,358	33%	\$ 4,993,380	209%
12/31/2009	4,986,828	15,001,328	10,014,500	33%	5,238,797	191%
12/31/2008	5,437,676	13,391,416	7,953,740	41%	4,771,215	167%
12/31/2007	4,233,277	10,094,101	5,860,824	42%	4,362,849	134%
12/31/2006	4,580,236	10,075,594	5,495,358	45%	5,495,358	137%
12/31/2005	5,024,904	9,633,073	4,608,169	52%	3,873,638	119%
<b>COMPONENT UNIT – RETIREMENT PLAN OF THE CORPORATION</b>						
8/1/2010	\$13,689,515	\$15,409,157	\$ 1,719,642	88.8%	\$10,664,445	16.8%
8/1/2009	11,846,205	13,701,209	1,855,014	86.4%	10,572,481	17.5%
8/1/2008	11,189,268	13,053,851	1,864,583	85.7%	9,553,201	19.5%
8/1/2007	10,667,967	12,525,258	1,857,291	85.2%	8,517,064	21.8%
8/1/2006	9,105,347	11,065,277	1,959,930	82.3%	7,950,984	24.7%
8/1/2005	8,652,732	10,640,561	1,987,829	81.3%	7,542,556	26.4%
<b>COMPONENT UNIT – THE CORPORATION – OTHER POSTEMPLOYMENT BENEFITS</b>						
12/31/2010	\$ –	\$ 3,108,424	\$ 3,108,424	0.0%	N/A	N/A
12/31/2009	–	3,108,424	3,108,424	0.0%	N/A	N/A
12/31/2008	–	3,108,424	3,108,424	0.0%	N/A	N/A

City of Conway, Arkansas

**Required Supplementary Schedule of Revenues and Expenditures -  
General Fund  
Budget to Actual, Year Ended December 31, 2010**

Revenues	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<b>Variance with Final Budget - Positive (Negative)</b>
General property taxes	\$ 2,134,199	\$ 2,134,199	\$ 2,209,767	\$ 75,568
Sales taxes	14,487,285	14,487,285	14,938,880	451,595
Licenses and permits	1,116,500	1,116,718	1,391,531	274,813
Intergovernmental	1,799,500	2,953,240	3,265,414	312,174
Fines and fees	1,056,500	1,056,500	838,519	(217,981)
Franchise fees	2,941,000	2,941,000	2,647,067	(293,933)
Investment income and unrealized gains, net	105,000	105,000	11,401	(93,599)
Miscellaneous	1,712,874	1,856,741	1,080,320	(776,421)
<b>Total revenues</b>	<u>25,352,858</u>	<u>26,650,683</u>	<u>26,382,899</u>	<u>(267,784)</u>
<b>Expenditures</b>				
General government				
General administration	4,174,085	3,341,121	3,200,601	140,520
Airport	27,000	33,000	32,771	229
Fire	7,950,027	7,702,580	7,640,480	62,100
Parks and recreation	2,454,892	2,423,511	2,066,653	356,858
Law enforcement	10,608,710	11,321,940	11,285,212	36,728
Capital outlay				
General administration	89,814	90,404	184,775	(94,371)
Airport	-	1,606,369	1,602,958	3,411
Fire	552,057	92,030	59,444	32,586
Parks and recreation	-	159,191	131,940	27,251
Law enforcement	215,637	906,047	143,103	762,944
<b>Total general government expenditures</b>	<u>26,072,222</u>	<u>27,676,193</u>	<u>26,347,937</u>	<u>1,328,256</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(719,364)</u>	<u>(1,025,510)</u>	<u>34,962</u>	<u>1,060,472</u>
<b>Other financing sources (uses)</b>				
Transfers in	1,145,000	2,084,687	563,525	(1,521,162)
Transfers out	(540,250)	(1,143,752)	(81,306)	1,062,446
<b>Total other financing sources (uses)</b>	<u>604,750</u>	<u>940,935</u>	<u>482,219</u>	<u>(458,716)</u>
<b>Net change in fund balances</b>	<u>\$ (114,614)</u>	<u>\$ (84,575)</u>	<u>\$ 517,181</u>	<u>\$ 601,756</u>

City of Conway, Arkansas

**Required Supplementary Schedule of Revenues and Expenditures -  
Street Fund  
Budget to Actual, Year Ended December 31, 2010**

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	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>Revenues</b>				
Taxes	\$ 3,815,260	\$ 4,085,096	\$ 4,021,683	\$ (63,413)
Licenses and permits	4,000	4,000	540	(3,460)
Intergovernmental	-	-	668,735	668,735
Fines and Fees	7,500	7,500	6,300	(1,200)
Franchise fees	150,000	150,000	9,109	(140,891)
Investment income and unrealized gains, net	25,000	25,000	3,725	(21,275)
Miscellaneous	10,000	10,000	6,475	(3,525)
Total revenues	<u>4,011,760</u>	<u>4,281,596</u>	<u>4,716,567</u>	<u>434,971</u>
<b>Expenditures</b>				
Highways and streets	3,743,360	4,583,882	3,860,205	723,677
Capital outlay - highways and streets	<u>268,400</u>	<u>2,359,098</u>	<u>1,098,336</u>	<u>1,260,762</u>
Total expenditures	<u>4,011,760</u>	<u>6,942,980</u>	<u>4,958,541</u>	<u>1,984,439</u>
Excess (deficiency) of revenues over expenditures	-	(2,661,384)	(241,974)	2,419,410
<b>Other financing sources</b>				
Transfers in	-	1,420,535	123,716	(1,296,819)
<b>Net change in fund balances</b>	<u>\$ -</u>	<u>\$ (1,240,849)</u>	<u>\$ (118,258)</u>	<u>\$ 1,122,591</u>

City of Conway, Arkansas

**Required Supplementary Schedule of Revenues and Expenditures -  
Other Special Revenue Fund  
Budget to Actual, Year Ended December 31, 2010**

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<b>Revenues</b>	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
General property taxes	\$ 34,000	\$ 34,000	\$ 31,543	\$ (2,457)
Sales taxes	2,340,000	2,340,000	2,318,764	(21,236)
Charges for services	1,100,000	1,145,000	1,799,601	654,601
Fines and fees	70,000	123,193	70,872	(52,321)
Investment income and unrealized gains, net	-	-	8,901	8,901
Total revenues	<u>3,544,000</u>	<u>3,642,193</u>	<u>4,229,681</u>	<u>587,488</u>
<b>Expenditures</b>				
General government				
Highways and streets	-	-	338	(338)
Parks and recreation	12,000	14,900	16,600	(1,700)
Debt Service				
Principal	-	-	201,570	(201,570)
Interest	23,624	23,624	20,743	2,881
Capital outlay				
Highways and streets	-	67,516	66,229	1,287
Total expenditures	<u>35,624</u>	<u>106,040</u>	<u>305,480</u>	<u>(199,440)</u>
Excess of revenues over expenditures	3,508,376	3,536,153	3,924,201	388,048
<b>Other financing uses</b>				
Transfers out	<u>(1,051,224)</u>	<u>(6,064,700)</u>	<u>(5,006,214)</u>	<u>1,058,486</u>
Net change in fund balances	<u>\$ 2,457,152</u>	<u>\$ (2,528,547)</u>	<u>\$ (1,082,013)</u>	<u>\$ 1,446,534</u>

## CITY OF CONWAY, ARKANSAS

### NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES OF REVENUES AND EXPENDITURES – BUDGET TO ACTUAL, DECEMBER 31, 2010

#### Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (“GAAP”) for the General Fund, the Street Fund, and the Other Special Revenue Fund. The General Purpose Financial Statements show the status of the City’s finances on the GAAP basis. In most cases, this conforms to the way the City prepares its budget. Exceptions are as follows:

- Compensated absences that are expected to be liquidated with expendable available financial resources are accrued as earned by employees (GAAP), as opposed to being expended when paid (budget).
- Principal payments on long-term debt are applied to the outstanding liability on a GAAP basis, as opposed to being expended on a budget basis.
- Depreciation expense is recorded on a GAAP basis only.

Budgeted revenues and expenditures represent the formal operating budget adopted by the City Council, as amended by the 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 Council voting to amend the budget. Individual amendments are typically not material in relation to the original appropriations. 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.

OTHER REPORTS

## **CITY OF CONWAY, ARKANSAS**

### **SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2010**

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#### FINDING NO. 2009-01:

*Statement of Condition:* The City's internal control systems for accounting, reconciliations, and financial reporting were not adequate to result in accurate and timely internal financial records throughout the year and required a significant number of adjusting entries to be proposed in connection with the year-end audit.

*Recommendation:* Specific areas where improvement could be achieved in the completion and review procedures include timely reconciliation of bank accounts, accounts receivable, capital assets, accounts payable, accrued liabilities, interfund accounts, as well as specific review of the timing of monthly cut-off of accrual based transactions and rolling forward of fund balance. In addition, the process for creation and review of manual journal entries and related underlying support should be formalized. As discussed in connection with our prior year audit, we recommend that management develop a tracking system for key monthly and annual closing procedures which includes both accounting tasks to be performed as well as review responsibility to ensure that each task has been performed. The development of this tracking system could be used by the Interim CFO as a training tool for other members of finance management.

*Current Status:* As of December 31, 2010, the City has not put in place an internal control system for accounting, reconciliations, and financial reporting adequate to result in accurate and timely internal financial records throughout the year.

#### FINDING NO. 2009-02:

*Statement of Condition:* The Schedule of Expenditures of Federal Awards was inaccurate with respect to Federal Aviation Administration ("FAA") expenditure amounts due to adjustments being necessary to the City's records, and was incomplete due to the exclusion of Federal Highway Administration expenditure amounts, when presented for audit.

We noted cases where the City's accounting processes for its federal award were not followed. We noted three cases where invoices were paid without an approved purchase order or with a purchase order approved by only one of two required individuals. We noted one instance where a vendor invoice was paid twice in error and one instance where an invoice was paid beyond the 72 hour from reimbursement draw requirement.

We noted instances where quarterly reports were not filed with the FAA. This occurred in one instance because the report had been completed by an outside engineering consultant who provided the report to City personnel but the report was then not forwarded to the FAA and in another instance due to City personnel not being aware that the outside engineering consultant had not filed the report on the City's behalf.

## **CITY OF CONWAY, ARKANSAS**

### **SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2010 (continued)**

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The City did not meet certain compliance requirements related to its federal funding. The City's Procurement Policy/Manual does not incorporate federal requirements related to government wide debarment and suspension, conflict of interest statements are not obtained from individuals responsible for procurement and certain individuals from whom land was purchased were paid relocation fees while the City's grant application stated that the assistance requested would not cause displacement of individuals.

*Recommendation:* City personnel should take full responsibility for all aspects of compliance, accounting, and reporting for receipt and expenditure of federal funds. In addition, all aspects of the recommendations above related to the City's financial statements should be implemented as they apply to the City's federal funding receipts and expenditures.

*Current Status:* As of December 31, 2010, the City has not put in place controls to accurately present the Schedule of Expenditures of Federal Awards with respect to certain Federal Aviation Administration ("FFA") expenditures. The City has not put in place controls to ensure accounting processes for its federal awards were followed, to ensure all reports were filed and filed accurately and timely, and to ensure all compliance requirements were met.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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**To the Honorable Mayor and  
Members of the City Council  
City of Conway, Arkansas:**

We have audited the financial statements of the governmental activities, the business-type activities, 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, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 11, 2011. Our report was modified to include a reference to 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. 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 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1 that we consider to be material weaknesses in internal control over financial reporting.

### ***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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2010-2 and 2010-3.

The City's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, City Council, federal awarding agencies, and the Committee of Counties and Municipalities of the Legislative Joint Audit Committee, and is not intended to be and should not be used by anyone other than these specified parties.

*JEFFREY, PHILLIPS, MOSLEY & SCOTT, P.A.*

October 11, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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**To the Honorable Mayor and  
Members of the City Council  
City of Conway, Arkansas:**

*Compliance*

We have audited the compliance of the City of Conway, Arkansas (the "City") with the types of compliance requirements described in the *U. S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended December 31, 2010. The City's major federal programs are identified in the summary of independent auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs are the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes 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 audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in items 2010-2 and 2010-3 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements that are applicable to its major federal programs regarding reporting, activities allowed or unallowed, cash management, procurement and suspension and debarment, and real property acquisition and relocation assistance. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

### *Internal Control Over Compliance*

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-2 and 2010-3 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of City management, the audit committee, the City Council, federal awarding agencies, and the Committee of Counties and Municipalities of the Legislative Joint Audit Committee, and is not intended to be and should not be used by anyone other than these specified parties.

*JEFFREY, PHILLIPS, MOSLEY & SCOTT, P.A.*

October 11, 2011

## CITY OF CONWAY, ARKANSAS

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2010

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<b>Federal Grantor/Pass Through Grantor Program Title</b>	<b>CFDA Number</b>	<b>Federal Expenditures</b>
Department of Housing and Urban Development Community Development Block Grant	14.218	\$ 510,940
U.S. Department of Justice/ Office of Justice Programs/ Justice Assistance Grant Program	16.738	13,835
U.S. Department of Transportation/ Federal Aviation Administration/ Airport Improvement Program	20.106	1,341,730
U.S. Department of Transportation/ Federal Highway Commission / Arkansas State Highway and Transportation Department/ Planning and Construction Grant	20.205	114,548
U.S. Department of Transportation/ Federal Highway Commission/ Arkansas State Highway and Transportation Department/ Arkansas Recreational Trails Program	20.219	155,583
National Highway Traffic Safety Administration Alcohol Traffic Safety & Drug Prevention Incentive Grant/State of Arkansas	20.601	54,129
U.S. Department of Energy/ Energy Efficiency and Conservation Block Grant	81.128	461,475
Department of Homeland Security/FEMA/ National Preparedness Branch/Staffing for Adequate Fire and Emergency Response	97.083	<u>106,133</u>
Total Federal Awards Expended		<u>\$2,758,373</u>

## **CITY OF CONWAY, ARKANSAS**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2010**

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#### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** – The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

# CITY OF CONWAY, ARKANSAS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2010

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### **I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS**

#### **Financial Statements**

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified that are not considered  
to be material weaknesses? No

Noncompliance material to financial statements noted? No

#### **Federal Awards**

Internal control over major programs:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified that are not considered  
to be material weakness(es)? No

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported  
in accordance with section 510(a) of Circular A-133? Yes

Identification of major programs:

CFDA Number

Name of Federal Programs

20.106

U.S. Department of Transportation/Federal Aviation  
Administration/Airport Improvement Program

81.128

U.S. Department of Energy/Energy Efficiency and  
Conservation Block Grant

Dollar threshold used to distinguish between type A and  
type B programs: \$300,000

Auditee qualified as low-risk auditee? No

## CITY OF CONWAY, ARKANSAS

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2010 (continued)

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#### II. FINANCIAL STATEMENT FINDINGS

FINDING NO. 2010-01:

*Statement of Condition:* The City's internal control systems for accounting and financial reporting were not adequate to result in accurate and timely internal financial records and reports throughout the year and at year-end, including the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and the Schedule of Expenditures of Federal Awards.

*Criteria:* An effective internal control structure must include accurate processing of accounting transactions, timely and accurate reconciliation of general ledger accounts, independent review of such reconciliations, and timely and accurate completion of the periodic and annual accrual basis financial statements. Additionally, an effective internal control structure must include the timely, accurate, and complete identification of federal expenditures for internal compliance and external reporting to grantors and in the Schedule of Expenditures of Federal Awards.

*Effect:* As a result of the above conditions, periodic internal financial statements and reports were not prepared timely or accurately on an accrual basis for the use of management and the City Council. Noncompliance with requirements of federal funding could result in delays in receipt of such funding and in reductions or loss of future funding.

*Cause:* The conditions noted above were caused by informal systems for preparation and review of reconciliations of account balances underlying the internal accounting records, reports, and lack of oversight responsibility above the preparer for certain areas. Additionally, departmental responsibilities were not well defined or communicated.

*Recommendation:* City personnel should implement procedures to ensure timely and accurate, City-wide, accrual basis financial reporting, specifically as it relates to its year-end external financial reporting in accordance with accounting principles generally accepted in the United States of America and federal funding as it relates to grantor reporting and as reported in the Schedule of Expenditures of Federal Awards.

*Management's Response:* Management has reviewed and upgraded, or is in the process of upgrading, internal control procedures for preparation and processing of accounting transactions. The City implemented a new accounting system on January 1, 2011 that will allow for additional reporting capabilities which, along with management's goal of recording all transactions in a more timely manner, will ensure timely and accurate reporting of financial information. Management has placed an increased awareness on

## CITY OF CONWAY, ARKANSAS

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2010 (continued)

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tracking federal expenditures for compliance with federal awards as well as for reporting in the Schedule of Expenditures of Federal Awards.

FINDING NO. 2010-02:

*Statement of Condition:* The Schedule of Expenditures of Federal Awards was inaccurate with respect to Federal Aviation Administration (“FAA”) expenditure amounts due to adjustments being necessary to the City’s records for the inclusion of unallowable expenses and amounts over approved federal funding.

We noted where the City’s accounting and reporting processes for its federal award were not followed. We noted the City did not meet certain compliance requirements related to its federal funding.

*Criteria:* The receipt of federal funding is accompanied by compliance and reporting requirements specific to the funding received and as required by United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

*Effect:* Noncompliance with requirements of federal funding could result in delays in receipt of such funding and in reductions or loss of future funding.

*Cause:* The conditions were caused by the inadequate systems for preparation and review of reconciliations of account balances underlying the internal accounting records. The City lacks proper oversight by an employee possessing knowledge of, and having received adequate training on the FAA and A-133 requirements.

*Recommendation:* City personnel should implement procedures to ensure timely and accurate tracking of federal receipts, expenditures, and reporting, specifically as it relates to its year-end external reporting to grantors and as reported in the Schedule of Expenditures of Federal Awards. City personnel should take full responsibility for all aspects of compliance, accounting, and reporting for receipt and expenditure of federal funds. In addition, all aspects of the conditions above should be considered and corrected as they apply to the City’s federal funding receipts and expenditures.

*Management’s Response:* As noted above, management has reviewed and upgraded, or is in the process of upgrading, all internal control procedures over tracking and reporting of federal expenditures. Errors were corrected throughout the audit process as identified. An increased emphasis on controls over expenditures of federal awards has been communicated to all City personnel with accounting and reporting responsibility related

## CITY OF CONWAY, ARKANSAS

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2010 (continued)

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to federal expenditures. Additionally, the City acknowledges the responsibility they have for internal oversight over all compliance requirements, however, certain processes and procedures over compliance have not been put in place for internal oversight due to management's reliance on the expertise of an external professional firm to oversee these processes and procedures. As of the date of this letter, management believes the City is in compliance with all material requirements of this award and all reporting requirements are up to date. Management does not expect any delays or loss of future funding under this award as a result of the above finding.

#### FINDING NO. 2010-03:

*Statement of Condition:* The Schedule of Expenditures of Federal Awards was inaccurate with respect to Department of Energy ("DOE") expenditure amounts due to adjustments being necessary to the City's records, and was incomplete due to the exclusion of all DOE expenditures, when presented for audit.

We noted the City does not have procedures or internal controls in place to monitor compliance over funds expended by a subrecipient. We noted the City does not have appropriate controls in place to oversee the accurate preparation and submission of reports that resulted in reports submitted to DOE with inaccurate financial and nonfinancial data. We noted the City did not meet certain compliance requirements related to its federal funding in timing of expenditures in relationship to drawdowns and for the purchase of American-made goods.

*Criteria:* The receipt of federal funding is accompanied by compliance and reporting requirements specific to the funding received and as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

*Effect:* Noncompliance with requirements of federal funding could result in delays in receipt of such funding and in reductions or loss of future funding.

*Cause:* The conditions were caused by the inadequate systems for preparation and review of reconciliations of account balances underlying the internal accounting records. The City lacks proper oversight by an employee possessing knowledge of and having received adequate training on the DOE and A-133 requirements.

*Recommendation:* City personnel should implement procedures to ensure timely and accurate tracking of federal receipts, expenditures, and reporting, specifically as it relates to its year-end external reporting to grantors and as reported in the Schedule of

## **CITY OF CONWAY, ARKANSAS**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2010 (continued)**

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Expenditures of Federal Awards. City personnel should take full responsibility for all aspects of compliance, accounting, and reporting for receipt and expenditure of federal funds. In addition, all aspects of the conditions above should be considered and corrected as they apply to the City's federal funding receipts and expenditures.

*Management's Response:* As noted above, management has reviewed and upgraded, or is in the process of upgrading, all internal control procedures over tracking and reporting federal expenditures. Errors were corrected throughout the audit process as identified. An increased emphasis on controls over expenditures of federal awards has been communicated to all City personnel with accounting and reporting responsibility related to federal expenditures. As of the date as of the date of this letter, management believes the City is in compliance with all material requirements of this award and all reporting requirements are up to date.

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH ARKANSAS CODE ANNOTATED 14-58-101**

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**To the Honorable Mayor and  
Members of the City Council  
City of Conway, Arkansas:**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the City of Conway, Arkansas (the "City") as of December 31, 2010, and for the year then ended, and have issued our report thereon dated October 11, 2011, which was qualified for the exclusion of the fiduciary net assets and statement of changes in fiduciary net assets of the Retirement Plan of Conway Corporation, a discretely presented component unit.

We have examined management's assertion that the City complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas statutes during the year ended December 31, 2010.

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, §§ 19-8-1010 – 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.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2010.

This report is intended solely for the information and use of the Mayor, Audit Committee, City Council of the City of Conway, Arkansas, and the Division of Legislative Audit and is not intended to be and should not be used by anyone other than these specified parties.

*JEFFREY, PHILLIPS, MOSLEY + SCOTT, P.A.*

October 11, 2011