

# **City of Conway, Arkansas**

Independent Auditor's Reports and Financial Statements

December 31, 2013



**City of Conway, Arkansas**  
**December 31, 2013**

**Contents**

**Independent Auditor’s Report..... 1**

**Management’s Discussion and Analysis ..... 4**

**Financial Statements**

Statement of Net Position ..... 13

Statement of Activities ..... 14

Balance Sheet – Governmental Funds..... 15

Reconciliation of the Balance Sheet of Governmental Funds to the  
Statement of Net Position ..... 16

Statement of Revenues, Expenditures and Changes in Fund Balances –  
Governmental Funds..... 17

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities ..... 18

Statement of Net Position – Proprietary Funds ..... 19

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds ..... 20

Statement of Cash Flows – Proprietary Funds ..... 21

Statement of Net Position – Fiduciary Funds ..... 22

Statement of Changes in Net Position – Fiduciary Fund..... 23

Notes to Financial Statements ..... 24

**Required Supplementary Information**

Defined Benefit Pension Plans – Schedule of Employer Contributions..... 57

Defined Benefit Pension Plans – Schedules of Funding Progress..... 58

Budgetary Comparison Schedule – General Fund..... 59

Budgetary Comparison Schedule – Street Fund..... 60

Notes to Required Supplementary Information..... 61

**Other Required Report**

**Independent Auditor’s Report on Compliance with Certain State Acts ..... 63**

**City of Conway, Arkansas**  
**December 31, 2013**

**Single Audit Section**

**Independent Auditor’s Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of the Financial  
Statements Performed in Accordance with *Government Auditing Standards* ..... 64**

**Report on Compliance for Each Major Federal Program and Report on  
Internal Control Over Compliance – Independent Auditor’s Report ..... 66**

Schedule of Expenditures of Federal Awards ..... 68

Schedule of Findings and Questioned Costs ..... 69

Summary Schedule of Prior Audit Findings..... 72

## Independent Auditor's Report

The Mayor and City Council  
City of Conway, Arkansas

### Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Conway, Arkansas (the City), as of and for the year ended December 31, 2013, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### ***Opinions***

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Conway, Arkansas, as of December 31, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in *Note 17*, in 2013 Conway Corporation adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of expenditures of federal awards required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2016, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*BKD, LLP*

Little Rock, Arkansas  
March 1, 2016

# **City of Conway, Arkansas**

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

### **December 31, 2013**

The following discussion and analysis of the City of Conway, Arkansas's financial performance provides an overview of the City's financial activities for the year ended December 31, 2013. Readers should consider the information presented here in conjunction with the City's financial statements that follow this section.

#### ***Financial Highlights***

- Total assets of the City exceeded total liabilities at the close of 2013 by \$158,833,460. Of this amount, \$148,081,039 represents the City's net investment in capital assets; \$9,121,105 is restricted for debt service, capital improvements and other restrictions; and there is an unrestricted net position of \$1,631,316.
- The City's reported total net position increased by \$7,728,343 (5.1%) in 2013. Net position of the governmental activities increased \$7,697,891 (5.3%). Net position of the City's business-type activities, consisting of the Sanitation Fund, increased by \$30,452 (0.5%).
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,860,005. The combined governmental funds fund balances decreased \$3,072,563 (15.4%) from the prior year. The primary component of this change was that general fund expenditures exceeded revenue by \$1,151,152. The majority of governmental fund balances (\$11,091,466) are considered restricted to specific purposes at December 31, 2013, and \$5,362,270 is reported as unassigned and can be spent at the discretion of the City Council.
- The General Fund reported fund balance of \$5,588,309 at the end of the current year. Unassigned fund balance for the General Fund was \$5,362,270 or 18.1% of total General Fund expenditures. There was a \$2,182,266 decrease in the total fund balance for the General Fund for the year ended December 31, 2013.
- The City's total debt decreased by \$1,943,129 (6.1%) during the current year. The key factors in this decrease were principal payments of \$3,443,129 for bonds, notes and leases; partially offset by the issuance of a \$1,500,000 Short Term Financing Note.

#### ***Overview of the Financial Statements***

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

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

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

**City of Conway, Arkansas**  
**Management's Discussion and Analysis**  
**December 31, 2013**

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

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

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

The government-wide financial statements can be found on Pages 13–14 of this report.

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

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

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

**City of Conway, Arkansas**  
**Management's Discussion and Analysis**  
**December 31, 2013**

The City maintains 24 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, the Street Fund, the Debt Service Fund and the Airport Grant Fund, which are considered to be major funds. Data from the other 20 governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on Pages 15–18 of this report.

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

The basic proprietary fund financial statements can be found on Pages 19–21 of this report.

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

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

The basic fiduciary fund financial statements can be found on Pages 22–23 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on Pages 24–56 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's General Fund and Street Fund budgets and the City's progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found starting on Page 57 of this report.

**City of Conway, Arkansas**  
**Management's Discussion and Analysis**  
**December 31, 2013**

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$158,833,460 at December 31, 2013.

<b>City of Conway, Arkansas</b>						
<b>Net Position</b>						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Current assets	\$ 21,188,480	\$ 22,956,561	\$ 2,324,941	\$ 1,963,272	\$ 23,513,421	\$ 24,919,833
Noncurrent assets	2,241,436	5,033,391	4,972,584	4,467,508	7,214,020	9,500,899
Capital assets	166,035,110	155,302,372	9,788,275	10,432,276	175,823,385	165,734,648
Total assets	<u>189,465,026</u>	<u>183,292,324</u>	<u>17,085,800</u>	<u>16,863,056</u>	<u>206,550,826</u>	<u>200,155,380</u>
Current liabilities	6,364,501	6,721,813	786,580	1,348,061	7,151,081	8,069,874
Noncurrent liabilities	30,179,765	31,347,642	10,386,520	9,632,747	40,566,285	40,980,389
Total liabilities	<u>36,544,266</u>	<u>38,069,455</u>	<u>11,173,100</u>	<u>10,980,808</u>	<u>47,717,366</u>	<u>49,050,263</u>
Net Position						
Net investment in capital assets	139,102,637	129,474,290	8,978,402	9,234,106	148,081,039	138,708,396
Restricted	9,121,105	8,187,109	-	-	9,121,105	8,187,109
Unrestricted	<u>4,697,018</u>	<u>7,561,470</u>	<u>(3,065,702)</u>	<u>(3,351,858)</u>	<u>1,631,316</u>	<u>4,209,612</u>
Total net position	<u>\$152,920,760</u>	<u>\$145,222,869</u>	<u>\$ 5,912,700</u>	<u>\$ 5,882,248</u>	<u>\$158,833,460</u>	<u>\$151,105,117</u>

The largest portion of the City's net position (\$148,081,039) reflects its investment in capital assets, *e.g.*, land, buildings, improvements other than buildings, machinery and equipment, and infrastructure, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be utilized to liquidate these liabilities. An additional portion of the City's net position (\$9,121,105) represents resources that are subject to restrictions as to how they may be used, and remaining is an unrestricted net position of \$1,631,316.

The City's overall net position increased \$7,728,343 from the prior year. The reasons for the overall increase are discussed in the following sections for the governmental activities and business-type activities.

**City of Conway, Arkansas**  
**Management's Discussion and Analysis**  
**December 31, 2013**

City of Conway, Arkansas  
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
<i>Program revenues</i>						
Charges for services	\$ 3,967,410	\$ 4,076,242	\$ 8,325,514	\$ 7,983,660	\$ 12,292,924	\$ 12,059,902
Operating grants and contributions	1,984,247	4,957,660	-	-	1,984,247	4,957,660
Capital grants and contributions	9,982,653	3,377,356	50,000	68,570	10,032,653	3,445,926
<i>General revenues</i>						
General property taxes	3,288,649	4,714,840	-	-	3,288,649	4,714,840
Sales and use taxes	25,996,368	25,034,762	-	-	25,996,368	25,034,762
Franchise fees	3,163,738	2,982,941	-	-	3,163,738	2,982,941
General state revenue turnback	899,762	954,207	-	-	899,762	954,207
Investment income	103,598	31,390	54,781	61,035	158,379	92,425
Other	491,203	611,641	-	-	491,203	611,641
<b>Total revenues</b>	<b>49,877,628</b>	<b>46,741,039</b>	<b>8,430,295</b>	<b>8,113,265</b>	<b>58,307,923</b>	<b>54,854,304</b>
<b>Expenses</b>						
General government	7,283,940	7,274,541	-	-	7,283,940	7,274,541
Police	11,928,068	10,633,725	-	-	11,928,068	10,633,725
Fire	10,250,903	9,579,446	-	-	10,250,903	9,579,446
Public works	8,298,060	9,492,575	-	-	8,298,060	9,492,575
Parks and recreation	3,453,123	3,312,523	-	-	3,453,123	3,312,523
Airport	55,882	49,376	-	-	55,882	49,376
Interest expense on long-term debt	1,332,761	1,254,543	-	-	1,332,761	1,254,543
Sanitation	-	-	7,976,843	6,875,530	7,976,843	6,875,530
<b>Total expenses</b>	<b>42,602,737</b>	<b>41,596,729</b>	<b>7,976,843</b>	<b>6,875,530</b>	<b>50,579,580</b>	<b>48,472,259</b>
Increase in net position before transfers	7,274,891	5,144,310	453,452	1,237,735	7,728,343	6,382,045
Transfers	423,000	2,423,000	(423,000)	(2,423,000)	-	-
<b>Change in Net Position</b>	<b>7,697,891</b>	<b>7,567,310</b>	<b>30,452</b>	<b>(1,185,265)</b>	<b>7,728,343</b>	<b>6,382,045</b>
<b>Net position – January 1</b>	<b>145,222,869</b>	<b>137,655,559</b>	<b>5,882,248</b>	<b>7,067,513</b>	<b>151,105,117</b>	<b>144,723,072</b>
<b>Net position – December 31</b>	<b>\$ 152,920,760</b>	<b>\$ 145,222,869</b>	<b>\$ 5,912,700</b>	<b>\$ 5,882,248</b>	<b>\$ 158,833,460</b>	<b>\$ 151,105,117</b>

Governmental Activities. Governmental activities increased the City's net position by \$7,697,891 from the prior year for an ending balance of \$152,920,760. The increase was the result of revenues exceeding expenses by \$7,274,891 in 2013.

Business-Type Activities. Business-type activities increased the City's net position by \$30,452 (0.5%) to an ending net position of \$5,912,700. The increase is the result of sanitation net income of \$453,452 less transfers to the governmental activities of \$423,000.

**City of Conway, Arkansas**  
**Management's Discussion and Analysis**  
**December 31, 2013**

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

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

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

As of December 31, 2013, the City's governmental funds reported combined ending fund balances of \$16,860,005, a decrease of \$3,072,563 during the year. Approximately \$11,090,000 is reported as *restricted fund balance* for capital projects and debt service. In addition, \$49,436 of the governmental fund balances is *nonspendable*, representing inventories and prepaid expenditures. The *assigned* portion of the fund balances is \$356,833. Approximately \$5,362,270 constitutes *unassigned fund balance* and is available for spending at the government's discretion.

The *General Fund* is the chief operating fund of the City. At the end of the year, unassigned fund balance of the general fund was \$5,362,270, while the total fund balance decreased \$2,182,266 to \$5,588,309. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 18.1% of total general fund expenditures, while overall General Fund balance represents 18.9% of that same amount.

The *Street Fund*, a major fund, had an increase of \$204,671 to an overall Street Fund balance of \$2,420,726 at the end of the year, which is restricted for street maintenance and construction.

The *Debt Service Fund*, a major governmental fund, had an increase in fund balance of \$351,843 during the year to bring the year-end fund balance to \$2,586,158.

The *Airport Grant Fund*, the final major governmental fund, had an increase in fund balance of \$745,900 during the year to bring the year-end fund balance to \$281,833.

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

Net position at the end of the year amounted to \$5,912,700 for sanitation operations, an increase from the prior year of \$30,452. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

**City of Conway, Arkansas**  
**Management's Discussion and Analysis**  
**December 31, 2013**

**General Fund Budgetary Highlights**

*Original Budget Compared to Final Budget.* The final amended General Fund budget had total appropriations of \$3,302,235 (12.3%) more than the original budget of \$26,826,625. The primary purpose of the amendments was to implement a new salary scale for all full time employees. At the time the budget was adopted by city council, it had not yet been decided which structure would be used for the new scale.

*Final Budget Compared to Actual Results.* Actual General Fund expenditures for the year were \$579,832 (1.92%) less than final budgeted expenditures. Actual General Fund revenues were also less than final budgeted revenues by \$597,199 (2%) primarily due to the less than expected general property tax revenues, resulting in an overall deficiency of \$1,151,152, \$17,367 less than the final budget deficit.

**Capital Assets and Debt Administration**

*Capital Assets.* The City's investment in capital assets for governmental and business-type activities as of December 31, 2013, amounts to \$176,227,457 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment and infrastructure. The total increase in the City's investment in capital assets for 2013 was 6.3% (a 7.2% increase for governmental activities and a 6.2% decrease for business-type activities).

City of Conway, Arkansas  
 Capital Assets, net of depreciation

	Governmental Activities		Business-Type activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 16,336,204	\$ 15,484,341	\$ 1,014,332	\$ 1,014,332	\$ 17,350,536	\$ 16,498,673
Buildings and improvements	38,826,909	39,839,852	1,792,952	1,901,142	40,619,861	41,740,994
Equipment	9,599,421	8,618,329	5,801,928	6,288,149	15,401,349	14,906,478
Infrastructure	75,719,176	73,322,222	1,179,063	1,228,653	76,898,239	74,550,875
Construction in progress	25,553,400	18,037,628	-	-	25,553,400	18,037,628
Total	<u>\$ 166,035,110</u>	<u>\$ 155,302,372</u>	<u>\$ 9,788,275</u>	<u>\$ 10,432,276</u>	<u>\$ 175,823,385</u>	<u>\$ 165,734,648</u>

Major capital asset events during 2013 included the following:

- Infrastructure additions were \$5,954,714.
- Equipment additions were \$4,935,089.
- Equipment disposals were \$2,545,655.
- Depreciation expense totaled \$9,228,630.

Additional information on the City's capital assets can be found in *Note 4* on Pages 34–36 of this report.

*Long-Term Debt.* At December 31, 2013, the City's primary government had \$29,983,782 of long-term debt outstanding, including net bonds payable of \$26,239,514, secured solely by specified revenue sources, *i.e.*, revenue bonds.

**City of Conway, Arkansas**  
**Management's Discussion and Analysis**  
**December 31, 2013**

City of Conway, Arkansas  
Outstanding Debt

(net of premium/discount)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Bonds payable	\$ 26,239,514	\$ 28,521,067	\$ -	\$ -	\$ 26,239,514	\$ 28,521,067
Notes payable	2,261,762	1,491,025	809,873	1,198,170	3,071,635	2,689,195
Leases payable	672,633	716,649	-	-	672,633	716,649
Total	<u>\$ 29,173,909</u>	<u>\$ 30,728,741</u>	<u>\$ 809,873</u>	<u>\$ 1,198,170</u>	<u>\$ 29,983,782</u>	<u>\$ 31,926,911</u>

Total long-term debt at December 31, 2013, decreased \$1,943,129, a decrease of 6.1%. The net decrease is primarily the result of principal payments of \$3,443,129 for bonds, notes and leases; partially offset by the issuance of a \$1,500,000 short-term financing note.

The City is within all of its legal debt limitations. Under the Arkansas Constitution, the City is allowed to issue, with voter approval, general obligation debt up to 20% of total assessed valuation. The City had no outstanding general obligation bonds at December 31, 2013. The City is allowed to issue short-term financings (maturities of less than five years) up to 5% of total assessed valuation. Outstanding short-term financings at December 31, 2013, of approximately \$3.1 million are well below the statutory limit of \$50,479,603. Voter approval is not required for short-term financing.

Additional information regarding the City's long-term debt can be found in *Note 4* on Pages 36–42 of this report.

***Economic Factors and Next Year's Budgets and Rates***

Sales tax revenue showed positive growth in 2013—about 3.8% over what was collected in 2012, but management opted to continue with an ultra-conservative approach and budget flat amounts for sales tax for 2014. This was because sales tax represents such a large portion of the City's budget, and any economic downturns have the potential to greatly impact operations for that year. There have only been two years in the history of the City's sales tax, 2002 and 2009, in which collections were less than the prior year. City management feels like it can safely budget flat sales tax revenue without encountering too much risk, but to budget for sales tax revenue increases and then have them not come to fruition can cause major problems in the City's ability to stay within its budgetary expenditure limits.

Total estimated revenues amount to \$53,695,198, and total estimated expenses amount to \$50,971,263. This leaves an estimated \$2,723,935 surplus to be used primarily for appropriating Parks Advertising and Promotion tax revenue for park construction and improvements.

During the current year, the unassigned fund balance in the General Fund was \$5,362,270. The City has appropriated \$75,000 of the amount for spending in the 2014 budget.

**City of Conway, Arkansas**  
**Management's Discussion and Analysis**  
**December 31, 2013**

***Request for Information***

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

**City of Conway, Arkansas**  
**Statement of Net Position**  
**December 31, 2013**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Conway Corporation	A & P Commission
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 8,684,131	\$ 1,325,370	\$ 10,009,501	\$ 11,784,673	\$ 1,194,022
Certificates of deposit	-	-	-	29,108,569	-
Restricted cash and cash equivalents – current	1,997,988	-	1,997,988	-	-
Accounts receivable, net of allowance	9,891,136	-	9,891,136	8,141,158	281,425
Due from component units	632,018	831,867	1,463,885	-	-
Due from fiduciary fund	100,088	-	100,088	-	-
Internal balances	(166,317)	166,317	-	-	-
Inventory	-	1,387	1,387	7,348,804	-
Prepaid items	49,436	-	49,436	705,588	7,609
Total current assets	<u>21,188,480</u>	<u>2,324,941</u>	<u>23,513,421</u>	<u>57,088,792</u>	<u>1,483,056</u>
<b>Noncurrent Assets</b>					
Restricted assets					
Cash and cash equivalents	2,241,436	4,972,584	7,214,020	10,971,190	-
Total restricted assets	<u>2,241,436</u>	<u>4,972,584</u>	<u>7,214,020</u>	<u>10,971,190</u>	<u>-</u>
Capital assets – nondepreciable	41,889,604	1,014,332	42,903,936	127,936,343	-
Capital assets – depreciable, net	124,145,506	8,773,943	132,919,449	195,572,705	-
	<u>166,035,110</u>	<u>9,788,275</u>	<u>175,823,385</u>	<u>323,509,048</u>	<u>-</u>
Other assets					
Land held for resale	-	-	-	410,296	-
Total other assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>410,296</u>	<u>-</u>
Total noncurrent assets	<u>168,276,546</u>	<u>14,760,859</u>	<u>183,037,405</u>	<u>334,890,534</u>	<u>-</u>
Total assets	<u>189,465,026</u>	<u>17,085,800</u>	<u>206,550,826</u>	<u>391,979,326</u>	<u>1,483,056</u>
<b>Deferred Outflows of Resources</b>					
Loss on refunding	-	-	-	611,619	-
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>611,619</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 189,465,026</u>	<u>\$ 17,085,800</u>	<u>\$ 206,550,826</u>	<u>\$ 392,590,945</u>	<u>\$ 1,483,056</u>

See Notes to Financial Statements

	Primary Government			Component Units	
	Governmental	Business-Type	Total	Conway	A & P
	Activities	Activities		Corporation	Commission
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 1,072,565	\$ 113,156	\$ 1,185,721	\$ 5,650,334	\$ 120,281
Accrued expenses and other liabilities	1,232,180	148,530	1,380,710	6,232,139	-
Due to primary government	-	-	-	1,013,699	450,185
Due to fiduciary fund	72,245	-	72,245	-	-
Customer deposits	-	-	-	1,785,906	-
Unearned revenue	-	-	-	388,375	-
Notes and lease payable – current portion	809,120	399,286	1,208,406	14,458	-
Compensated absences – current portion	963,490	109,031	1,072,521	-	-
Accrued interest payable	144,901	16,577	161,478	912,817	-
Developer deposits	-	-	-	136,511	-
Bonds payable – current portion	2,070,000	-	2,070,000	2,369,429	-
Total current liabilities	<u>6,364,501</u>	<u>786,580</u>	<u>7,151,081</u>	<u>18,503,668</u>	<u>570,466</u>
<b>Noncurrent Liabilities</b>					
Net pension obligation	3,161,985	1,488,827	4,650,812	-	-
Notes payable	1,500,000	410,587	1,910,587	628,690	-
Leases payable	625,275	-	625,275	-	-
Bonds payable, net	24,169,514	-	24,169,514	119,249,996	-
Compensated absences	722,991	78,635	801,626	-	-
Postemployment benefits	-	-	-	1,157,012	-
Estimated liability for landfill closure and post closure care costs	-	8,408,471	8,408,471	-	-
Total noncurrent liabilities	<u>30,179,765</u>	<u>10,386,520</u>	<u>40,566,285</u>	<u>121,035,698</u>	<u>-</u>
Total liabilities	<u>36,544,266</u>	<u>11,173,100</u>	<u>47,717,366</u>	<u>139,539,366</u>	<u>570,466</u>
<b>Net Position</b>					
Net investment in capital assets	<u>139,102,637</u>	<u>8,978,402</u>	<u>148,081,039</u>	<u>199,953,072</u>	<u>-</u>
Restricted – expendable					
Debt service	2,441,257	-	2,441,257	3,457,090	-
Capital improvements	3,348,475	-	3,348,475	-	-
Public works	2,420,726	-	2,420,726	-	-
Parks and recreation	186,561	-	186,561	-	-
Animal welfare	59,703	-	59,703	-	-
Court automation	344,468	-	344,468	-	-
Public safety	60,497	-	60,497	-	-
Other purposes	8,513	-	8,513	-	-
Grant funds	250,905	-	250,905	-	-
Advertising and promotion	-	-	-	-	912,590
Total restricted – expendable	<u>9,121,105</u>	<u>-</u>	<u>9,121,105</u>	<u>3,457,090</u>	<u>912,590</u>
<b>Unrestricted (Deficit)</b>	<u>4,697,018</u>	<u>(3,065,702)</u>	<u>1,631,316</u>	<u>49,641,417</u>	<u>-</u>
Total net position	<u>152,920,760</u>	<u>5,912,700</u>	<u>158,833,460</u>	<u>253,051,579</u>	<u>912,590</u>
Total liabilities and net position	<u>\$ 189,465,026</u>	<u>\$ 17,085,800</u>	<u>\$ 206,550,826</u>	<u>\$ 392,590,945</u>	<u>\$ 1,483,056</u>

# City of Conway, Arkansas

## Statement of Activities

### Year Ended December 31, 2013

Functions/Programs Primary Government	Net (Expense) Revenue and Changes in Net Assets								
	Expenses	Program Revenues			Primary Government			Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Conway Corporation	A & P Commission
<b>Governmental Activities</b>									
General government	\$ 7,283,940	\$ 1,928,352	\$ 651,047	\$ 59,291	\$ (4,645,250)	\$ -	\$ (4,645,250)		
Police	11,928,068	645,588	515,515	22,431	(10,744,534)	-	(10,744,534)		
Fire	10,250,903	91,631	560,523	-	(9,598,749)	-	(9,598,749)		
Public works	8,298,060	501,831	-	3,468,890	(4,327,339)	-	(4,327,339)		
Parks and recreation	3,453,123	800,008	257,162	101,603	(2,294,350)	-	(2,294,350)		
Airport	55,882	-	-	6,330,438	6,274,556	-	6,274,556		
Interest expense on long-term debt	1,332,761	-	-	-	(1,332,761)	-	(1,332,761)		
Total governmental activities	<u>42,602,737</u>	<u>3,967,410</u>	<u>1,984,247</u>	<u>9,982,653</u>	<u>(26,668,427)</u>	<u>-</u>	<u>(26,668,427)</u>		
<b>Business-Type Activities</b>									
Sanitation	7,976,843	8,325,514	-	50,000	-	398,671	398,671		
Total business-type activities	<u>7,976,843</u>	<u>8,325,514</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>398,671</u>	<u>398,671</u>		
Total primary government	<u>\$ 50,579,580</u>	<u>\$ 12,292,924</u>	<u>\$ 1,984,247</u>	<u>\$ 10,032,653</u>	<u>(26,668,427)</u>	<u>398,671</u>	<u>(26,269,756)</u>		
<b>Component Units</b>									
Conway Corporation	\$ 99,331,900	\$ 104,282,906	\$ -	\$ 2,654,678			\$ 6,967,279	\$ -	
A & P Commission	878,059	-	-	-			-	(878,059)	
Total component units	<u>\$ 100,209,959</u>	<u>\$ 104,282,906</u>	<u>\$ -</u>	<u>\$ 2,654,678</u>			<u>6,967,279</u>	<u>(878,059)</u>	
<b>General revenues</b>									
General property taxes					3,288,649	-	3,288,649	-	-
Sales and use taxes					25,996,368	-	25,996,368	-	-
Franchise fees					3,163,738	-	3,163,738	-	-
General state revenue turnback					899,762	-	899,762	-	759,014
Investment income					103,598	54,781	158,379	199,017	9,899
Other					491,203	-	491,203	-	-
<b>Transfers</b>					423,000	(423,000)	-	-	-
Total general revenues and transfers					<u>34,366,318</u>	<u>(368,219)</u>	<u>33,998,099</u>	<u>199,017</u>	<u>768,913</u>
<b>Change in Net Position</b>					7,697,891	30,452	7,728,343	7,166,296	(109,146)
<b>Net Position, Beginning of Year, as Previously Reported</b>					145,222,869	5,882,248	151,105,117	246,748,456	1,021,736
Adjustment applicable to prior years (Note 15)					-	-	-	(863,173)	-
<b>Net Assets, Beginning of Year, as Restated</b>					<u>145,222,869</u>	<u>5,882,248</u>	<u>151,105,117</u>	<u>245,885,283</u>	<u>1,021,736</u>
<b>Net Position, End of Year</b>					<u>\$ 152,920,760</u>	<u>\$ 5,912,700</u>	<u>\$ 158,833,460</u>	<u>\$ 253,051,579</u>	<u>\$ 912,590</u>

**City of Conway, Arkansas**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2013**

	General Fund	Street Fund	Debt Service Fund	Airport Grant Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 3,024,662	\$ 2,132,881	\$ 2,255,222	\$ -	\$ 5,510,790	\$ 12,923,555
Accounts receivable, net of allowance	6,140,240	1,859,522	288,500	535,927	1,066,947	9,891,136
Due from other funds	410,474	188,935	-	43,031	106,289	748,729
Due from component units	589,582	-	42,436	-	-	632,018
Prepaid items	49,436	-	-	-	-	49,436
Total assets	<u>\$ 10,214,394</u>	<u>\$ 4,181,338</u>	<u>\$ 2,586,158</u>	<u>\$ 578,958</u>	<u>\$ 6,684,026</u>	<u>\$ 24,244,874</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 468,745	\$ 144,312	\$ -	\$ 297,125	\$ 162,383	\$ 1,072,565
Accrued wages payable and related liabilities	1,154,283	69,866	-	-	8,031	1,232,180
Due to other funds	192,639	199,747	-	-	494,817	887,203
Total liabilities	<u>1,815,667</u>	<u>413,925</u>	<u>-</u>	<u>297,125</u>	<u>665,231</u>	<u>3,191,948</u>
<b>Deferred Inflows of Resources</b>						
Unavailable revenues	2,810,418	1,346,687	-	-	35,816	4,192,921
Total deferred inflows of resources	<u>2,810,418</u>	<u>1,346,687</u>	<u>-</u>	<u>-</u>	<u>35,816</u>	<u>4,192,921</u>
<b>Fund Balances</b>						
Nonspendable	49,436	-	-	-	-	49,436
Restricted	101,603	2,420,726	2,586,158	-	5,982,979	11,091,466
Assigned	75,000	-	-	281,833	-	356,833
Unassigned	5,362,270	-	-	-	-	5,362,270
Total fund balances	<u>5,588,309</u>	<u>2,420,726</u>	<u>2,586,158</u>	<u>281,833</u>	<u>5,982,979</u>	<u>16,860,005</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 10,214,394</u>	<u>\$ 4,181,338</u>	<u>\$ 2,586,158</u>	<u>\$ 578,958</u>	<u>\$ 6,684,026</u>	<u>\$ 24,244,874</u>

**City of Conway, Arkansas**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
**December 31, 2013**

<b>Total Fund Balances – Total Governmental Funds</b>	\$ 16,860,005
<b>Amounts Reported for the Governmental Activities in the Statement of Net Position are Different Because:</b>	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	166,035,110
Property tax and other receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	4,192,921
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities are as follows:	
Accrued interest payable on long-term debt	(144,901)
Accrued compensated absences	(1,686,481)
Net pension and other post-employment obligations	(3,161,985)
Bonds payable, net	(26,239,514)
Notes payable and obligations under capital lease	(2,934,395)
	(29,967,276)
<b>Total Net Position – Governmental Activities</b>	<u><u>\$ 152,920,760</u></u>

**City of Conway, Arkansas**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended December 31, 2013**

	General Fund	Street Fund	Debt Service Fund	Airport Grant Fund	Other Governmental Funds	Total
<b>Revenues</b>						
General property taxes	\$ 2,578,105	\$ 1,341,168	\$ -	\$ -	\$ 75,953	\$ 3,995,226
Sales and use taxes	17,935,579	244,805	1,893,931	-	5,922,053	25,996,368
Licenses and permits	462,124	60	-	-	-	462,184
Charges for services	1,187,373	8,500	-	-	737,310	1,933,183
Fines and forfeitures	1,262,556	-	-	-	124,829	1,387,385
Franchise fees	2,538,700	-	625,038	-	-	3,163,738
Intergovernmental	1,975,800	2,847,688	-	6,330,438	1,611,133	12,765,059
Investment income	42,318	17,250	2,604	-	41,426	103,598
Miscellaneous	415,321	290,878	-	-	7,072	713,271
Total revenues	<u>28,397,876</u>	<u>4,750,349</u>	<u>2,521,573</u>	<u>6,330,438</u>	<u>8,519,776</u>	<u>50,520,012</u>
<b>Expenditures</b>						
<b>Current</b>						
General government	5,766,150	-	-	-	215,015	5,981,165
Police	10,885,420	-	-	-	6,423	10,891,843
Fire	8,910,706	-	-	-	-	8,910,706
Public works	-	4,347,227	-	-	-	4,347,227
Parks and recreation	2,301,664	-	-	-	-	2,301,664
Airport	29,806	-	-	-	-	29,806
<b>Capital outlay</b>						
General government	1,064,992	-	-	-	412,101	1,477,093
Police	292,825	-	-	-	618,818	911,643
Fire	70,555	-	-	-	1,772,526	1,843,081
Public works	-	198,451	-	-	4,094,202	4,292,653
Parks and recreation	16,899	-	-	-	2,045,842	2,062,741
Airport	128,117	-	-	7,015,062	1,216,934	8,360,113
<b>Debt service</b>						
Principal	44,016	-	2,255,000	-	729,263	3,028,279
Interest	37,878	-	962,961	-	65,129	1,065,968
Agent fees	-	-	11,593	-	-	11,593
Total expenditures	<u>29,549,028</u>	<u>4,545,678</u>	<u>3,229,554</u>	<u>7,015,062</u>	<u>11,176,253</u>	<u>55,515,575</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(1,151,152)</u>	<u>204,671</u>	<u>(707,981)</u>	<u>(684,624)</u>	<u>(2,656,477)</u>	<u>(4,995,563)</u>
<b>Other Financing Sources (Uses)</b>						
Long-term debt issuance	-	-	-	-	1,500,000	1,500,000
Transfers in	423,000	-	1,059,824	1,430,524	205,773	3,119,121
Transfers out	(1,454,114)	-	-	-	(1,242,007)	(2,696,121)
Total other financing sources	<u>(1,031,114)</u>	<u>-</u>	<u>1,059,824</u>	<u>1,430,524</u>	<u>463,766</u>	<u>1,923,000</u>
<b>Net Change in Fund Balances</b>	<u>(2,182,266)</u>	<u>204,671</u>	<u>351,843</u>	<u>745,900</u>	<u>(2,192,711)</u>	<u>(3,072,563)</u>
<b>Fund Balances, Beginning of Year</b>	<u>7,770,575</u>	<u>2,216,055</u>	<u>2,234,315</u>	<u>(464,067)</u>	<u>8,175,690</u>	<u>19,932,568</u>
<b>Fund Balances, End of Year</b>	<u>\$ 5,588,309</u>	<u>\$ 2,420,726</u>	<u>\$ 2,586,158</u>	<u>\$ 281,833</u>	<u>\$ 5,982,979</u>	<u>\$ 16,860,005</u>

**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, 2013**

<b>Net Change in Fund Balances – Total Governmental Funds</b>	<b>\$ (3,072,563)</b>
<p>Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.</p>	
Capital asset purchases	18,211,551
Depreciation expense	(7,478,813)
Other miscellaneous items	(64,759)
Property tax and other revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(521,919)
Long-term debt issuance provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.	(1,500,000)
The repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	3,028,279
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This is the net change in these items this year.</p>	
Amortized bond premiums/discounts and issuance costs	(243,031)
Accrued interest	(12,169)
Accrued compensated absences	(165,920)
Net pension obligations	(482,765)
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 7,697,891</b>

**City of Conway, Arkansas**  
**Statement of Net Position**  
**Proprietary Funds**  
**December 31, 2013**

	<b>Business-Type Activities – Enterprise Fund</b>
<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 1,325,370
Due from component unit	831,867
Due from other funds	177,960
Other current assets	1,387
<b>Total Current Assets</b>	<b>2,336,584</b>
<b>Noncurrent Assets</b>	
Capital assets	
Land and buildings	4,538,986
Equipment	11,650,261
Infrastructure	1,623,347
Accumulated depreciation	(8,024,319)
Capital assets, net	9,788,275
Restricted cash and cash equivalents	4,972,584
<b>Total Noncurrent Assets</b>	<b>14,760,859</b>
<b>Total Assets</b>	<b>17,097,443</b>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	113,156
Accrued wages payable and related liabilities	148,530
Due to other funds	11,643
Accrued interest payable	16,577
Current portion of note payable	399,286
Current portion of compensated absences	109,031
<b>Total Current Liabilities</b>	<b>798,223</b>
<b>Noncurrent Liabilities</b>	
Compensated absences	78,635
Note payable	410,587
Landfill closure and post closure care costs	8,408,471
Net pension obligation	1,488,827
<b>Total Noncurrent Liabilities</b>	<b>10,386,520</b>
<b>Total Liabilities</b>	<b>11,184,743</b>
<b>Net Position</b>	
Net investment in capital assets	8,978,402
Unrestricted	(3,065,702)
<b>Total Net Position</b>	<b>\$ 5,912,700</b>

**City of Conway, Arkansas**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**Year Ended December 31, 2013**

	<b>Business-Type Activities – Enterprise Fund</b>
<b>Operating Revenues</b>	
Charges for services	\$ 8,325,514
Total operating revenues	<u>8,325,514</u>
<b>Operating Expenses</b>	
Sanitation operations	6,186,531
Depreciation	<u>1,749,818</u>
Total operating expenses	<u>7,936,349</u>
<b>Operating Income</b>	<u>389,165</u>
<b>Nonoperating Revenues (Expenses)</b>	
Investment income	54,781
Grant revenue	50,000
Loss on sale of assets	(14,534)
Interest expense	<u>(25,960)</u>
Total nonoperating revenues	<u>64,287</u>
<b>Income Before Transfers</b>	453,452
<b>Transfers Out</b>	<u>(423,000)</u>
<b>Change in Net Position</b>	30,452
<b>Net Position, Beginning of Year</b>	<u>5,882,248</u>
<b>Net Position, End of Year</b>	<u><u>\$ 5,912,700</u></u>

**City of Conway, Arkansas**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended December 31, 2013**

	<b>Business-Type Activities – Enterprise Fund</b>
<b>Operating Activities</b>	
Receipts from customers	\$ 8,048,605
Payments to employees	(3,562,308)
Payments to suppliers	(2,042,865)
Net cash provided by operating activities	2,443,432
<b>Noncapital Financing Activities</b>	
Transfers to other funds	(423,000)
Net cash used in noncapital financing activities	(423,000)
<b>Capital and Related Financing Activities</b>	
Purchase of capital assets	(1,198,265)
Proceeds from the sale of capital assets	83,846
Other	44,068
Principal paid on long-term debt	(388,297)
Interest paid on long-term debt	(25,960)
Net cash used in capital and related financing activities	(1,484,608)
<b>Investing Activities</b>	
Interest income	54,781
Net cash provided by investing activities	54,781
<b>Increase in Cash and Cash Equivalents</b>	590,605
<b>Cash and Cash Equivalents, Beginning of Year</b>	5,707,349
<b>Cash and Cash Equivalents, End of Year</b>	\$ 6,297,954
<b>Presented on the Statement of Fund Net Position – Proprietary Funds as Follows:</b>	
Current assets	
Cash and cash equivalents	\$ 1,325,370
Noncurrent assets	
Restricted cash and cash equivalents	4,972,584
	\$ 6,297,954

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

Operating income	\$	389,165
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense		1,749,818
Changes in assets and liabilities		
Due to/due from other funds, net		(276,875)
Accounts payable		(153,017)
Accrued expenses		734,341
		<hr/>
Net cash provided by operating activities	\$	<u><u>2,443,432</u></u>

**City of Conway, Arkansas**  
**Statement of Net Position – Fiduciary Funds**  
**December 31, 2013**

	<b>Nonuniformed Employees' Pension Plan</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 757,779	\$ 51,021
Investments		
Corporate bonds	1,227,240	-
Municipal bonds	101,936	-
Bond funds	495,662	-
Equities	4,549,530	-
Equity funds	2,562,364	-
Receivables		
Accounts receivable, net of allowance	422,126	-
Due from other funds	72,245	-
Interest and dividends	11,191	-
	<u>10,200,073</u>	<u>51,021</u>
Total assets		
<b>Liabilities</b>		
Accounts payable	-	51,021
Due to other funds	100,088	-
	<u>100,088</u>	<u>-</u>
Total liabilities	<u>100,088</u>	<u>\$ 51,021</u>
<b>Net Position</b>		
Net position for pension benefits	<u>\$ 10,099,985</u>	

**City of Conway, Arkansas**  
**Statement of Changes in Net Position – Fiduciary Fund**  
**Year Ended December 31, 2013**

	<u><b>Nonuniformed Employees' Pension Plan</b></u>
<b>Additions</b>	
Contributions	
Employer	\$ 511,350
Plan members	511,350
Property taxes contributed from general fund	<u>388,896</u>
Total contributions	<u>1,411,596</u>
Investment income	
Net increase in fair value of investments	1,317,682
Interest	65,811
Dividends	<u>112,980</u>
	1,496,473
Less investment expense	<u>50,768</u>
Net investment income	<u>1,445,705</u>
Total additions	<u>2,857,301</u>
<b>Deductions</b>	
Benefits paid directly to participants	1,126,083
Refunds of contributions	101,775
Administrative expense	<u>3,600</u>
Total deductions	<u>1,231,458</u>
<b>Change in Net Position</b>	1,625,843
<b>Net Position, Beginning of Year</b>	<u>8,474,142</u>
<b>Net Position, End of Year</b>	<u><u>\$ 10,099,985</u></u>

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

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

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

***Reporting Entity***

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

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

**Discretely Presented Component Units**

***Conway Corporation (the Corporation)*** – The Corporation provides electric, water, waste water treatment, cable, internet and telephone services to industrial, residential, commercial and institutional customers in the City of Conway, Arkansas. Appointments to the Corporation's Board of Directors, issues of additional indebtedness, rate changes, and changes in services are subject to approval of the City Council. Complete financial statements of the Corporation can be obtained from its administrative offices at 1307 Prairie Street, Conway, Arkansas 72034.

***The City of Conway Advertising and Promotion Commission (the Commission)*** – The governing body of the Commission is appointed by the Mayor of Conway subject to City Council approval. The City has the power to impose its will on the Commission. The Commission acts autonomously and serves as the sales and advertising office for the City's convention and tourism industry. Complete financial statements of the Commission can be obtained from the City of Conway Finance Department, 1201 Oak Street, Conway, Arkansas 72032.

# City of Conway, Arkansas

## Notes to Financial Statements

### December 31, 2013

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

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

##### **Government-Wide Financial Statements**

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

##### **Fund Financial Statements**

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

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits and charges for services.

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

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

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

The *airport grant fund* accounts for the capital expenditures that are derived primarily from airport grant funds.

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

Additionally, the City reports the following fund types:

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

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

***Measurement Focus and Basis of Accounting***

**Government-Wide, Proprietary and Fiduciary Funds**

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

In proprietary funds, operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the fund. All revenues and expenses not meeting this definition are reported as nonoperating items.

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

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

**Governmental Fund Financial Statements**

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

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

***Use of Estimates***

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

***Cash and Cash Equivalents***

The City considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013, cash equivalents consisted primarily of money market accounts with brokers.

***Investments and Investment Income***

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

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

***Prepaid Items***

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

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

***Capital Assets***

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

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

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

Depreciation expense is charged directly to the department/function based on the department that utilizes the related asset.

***Long-Term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the columns for governmental activities, business-type activities and component units. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. Debt premiums, discounts and deferred losses on refundings are generally deferred and amortized using the effective interest rate method. Long-term debt is reported net of the applicable debt premium or discount.

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

***Compensated Absences***

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

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

***Deferred Inflows of Resources***

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The City's deferred inflows include unavailable property tax revenues in the governmental funds.

***Fund Balance – Governmental Funds***

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

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

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

*Assigned* – Assigned fund balances are intended to be used by the City for specific purposes.

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

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

***Net Position***

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

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

***Budgetary Information***

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

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

***Adoption of New Accounting Standard***

The City and the Corporation implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during 2013. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify certain items previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and recognize as expenses and revenues certain items that were previously reported as assets and liabilities. The beginning of the year net position has been restated to reflect the implementation of the new accounting standard. See *Note 17*.

***New Governmental Accounting Standards Board (GASB) Pronouncements***

GASB has issued the following statements, which the City has not yet adopted and that require adoption subsequent to December 31, 2013:

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

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

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

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement also requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor and requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. The provisions of GASB No. 70 are effective for periods beginning after June 15, 2013, and should be applied on a retroactive basis.

**Note 2: Deposits and Investments**

***Deposits***

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires that deposits in financial institutions be collateralized with federal depository insurance and other acceptable collateral in specific amounts.

At December 31, 2013, all of the City's deposits were fully collateralized and, therefore, were not exposed to custodial credit risk.

***Investments***

Arkansas statutes authorize the City to invest in direct obligations of the U.S. government; obligations on which the principal and interest are fully guaranteed, or are fully secured, insured or covered by commitments or agreements to purchase by the U.S. government; obligations of agencies and instrumentalities created by act of the United States Congress and authorized thereby to issue securities or evidence of indebtedness, regardless of guarantee of repayment by the U.S. government; obligations of political subdivisions of the United States; certain obligations issued by the State Board of Education; short-term warrants of political subdivisions of the State of Arkansas and municipalities; the sale of federal funds with a maturity of not more than one business day; demand, savings or time deposits fully insured by a federal deposit insurance agency; repurchase agreements that are fully insured by obligations of the U.S. government, any U.S. state or any political subdivision thereof; securities of, or other interest in, any open-end type investment company or investment trust registered under the *Investment Company Act of 1940*, and which is considered a money market fund, provided that the portfolio is limited principally to U.S. government obligations and the investment company or trust takes delivery of collateral either directly or through an authorized custodian; and bank certificates of deposit.

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

Arkansas statutes also authorize the City to invest no more than 20% of its capital base in corporate debt obligations; revenue bond issues of any U.S. state, municipality or political subdivision; industrial development bonds for corporate obligors issued through any U.S. state or political subdivision; securities or interest in an open-end or closed-end management type investment company or trust registered under the *Investment Company Act of 1940* with certain limitations; securities or interests issued, assumed or guaranteed by certain international banks; and uninsured demand, savings or time deposits or accounts or any depository institution chartered by the United States, any U.S. state or the District of Columbia.

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

Investments at December 31, 2013, consisted of the following:

Type	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Corporate bonds	\$ 1,227,240	\$ 259,247	\$ 520,964	\$ 80,579	\$ 366,450
Treasury bonds	495,662	-	495,662	-	-
Money market mutual funds	4,449,247	4,449,247	-	-	-
Municipal bonds	101,936	101,936	-	-	-
	6,274,085	<u>\$ 4,810,430</u>	<u>\$ 1,016,626</u>	<u>\$ 80,579</u>	<u>\$ 366,450</u>
Equities	4,549,530				
Equity mutual funds	2,562,364				
	<u>\$ 13,385,979</u>				

Interest Rate Risk – The City and the pension fund investment policies do not specifically address interest rate risk.

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

Investment Type	Rating Agency	Rating
Corporate bonds	S&P/Moody’s	BBB-/Baa3 to A/A1
Money market mutual funds	S&P/Moody’s	AAA/Aaa
Municipal bonds	S&P	A

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

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

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

	<b>Minimum</b>	<b>Maximum</b>
Stocks	60%	80%
Fixed income	20%	40%
Cash equivalents	0%	10%

**Summary of Carrying Values**

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

	<b>Primary Government</b>	<b>Component Units</b>
Carrying value		
Deposits	\$ 15,581,062	\$ 53,058,454
Investments	13,385,979	-
	\$ 28,967,041	\$ 53,058,454
Included in the following statement of net position captions		
Cash and cash equivalents	\$ 10,009,501	\$ 12,978,695
Certificates of deposit	-	29,108,569
Restricted cash and cash equivalents – current	1,997,988	-
Restricted cash and cash equivalents – noncurrent	7,214,020	10,971,190
Included in the following fiduciary net assets captions		
Cash and cash equivalents	808,800	-
Investments	8,936,732	-
	\$ 28,967,041	\$ 53,058,454

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

**Note 3: Receivables**

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

	General Fund	Street Fund	Debt Service Fund	Airport Grant Fund	Other Governmental Funds	Total Governmental Funds
Property taxes	\$ 3,052,501	\$ 1,564,720	\$ -	\$ -	\$ 38,906	\$ 4,656,127
Sales taxes	2,679,459	43,883	288,500	-	1,028,041	4,039,883
State insurance turnback	115,120	321,590	-	-	-	436,710
Grants receivable	-	-	-	535,927	-	535,927
Other receivables	429,455	-	-	-	-	429,455
	<u>6,276,535</u>	<u>1,930,193</u>	<u>288,500</u>	<u>535,927</u>	<u>1,066,947</u>	<u>10,098,102</u>
Gross receivable						
Allowance	(136,295)	(70,671)	-	-	-	(206,966)
	<u>\$ 6,140,240</u>	<u>\$ 1,859,522</u>	<u>\$ 288,500</u>	<u>\$ 535,927</u>	<u>\$ 1,066,947</u>	<u>\$ 9,891,136</u>
Net receivable						

**Note 4: Capital Assets**

A summary of changes in capital assets for the year ended December 31, 2013, is presented below:

<b>Governmental Activities</b>	<b>Balance, December 31, 2012</b>	<b>Additions and Transfers, Net</b>	<b>Retirements and Transfers, Net</b>	<b>Balance, December 31, 2013</b>
Capital assets, nondepreciable				
Land	\$ 15,484,341	\$ 851,863	\$ -	\$ 16,336,204
Construction in progress	18,037,628	13,869,304	6,353,532	25,553,400
Total capital assets, nondepreciable	<u>33,521,969</u>	<u>14,721,167</u>	<u>6,353,532</u>	<u>41,889,604</u>
Capital assets, depreciable				
Buildings and improvements	46,987,800	404,072	-	47,391,872
Equipment	27,845,618	3,553,006	1,474,734	29,923,890
Infrastructure	121,956,504	5,954,714	-	127,911,218
Total capital assets, depreciable	<u>196,789,922</u>	<u>9,911,792</u>	<u>1,474,734</u>	<u>205,226,980</u>
Less accumulated depreciation				
Buildings and improvements	7,147,948	1,417,015	-	8,564,963
Equipment	19,227,289	2,504,038	1,406,858	20,324,469
Infrastructure	48,634,282	3,557,760	-	52,192,042
Total accumulated depreciation	<u>75,009,519</u>	<u>7,478,813</u>	<u>1,406,858</u>	<u>81,081,474</u>
Total governmental activities, net	<u>\$ 155,302,372</u>	<u>\$ 17,154,146</u>	<u>\$ 6,421,408</u>	<u>\$ 166,035,110</u>

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

<b>Business-Type Activities</b>	<b>Balance, December 31, 2012</b>	<b>Additions and Transfers, Net</b>	<b>Retirements and Transfers, Net</b>	<b>Balance, December 31, 2013</b>
Capital assets, nondepreciable				
Land	\$ 1,014,332	\$ -	\$ -	\$ 1,014,332
Total capital assets, nondepreciable	<u>1,014,332</u>	<u>-</u>	<u>-</u>	<u>1,014,332</u>
Capital assets, depreciable				
Buildings and improvements	3,524,654	-	-	3,524,654
Equipment	11,406,975	1,382,083	1,138,797	11,650,261
Infrastructure	1,623,347	-	-	1,623,347
Total capital assets, depreciable	<u>16,554,976</u>	<u>1,382,083</u>	<u>1,138,797</u>	<u>16,798,262</u>
Less accumulated depreciation				
Buildings and improvements	1,623,512	108,190	-	1,731,702
Equipment	5,118,826	1,592,037	862,530	5,848,333
Infrastructure	394,694	49,590	-	444,284
Total accumulated depreciation	<u>7,137,032</u>	<u>1,749,817</u>	<u>862,530</u>	<u>8,024,319</u>
Total business-type activities, net	<u>\$ 10,432,276</u>	<u>\$ (367,734)</u>	<u>\$ 276,267</u>	<u>\$ 9,788,275</u>
<b>Component Unit – Conway Corporation</b>	<b>Balance, December 31, 2012</b>	<b>Additions and Transfers, Net</b>	<b>Retirements and Transfers, Net</b>	<b>Balance, December 31, 2013</b>
Capital Assets, non-depreciable				
Land and land rights	\$ 18,838,128	\$ 7,754	\$ -	\$ 18,845,882
Construction in progress	50,391,932	62,675,358	3,976,829	109,090,461
Total capital assets, non-depreciable	<u>69,230,060</u>	<u>62,683,112</u>	<u>3,976,829</u>	<u>127,936,343</u>
Capital Assets, depreciable				
Building and improvements	183,105,666	7,345,431	534,465	189,916,632
Equipment	149,787,810	7,170,285	680,954	156,277,141
Undivided interest in coal-fired generating plants	45,752,051	509,460	-	46,261,511
Total capital assets, depreciable	<u>378,645,527</u>	<u>15,025,176</u>	<u>1,215,419</u>	<u>392,455,284</u>
Less accumulated depreciation	<u>183,400,239</u>	<u>14,622,666</u>	<u>1,140,326</u>	<u>196,882,579</u>
Total component unit, net	<u>\$ 264,475,348</u>	<u>\$ 63,085,622</u>	<u>\$ 4,051,922</u>	<u>\$ 323,509,048</u>

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

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

Governmental activities	
General administration	\$ 658,581
Airport	24,665
Fire	1,131,319
Public works	3,929,843
Parks and recreation	1,014,596
Police	<u>719,809</u>
Total depreciation expense	<u>7,478,813</u>
Business-type activities	
Sanitation	<u>1,749,817</u>
Total depreciation expense	<u>1,749,817</u>
Total depreciation expense, primary government	<u><u>\$ 9,228,630</u></u>

**Note 5: Long-Term Liabilities**

Changes in long-term liabilities for the year ended December 31, 2013, were as follows:

<b>Governmental Activities</b>	<b>Balance December 31, 2012</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2013</b>	<b>Amounts Due in One Year</b>
Bonds payable	\$ 28,405,000	\$ -	\$ 2,255,000	\$ 26,150,000	\$ 2,070,000
Unamortized discount/premium	116,067	-	26,553	89,514	-
Notes payable	1,491,025	1,500,000	729,263	2,261,762	761,762
Leases payable	716,649	-	44,016	672,633	47,358
Compensated absences	1,520,561	963,490	797,570	1,686,481	963,490
Net pension obligation	<u>2,679,220</u>	<u>482,765</u>	<u>-</u>	<u>3,161,985</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 34,928,522</u>	<u>\$ 2,946,255</u>	<u>\$ 3,852,402</u>	<u>\$ 34,022,375</u>	<u>\$ 3,842,610</u>

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

<b>Business-Type Activities</b>	<b>Balance December 31, 2012</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2013</b>	<b>Amounts Due in One Year</b>
Notes payable	\$ 1,198,170	\$ -	\$ 388,297	\$ 809,873	\$ 399,286
Compensated absences	155,995	109,031	77,360	187,666	109,031
Net pension obligation	1,286,026	202,801	-	1,488,827	-
Estimated liability for landfill closure and post closure care costs	<u>7,926,380</u>	<u>482,091</u>	<u>-</u>	<u>8,408,471</u>	<u>-</u>
Total business-type activities long-term liabilities	<u>\$ 10,566,571</u>	<u>\$ 793,923</u>	<u>\$ 465,657</u>	<u>\$ 10,894,837</u>	<u>\$ 508,317</u>

  

<b>Component Unit – Conway Corporation</b>	<b>Balance December 31, 2012</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2013</b>	<b>Amounts Due in One Year</b>
Bonds payable	\$ 93,811,851	\$ 35,596,326	\$ 7,821,247	\$ 121,586,930	\$ 2,369,429
Unamortized discount/premium	38,052	-	5,557	32,495	-
Notes payable	656,843	-	13,695	643,148	14,458
Postemployment benefits	<u>1,005,380</u>	<u>151,632</u>	<u>-</u>	<u>1,157,012</u>	<u>-</u>
Total component unit long-term liabilities	<u>\$ 95,512,126</u>	<u>\$ 35,747,958</u>	<u>\$ 7,840,499</u>	<u>\$ 123,419,585</u>	<u>\$ 2,383,887</u>

Bonds outstanding at December 31, 2013, were as follows:

<b>Governmental Activities</b>	<b>Interest Rates</b>	<b>Final Maturity</b>	<b>Original Issue</b>	<b>Total Outstanding</b>
Restaurant Gross Receipts Tax Capital Improvement Bonds, Series 2007	4–5%	2028	\$ 14,100,000	\$ 11,220,000
Electric Franchise Fee Revenue Bonds, Series 2008	6.25%	2019	2,220,000	905,000
Franchise Fee Revenue Bonds, Series 2012	1–3.75%	2030	4,440,000	4,160,000
Sales and Use Tax Bonds, Series 2012	2–2.75%	2021	11,255,000	9,865,000
				<u>\$ 26,150,000</u>

  

<b>Component Unit – Conway Corporation</b>	<b>Interest Rates</b>	<b>Final Maturity</b>	<b>Original Issue</b>	<b>Total Outstanding</b>
Sewer Revenue Bonds, Series 1992	3.00%	2015	\$ 13,700,000	\$ 1,302,377
Wastewater Revenue Bonds, Series 2009	3–4.5%	2029	12,000,000	10,180,000
Wastewater Revenue Bonds, Series 2010	2–4.625%	2040	14,955,000	13,965,000
Wastewater Revenue Bonds, Series 2012A	2–4.2%	2037	25,000,000	25,000,000
Wastewater Revenue Bonds, Series 2012B	2.25%	2035	70,000,000	59,204,553
Water Revenue Bonds, Series 2010	2–4%	2023	13,100,000	11,935,000
				<u>\$ 121,586,930</u>

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

Governmental Activities

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

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

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

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

At December 31, 2013, the City was not in compliance with the provisions of the Franchise Fee Revenue Bonds, Series 2012 bond covenant that requires assets to be accumulated in a restricted account for the payment of future debt service. The covenant requires, at a minimum, that an amount equivalent to 50% of the maximum annual debt service payments (currently \$162,055) be maintained at all times. As of year-end, the City had restricted cash of only \$14,555. In February 2014, the City transferred an additional \$147,500 to correct this deficiency.

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

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

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

*Component Unit – Conway Corporation*

***Sewer Revenue Bonds, Series 1992*** – Bonds in the amount of \$13,700,000 were issued with an interest rate of 3.00% for the purpose of financing improvements to the wastewater collection and treatment facilities. A portion of these bonds were used to refund previously issued debt. Principal and interest payments are due semi-annually through maturity on April 15, 2015.

***Wastewater Revenue Bonds, Series 2009*** – Bonds in the amount of \$12,000,000 were issued with varying interest rates from 3.00% to 4.50% for the purpose of financing improvements to the wastewater collection and treatment facilities. Principal is payable annually and interest is payable semi-annually through maturity on October 1, 2029.

***Wastewater Revenue Bonds, Series 2010*** – Bonds in the amount of \$14,955,000 were issued with varying interest rates from 2.00% to 4.625% for the purpose of financing improvements to the wastewater collection and treatment facilities. Principal is payable annually and interest is payable semi-annually through maturity on October 1, 2040.

***Wastewater Revenue Bonds, Series 2012A*** – Bonds in the amount of \$25,000,000 were issued with varying interest rates from 2.00% to 4.20% for the purpose of financing improvements to the wastewater collection and treatment facilities. Principal is payable annually, beginning on October 1, 2015, and interest is payable semi-annually through maturity on October 1, 2037.

***Wastewater Revenue Bonds, Series 2012B*** – Bonds in the amount of \$70,000,000 were issued with an interest rate of 2.25% for the purpose of financing improvements to the wastewater collection and treatment facilities. Principal and interest are payable semi-annually beginning on October 15, 2015, through maturity on April 15, 2035.

***Water Revenue Bonds, Series 2010*** – Bonds in the amount of \$13,100,000 were issued with varying interest rates from 2.00% to 4.00% to advance refund the outstanding balance of \$12,000,000 Water Revenue Improvement Bonds, Series 2001. The net proceeds along with other resources were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the 2001 Series Bonds. As a result, the remaining principal balance of the 2001 Series Bonds is considered defeased, and the Water Department removed the liability from its accounts. Principal payments are due annually and interest is due semi-annually through maturity on December 1, 2023.

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

*Notes Payable*

Notes payable at December 31, 2013, were as follows:

Governmental Activities

- The \$3,500,000 promissory note was issued by the City in August 2009 to finance improvements to the Conway Fairgrounds; due in annual installments of \$794,392 through August 1, 2014; interest rate 4.37%.
- The \$2,000,000 promissory note was issued by the City in July 2013 to finance improvements to Prince Street; interest due in annual installments and the entire principal balance due on July 17, 2018; interest rate 1.92%. At December 31, 2013 only \$1,500,000 of the funds had been received by the City.

Business-Type Activities

- The \$1,943,000 promissory note was issued by the City in April 2010 to finance the purchase of a recycling sorter; due in annual installments of \$422,206 through April 9, 2015; interest rate 2.83%.

Component Unit – Conway Corporation

- The \$723,417 promissory note to Mid-Arkansas Water Alliance for water storage rights; due in annual installments of approximately \$41,000 through June 5, 2039; interest rate 4.125%.

*Leases Payable – Governmental Activities*

Leases payable at December 31, 2013, were as follows:

- The \$847,463 lease-purchase agreement effective November 2008 was made to acquire energy efficiency improvements to city facilities; quarterly payments of \$18,685 to \$25,675 through July 1, 2023. The related improvements under the lease-purchase agreement have a net book value of approximately \$660,000 as of December 31, 2013.

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

*Annual Debt Service Requirements*

The following schedule shows the annual debt service requirements to pay principal and interest on revenue bonds, leases payable and notes payable outstanding at December 31, 2013:

**Governmental Activities**

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 2,897,120	\$ 1,012,728	\$ 3,909,848
2015	2,302,071	915,789	3,217,860
2016	2,377,098	846,721	3,223,819
2017	2,442,457	774,972	3,217,429
2018	4,023,168	700,512	4,723,680
2019–2023	8,487,481	2,231,794	10,719,275
2024–2028	5,660,000	915,448	6,575,448
2029–2033	895,000	34,500	929,500
	<u>\$ 29,084,395</u>	<u>\$ 7,432,464</u>	<u>\$ 36,516,859</u>

**Business-Type Activities**

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 399,286	\$ 22,919	\$ 422,205
2015	410,587	11,620	422,207
	<u>\$ 809,873</u>	<u>\$ 34,539</u>	<u>\$ 844,412</u>

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

**Component Unit – Conway Corporation**

Fiscal Year	Principal	Interest	Total
2014	\$ 2,383,887	\$ 2,341,668	\$ 4,725,555
2015	3,718,729	3,405,324	7,124,053
2016	5,379,291	4,419,488	9,798,779
2017	5,534,259	4,260,456	9,794,715
2018	5,727,014	4,093,069	9,820,083
2019–2023	31,610,620	17,481,706	49,092,326
2024–2028	29,194,301	12,180,887	41,375,188
2029–2033	31,070,804	6,775,264	37,846,068
2034–2038	16,727,446	1,788,116	18,515,562
2039–2040	1,679,174	116,316	1,795,490
	<u>133,025,525</u>	<u>56,862,294</u>	<u>189,887,819</u>
Less amounts to be drawn by the Corporation after December 31, 2013	<u>10,795,447</u>	<u>-</u>	<u>10,795,447</u>
	<u>\$ 122,230,078</u>	<u>\$ 56,862,294</u>	<u>\$ 179,092,372</u>

**Note 6: Construction Commitments**

At December 31, 2013, the City had the following commitments:

	Project Authorization	Expended Through December 31, 2013	Remaining Commitment
Western Loop Street Project	\$ 7,050,000	\$ 1,919,378	\$ 5,130,622
Trail Improvements	1,525,861	1,342,965	182,896
Fire Vehicle and Equipment	6,131,250	4,156,598	1,974,652
Prince Street Improvements	4,800,000	4,601,770	198,230
Total	<u>\$ 19,507,111</u>	<u>\$ 12,020,711</u>	<u>\$ 7,486,400</u>

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

**Note 7: Interfund Balances and Transfers**

Interfund receivables and payables as of December 31, 2013, are as follows:

	<b>Interfund Receivables</b>	<b>Interfund Payables</b>
General fund	\$ 410,474	\$ 192,639
Street fund	188,935	199,747
Airport grant fund	43,031	-
Other governmental funds	106,289	494,817
Sanitation fund	177,960	11,643
Fiduciary fund	72,245	100,088
	\$ 998,934	\$ 998,934

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

Interfund transfers in and transfers out for the year ended December 31, 2013, are as follows:

	<b>Transfers Out</b>			
	<b>Governmental Funds</b>		<b>Proprietary Fund</b>	
	<b>General Fund</b>	<b>Other Funds</b>	<b>Sanitation Fund</b>	<b>Total</b>
<b>Transfers In</b>				
Governmental funds				
General fund	\$ -	\$ -	\$ 423,000	\$ 423,000
Debt service fund	-	1,059,824	-	1,059,824
Airport grant fund	1,430,524	-	-	1,430,524
Other funds	23,590	182,183	-	205,773
	\$ 1,454,114	\$ 1,242,007	\$ 423,000	\$ 3,119,121

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

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

**Note 8: Fund Balance**

The City classified governmental fund balances as follows:

<b>Fund Balances</b>	<b>General Fund</b>	<b>Street Fund</b>	<b>Debt Service Fund</b>	<b>Airport Grant Fund</b>	<b>Governmental Funds</b>	<b>Governmental Funds</b>
Nonspendable:						
Prepays	\$ 49,436	\$ -	\$ -	\$ -	\$ -	\$ 49,436
Restricted						
Debt service	-	-	2,586,158	-	-	2,586,158
Street maintenance	-	2,420,726	-	-	-	2,420,726
Fire capital projects	-	-	-	-	1,354,803	1,354,803
Street capital projects	-	-	-	-	1,781,892	1,781,892
Parks and recreation capital projects	101,603	-	-	-	2,102,052	2,203,655
Special projects	-	-	-	-	744,232	744,232
Assigned	75,000	-	-	-	-	75,000
Unassigned	5,362,270	-	-	281,833	-	5,644,103
<b>Total Fund Balances</b>	<b>\$ 5,588,309</b>	<b>\$ 2,420,726</b>	<b>\$ 2,586,158</b>	<b>\$ 281,833</b>	<b>\$ 5,982,979</b>	<b>\$ 16,860,005</b>

**Note 9: Related Party Transactions**

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

Water Department and Wastewater Department – As consideration for operation of these departments, the City receives \$25 monthly. The Corporation is allowed to annually withdraw \$8,000 from water department funds and \$2,500 from wastewater department funds plus \$1 for services rendered.

Cable Television Department – The Corporation operates the Cable Television Department for the City under a lease agreement, which expires December 31, 2015. The agreement requires the Cable Television Department to pay rent of \$25,000 per month to the City reduced by 1/12 of the increase in total cable franchise fees paid for the preceding year. The agreement also requires the Cable Television Department to pay the City a franchise fee of 5% of gross revenues. The Cable Television Department paid the City approximately \$805,000 during the year ended December 31, 2013. At December 31, 2013, the Cable Television Department was indebted to the City in the amount of approximately \$65,000, which is recorded as due from component units.

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

Electric Department – The Corporation operates the Electric Department for the City pursuant to an exclusive franchise agreement requiring the Electric Department to assess each customer a 2.5% franchise fee on certain revenues. The Electric Department remitted approximately \$1,570,000 in franchise fees. At December 31, 2013, the Electric Department was indebted to the City in the amount of approximately \$116,000, which is recorded as due from component units. The Electric Department also pays the City \$120,000 in annual rent.

Sanitation Department – The City has entered into an agreement with the Corporation for collection of sanitation fees. The Corporation retains approximately 0.7% of the fees as compensation for the collection and billing services. The Corporation retained approximately \$20,000 for billing and collection services, and remitted approximately \$7,480,000 to the City in gross receipts during the year ended December 31, 2013. At December 31, 2013, the Corporation was indebted to the Sanitation Department in the amount of approximately \$830,000, which is recorded as due from component units.

The City paid the Corporation approximately \$850,000 during 2013 for utility services provided to the City.

On August 16, 2005, Ordinance No. O-05-97 levied a 1% tax on prepared food for the benefit of the City (75%) and the Commission (25%). On the same date, Ordinance No. O-05-98 levied another 1% tax on prepared food for the benefit of the City. These taxes are collected by the Commission and remitted to the City. The Commission remitted approximately \$2,700,000 to the City during the year ended December 31, 2013. At December 31, 2013, the Commission was indebted to the City in the amount of approximately \$450,000, which is recorded as due from component units.

The Commission paid the City approximately \$250,000 during 2013 for the construction of the Rogers Plaza in Downtown Conway.

**Note 10: Pension Plans**

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

Membership of each plan consisted of the following at December 31, 2013:

	<b>Firemen's Pension and Relief Plan</b>	<b>Policemen's Pension and Relief Plan</b>	<b>Nonuniformed Employees' Defined Benefit Pension Plan</b>
Retirees and beneficiaries receiving benefits	25	42	82
Active plan members	0	0	246
Members on Deferred Retirement Option Plan (DROP)	2	0	0

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

***Plan Descriptions and Funding Information***

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

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

Contributions to the Policemen's Plan are set forth in Arkansas statute. The City's contribution to the Policemen's Fund consists of a one mill real and personal property tax collection, an insurance premium tax turn back collected by the State Insurance Commissioner, and a \$3 assessment against each court case plus 10% of fines and forfeitures collected. Additionally, the City contributes a percentage of the policemen's salaries, which amounted to 6% during 2013. The participants contributed 6% of their salaries in 2013. Participant contributions are returned without interest if the participant terminates covered employment. Administrative costs are financed by the Policemen's Plan.

As of December 31, 2013, the most recent actuarial valuation date, the Policemen's Pension and Relief Plan was 45% funded. The actuarial accrued liability for benefits was \$9,976,183 and the actuarial value of assets was \$4,529,813, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,446,370. The covered payroll (annual payroll of active employees covered by the plan) was \$5,404,330 and the ratio of the UAAL to the covered payroll was 101%.

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

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

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

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

Contributions to the Firemen's Plan are set forth in Arkansas statute. The City's contribution to the Firemen's Plan consists of a one mill real and personal property tax collection and an insurance premium tax turnback collected by the State Insurance Commissioner. Additionally, the City contributes a percentage of the firemen's salaries which amounted to 6% during 2013. The participants contributed 6% of their salaries in 2013. Participant contributions are returned without interest if the participant terminates covered employment. Administrative costs are financed by the Firemen's Plan.

As of December 31, 2013, the most recent actuarial valuation date, the Firemen's Pension and Relief Plan was 30% funded. The actuarial accrued liability for benefits was \$9,461,835 and the actuarial value of assets was \$2,866,821 resulting in an unfunded actuarial accrued liability (UAAL) of \$6,595,014. The covered payroll (annual payroll of active employees covered by the plan) was \$5,380,355 and the ratio of the UAAL to the covered payroll was 123%.

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

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

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

As of January 1, 2014, the Nonuniformed Plan was 35% funded. The actuarial accrued liability for benefits was \$28,791,473 and the actuarial value of assets was \$10,099,985, resulting in an unfunded actuarial accrued liability (UAAL) of \$18,691,488. The covered payroll (annual payroll of active employees covered by the plan) was \$8,638,180, and the ratio of the UAAL to the covered payroll was 216%.

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

	<b>Firemen's Pension and Relief Plan</b>	<b>Policemen's Pension and Relief Plan</b>	<b>Nonuniformed Employees' Pension and Relief Plan</b>
Annual required contribution	\$ 489,539	\$ 598,684	\$ 1,520,737
Interest on net pension obligation	-	-	277,567
Adjustment to annual required contribution	-	-	(212,492)
Annual pension cost	<u>489,539</u>	<u>598,684</u>	<u>1,585,812</u>
Contributions made	<u>489,539</u>	<u>598,684</u>	<u>900,246</u>
Increase in net pension obligation	-	-	685,566
Net pension obligation at beginning of the year	<u>-</u>	<u>-</u>	<u>3,965,246</u>
Net pension obligation at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,650,812</u></u>

**Actuarial Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The State of Arkansas Fire and Police Pension Review Board is responsible for the coordination of the actuarial valuations performed on the Policemen's and Firemen's Pension and Relief Funds. Actuarial valuations are performed biennially and the last evaluation was as of December 31, 2013.

The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

	<b>Firemen's Pension and Relief Fund</b>	<b>Policemen's Pension and Relief Fund</b>	<b>Nonuniformed Employees' Defined Benefit Pension Plan</b>
Actuarial valuation date	12/31/2013	12/31/2013	1/1/2014
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent closed
Remaining amortization period	12 years	12 years	20 years
Asset valuation method	5-year smoothed	5-year smoothed	Market value
Investment rate of return	8%	8%	6.5%
Projected salary increases	4%	4%	3.5%
Includes inflation at	4%	4%	2.75%
Cost-of-living adjustments	None	None	None

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

**Three-Year Trend Information**

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Firemen's Fund	12/31/2013	\$ 489,539	100%	\$ -
	12/31/2012	477,305	100%	-
	12/31/2011	465,341	100%	-
Policemen's Fund	12/31/2013	\$ 598,684	100%	\$ -
	12/31/2012	379,250	100%	-
	12/31/2011	372,704	100%	-
Nonuniformed Employees' Defined Benefit Pension Plan	12/31/2013	\$ 1,585,812	57%	\$ 4,650,812
	12/31/2012	1,473,145	54%	3,965,246
	12/31/2011	1,498,696	54%	3,210,180

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

**Method Used to Determine Fair Value of Investments**

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

**Cost Sharing Multi-Employer Defined Benefit Pension Plan**

The **Local Police and Fire Retirement System (LOPFI)** is a statewide cost-sharing multiple-employer retirement program that provides retirement, disability and survivor benefits to police and fire employees of political subdivisions of the State of Arkansas. LOPFI was created by Act 364 of the 1981 General Assembly. The authority to establish and amend benefit provisions is set forth in Arkansas state statutes and is vested in the Arkansas Legislature with the concurrence of the Governor. Employees hired after January 1, 1983, whose political subdivision had a retirement system in effect at July 1, 1981, are eligible to participate in the Plan. LOPFI issues a publicly available financial report that includes financial statements and required supplementary information of the Plan, which may be obtained by contacting the following:

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

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

Contribution requirements are set forth in Arkansas statute. LOPFI members are required to contribute either 2.5% or 8.5% of their annual covered salary. The City is required to contribute at an actuarially determined rate, which was 14.23% for participating policemen and 17.58% for participating firemen. Employer contributions totaled \$3,356,189, \$2,846,839 and \$2,643,575 for the years ended December 31, 2013, 2012 and 2011.

**Note 11: Component Unit Retirement Plans**

***Defined Benefit Pension Plan***

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

*Funding Policy:* Contribution requirements are calculated by the Plan's independent actuary. The Corporation's policy is to contribute 100% of the annual required contribution amount calculated by the actuary, subject to approval by the Corporation's board of directors. Employer contributions for all departments, which equaled the annual required contributions, totaled \$1,528,000, \$1,716,000 and \$1,344,216 for the years ended December 31, 2013, 2012 and 2011, respectively. There was no net pension obligation at December 31, 2013, 2012 or 2011.

*Funded Status and Funding Progress:* As of August 1, 2013, the most recent actuarial valuation date, the funded status was as follows:

Actuarial accrued liability (AAL)	\$ 22,682,628
Actuarial value of plan assets	<u>20,080,466</u>
Unfunded actuarial accrued liability	<u><u>\$ 2,602,162</u></u>
Funded ratio (actuarial value of plan assets/AAL)	88.5%
Covered payroll (active plan members)	\$ 12,472,834
UAAL as a percentage of covered payroll	20.9%

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

*Actuarial Methods and Assumptions:* In the August 1, 2013, actuarial valuation, the frozen actuarial liability cost method was used. The actuarial assumptions included (a) 7% investment rate of return and (b) projected salary increases of 4% per year. Both (a) and (b) included an inflation component of 3%. The actuarial value of Plan assets is equal to market value. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at August 1, 2013, was 21 years.

***Section 457 Deferred Compensation Plan***

The Conway Corporation 457 Supplemental Retirement Plan was formed, effective January 1, 2000, as a supplemental defined contribution retirement program for employees. Employee participation in this plan is optional. The Corporation makes matching contributions for eligible employees who elect to participate up to 25% of the first 3% of each participant's gross pay. Matching contributions for all Corporation employees for the year ended December 31, 2013, totaled \$74,786.

**Note 12: Component Unit Postemployment Healthcare and Life Insurance Plan**

*Plan Description:* The Corporation offers retiree medical benefits and life insurance to employees who retire from active employment under a single-employer defined benefit postemployment plan that is administered by the Corporation. The Corporation's board of directors has been assigned the authority to establish and amend benefits of the postemployment plan. An actuarial valuation was prepared by an independent actuary as of January 1, 2013. Copies of this report may be obtained by contacting the Corporation.

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

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

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

Annual required contribution	\$	180,986
Interest on net OPEB obligation		30,159
Adjustment to annual required contribution		(33,513)
Annual OPEB cost		177,632
Contributions made		(26,000)
Increase in net OPEB obligation		151,632
Net OPEB – beginning of year		1,005,380
Net OPEB – end of year	\$	1,157,012

The Corporation's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2013, 2012 and 2011 were as follows:

<b>Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
12/31/2011	\$ 175,224	25.7%	\$ 871,214
12/31/2012	184,164	27.1%	1,005,378
12/31/2013	177,632	14.6%	1,157,012

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

*Funded Status and Funding Progress:* As of January 1, 2013, the most recent actuarial valuation date, the funded status of the plan was as follows:

	<b>2012</b>
Actuarial accrued liability (AAL)	\$ 2,128,668
Actuarial value of plan assets	-
Unfunded actual accrued liability (UAAL)	\$ 2,128,668
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 12,472,834
UAAL as a percentage of covered payroll	17.1%

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The January 1, 2013, actuarial valuation utilizes the unit credit actuarial cost method. The actuarial assumptions include an annual health care cost trend rate of 2.5%, reduced by decrements to an ultimate rate of 4.5% after 86 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, 2013, is 30 years.

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

**Note 13: Risk Management**

The City has various insurance policies to cover its potential liability risk areas, *e.g.*, automobile, personal property, contents and outside structures and workers' compensation. Coverage is provided both commercially and through the Arkansas Municipal League (AML), which is an association of local governments. The AML provides the City with automobile and legal defense coverage. Fixed premiums are set annually by the AML based on such factors as claims experience, employee class multipliers and population. For risks covered by the AML, the City pays no deductible; however, the City pays a \$2,000 fee to the AML for each legal matter it handles. There have been no significant reductions in coverage from 2012 to 2013; nor have settlement amounts exceeded insurance coverage for the current year or the three prior years.

**Note 14: Contingencies**

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

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

**Note 15: Landfill Closure and Postclosure Care Cost**

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

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

The estimated liability for landfill closure and postclosure care costs was approximately \$8,408,471 as of December 31, 2013, which is based on the amount of the landfill site currently being used.

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

The City is required by state and federal laws and regulations to establish financial assurance for the cost of closure and post closure care. The City Council approved the establishment of a trust fund in which annual contributions would be made, commencing in 2003. At December 31, 2013, the trust held funds of approximately \$4,972,584. The financial assurance is funded by a capital improvement sanitation surcharge that also funds sanitation capital improvements.

**Note 16: Conduit Debt Obligations**

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

As of December 31, 2013, the aggregate principal amount payable on these bonds was approximately \$140,962,654.

**Note 17: Adjustment Applicable to Prior Years**

In conjunction with GASB No. 65 (see *Note 1*), the Corporation restated beginning net position as of January 1, 2013, to write off the unamortized bond issuance costs that had previously been reported in assets of the Corporation and amortized through amortization expense over the life of the bonds issued. The restatement reduced the previously reported net position by \$863,173.

**Note 18: Subsequent Events**

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

On May 9, 2014, the City issued a promissory note in the amount of \$3,000,000 to finance the construction of a street project. The promissory note has an interest rate of 1.92% and is due May 2019.

**City of Conway, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2013**

On April 15, 2015, the City issued Series 2015 Bonds, in the amount of \$26,970,000 for future capital projects and to accomplish a current refunding of \$8,475,000 outstanding principal amount of the City's Sales and Use Tax Capital Improvement and Refunding Bonds, Series 2012. The Series 2015 Bonds have a varying interest rate from 2.00% to 4.50% and are due May 2044.

On August 1, 2014, Series 2014 Wastewater Revenue Refunding Bonds, in the amount of \$9,980,000 were issued to accomplish a current refunding of the Series 2009 Bonds. The Series 2014 Bonds have a varying interest rate from 1.00% to 3.00% and are due October 1, 2029.

On May 19, 2015, the Series 2015A Wastewater Revenue Improvement Bonds, in the amount of \$65,004,588 were issued to accomplish a refunding of the Series 2012B Wastewater Revenue Improvement Bonds. The Series 2015A Wastewater Revenue Improvement Bonds have an interest rate of 3.00% and are due April 2035.

On May 19, 2015, the Corporation obtained a loan in the amount of \$10,000,000 for the construction and/or rehabilitation of certain facilities. The loan has an interest rate of 2.50% and is due April 2037.

On December 1, 2015, the Series 2015 Franchise Fee Revenue Improvement Bonds, in the amount of \$3,340,000 were issued for the purpose of financing the costs of acquiring and installing a mobile radio communications system and related improvements. The Series 2015 Franchise Fee Revenue Improvement Bonds have a varying interest rate from 1.50% to 3.75% and are due December 2035.

On December 1, 2015, the Series 2015 Electric Revenue Improvement Bonds, in the amount of \$25,000,000 were issued for the purpose of financing the costs of certain improvements to the City's electric utility system. The Series 2015 Electric Revenue Improvement Bonds have a varying interest rate from 2.00% to 5.00% and are due December 2027.

On January 1, 2016, the Series 2016 Wastewater Revenue Refunding Bonds, in the amount of \$12,415,000 were issued for the purpose of refunding the City's outstanding Series 2010 Wastewater Revenue Refunding Bonds. The Series 2016 Wastewater Revenue Refunding Bonds have a varying interest rate from 1.37% to 3.938% and are due October 2040.

## **Required Supplementary Information**

**City of Conway, Arkansas**  
**Defined Benefit Pension Plans**  
**Schedule of Employer Contributions**  
**Year Ended December 31, 2013**

	<b>Year Ended December 31,</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
Nonuniformed Employees' Defined Benefit Pension Plan	2005	\$ 911,792	68%
	2006	915,910	67%
	2008	972,432	82%
	2009	1,442,821	116%
	2010	1,442,821	55%
	2011	1,457,322	56%
	2012	1,520,737	54%
	2013	1,520,737	59%

**City of Conway, Arkansas**  
**Defined Benefit Pension Plans**  
**Schedules of Funding Progress**  
**Year Ended December 31, 2013**

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
<b>Primary Government</b>							
Nonuniformed Employees' Defined Benefit Pension Plan	1/1/2014	\$ 10,099,985	\$ 28,791,473	\$ 18,691,488	35%	\$ 8,638,180	216%
	1/1/2012	7,610,004	22,163,639	14,553,635	34%	7,610,004	191%
	1/1/2011	7,724,443	21,007,350	13,282,907	37%	7,525,542	177%
Firemen's Pension and Relief Plan	12/31/2013	\$ 2,866,821	\$ 9,461,835	\$ 6,595,014	30%	\$ 5,380,355	123%
	12/31/2012	3,481,085	9,652,797	6,171,712	36%	4,956,302	125%
	12/31/2011	5,135,902	10,102,935	4,967,033	51%	4,802,600	103%
Policemen's Pension and Relief Plan	12/31/2013	\$ 4,529,813	\$ 9,976,183	\$ 5,446,370	45%	\$ 5,404,330	101%
	12/31/2012	4,285,123	9,923,578	5,638,455	43%	4,883,553	115%
	12/31/2011	4,451,665	9,522,225	5,070,560	47%	4,783,256	106%
<b>Discretely Presented Component Units</b>							
The Retirement Plan of Conway Corporation	8/1/2013	\$ 20,080,466	\$ 22,682,628	\$ 2,602,162	89%	\$ 12,472,834	21%
	8/1/2012	17,441,339	20,964,805	3,523,466	83%	11,753,362	30%
	8/1/2011	15,861,445	19,492,549	3,631,104	81%	10,937,948	33%
Conway Corporation Postemployment Healthcare and Life Insurance Plan	1/1/2013	\$ -	\$ 2,128,668	\$ 2,128,668	0%	\$ 12,472,834	17%
	1/1/2012	-	2,247,641	2,247,641	0%	11,753,362	19%
	1/1/2011	-	2,118,827	2,118,827	0%	10,937,948	19%

**City of Conway, Arkansas**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended December 31, 2013**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>Revenues</b>				
General property taxes	\$ 2,938,000	\$ 2,938,000	\$ 2,578,105	\$ (359,895)
Sales and use taxes	17,848,000	17,848,000	17,935,579	87,579
Licenses and permits	555,000	555,000	462,124	(92,876)
Charges for services	891,000	1,115,862	1,187,373	71,511
Fines and forfeitures	1,150,000	1,150,200	1,262,556	112,356
Franchise fees	2,635,000	2,635,000	2,538,700	(96,300)
Intergovernmental	2,080,000	2,080,000	1,975,800	(104,200)
Investment income	2,700	2,700	42,318	39,618
Miscellaneous	1,015,965	670,313	415,321	(254,992)
	<u>29,115,665</u>	<u>28,995,075</u>	<u>28,397,876</u>	<u>(597,199)</u>
<b>Total revenues</b>				
<b>Expenditures</b>				
General government	5,440,408	6,384,761	5,766,150	618,611
Police	9,693,684	10,856,333	10,885,420	(29,087)
Fire	8,356,645	8,809,876	8,910,706	(100,830)
Parks and recreation	2,683,030	2,608,790	2,301,664	307,126
Airport	32,500	32,500	29,806	2,694
Capital outlay	620,358	1,436,600	1,573,388	(136,788)
Debt service	-	-	81,894	(81,894)
	<u>26,826,625</u>	<u>30,128,860</u>	<u>29,549,028</u>	<u>579,832</u>
<b>Total expenditures</b>				
<b>Excess (Deficiency) of Revenues Over Expenditures</b>				
	<u>2,289,040</u>	<u>(1,133,785)</u>	<u>(1,151,152)</u>	<u>(17,367)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	423,000	423,000	423,000	-
Transfers out	-	-	(1,454,114)	(1,454,114)
	<u>423,000</u>	<u>423,000</u>	<u>(1,031,114)</u>	<u>(1,454,114)</u>
<b>Total other financing sources</b>				
<b>Net Change in Fund Balances</b>				
	2,712,040	(710,785)	(2,182,266)	(1,471,481)
<b>Fund Balances, Beginning of Year</b>	<u>7,770,575</u>	<u>7,770,575</u>	<u>7,770,575</u>	<u>-</u>
<b>Fund Balances, End of Year</b>	<u>\$ 10,482,615</u>	<u>\$ 7,059,790</u>	<u>\$ 5,588,309</u>	<u>\$ (1,471,481)</u>

**City of Conway, Arkansas**  
**Budgetary Comparison Schedule**  
**Street Fund**  
**Year Ended December 31, 2013**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>Revenues</b>				
General property taxes	\$ 1,350,000	\$ 1,350,000	\$ 1,341,168	\$ (8,832)
Sales and use taxes	245,000	245,000	244,805	(195)
Licenses and permits	500	500	60	(440)
Charges for services	12,000	12,000	8,500	(3,500)
Intergovernmental	2,800,000	2,800,000	2,847,688	47,688
Investment income	3,500	3,500	17,250	13,750
Miscellaneous	182,500	182,500	290,878	108,378
	<u>4,593,500</u>	<u>4,593,500</u>	<u>4,750,349</u>	<u>156,849</u>
<b>Expenditures</b>				
Public works	4,428,500	4,912,140	4,347,227	564,913
Capital outlay	165,000	199,760	198,451	1,309
	<u>4,593,500</u>	<u>5,111,900</u>	<u>4,545,678</u>	<u>566,222</u>
<b>Net Change in Fund Balances</b>	-	(518,400)	204,671	723,071
<b>Fund Balances, Beginning of Year</b>	<u>2,216,055</u>	<u>2,216,055</u>	<u>2,216,055</u>	-
<b>Fund Balances, End of Year</b>	<u>\$ 2,216,055</u>	<u>\$ 1,697,655</u>	<u>\$ 2,420,726</u>	<u>\$ 723,071</u>

**City of Conway, Arkansas**  
**Notes to Required Supplementary Information**  
**Year Ended December 31, 2013**

**Note 1: Actuarial Assumptions**

	<b>Firemen's Pension and Relief Fund</b>	<b>Policemen's Pension and Relief Fund</b>	<b>Nonuniformed Employees' Defined Benefit Pension Plan</b>
Actuarial valuation date	12/31/2013	12/31/2013	1/1/2014
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent closed
Remaining amortization period	12 years	12 years	20 years
Asset valuation method	5-year smoothed	5-year smoothed	Market value
Investment rate of return	8%	8%	6.5%
Projected salary increases	4%	4%	3.5%
Includes inflation at	4%	4%	2.75%
Cost-of-living adjustments	None	None	None

**Component Unit – Conway Corporation**

*Defined Benefit Pension Plan*

In the August 1, 2013, actuarial valuation, the frozen actuarial liability cost method was used. The actuarial assumptions included (a) 7% investment rate of return and (b) projected salary increases of 4% per year. Both (a) and (b) included an inflation component of 3%. The actuarial value of Plan assets is equal to market value. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at August 1, 2013, was 21 years.

*Postemployment Health Care and Life Insurance Plan*

The January 1, 2013, actuarial valuation utilizes the unit credit actuarial cost method. The actuarial assumptions include an annual health care cost trend rate of 2.5%, reduced by decrements to an ultimate rate of 4.5% after 86 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, 2013, is 30 years.

**City of Conway, Arkansas**  
**Notes to Required Supplementary Information**  
**Year Ended December 31, 2013**

**Note 2: Budgets and Budgetary Accounting**

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

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

## **Other Required Report**

## Independent Auditor's Report on Compliance with Certain State Acts

The Mayor and City Council  
City of Conway, Arkansas

We have examined management's assertions that the City of Conway, Arkansas (the City), complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas statutes during the year ended December 31, 2013.

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

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

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

Our examination disclosed the following material noncompliance with the aforementioned requirements applicable to the City during the year ended December 31, 2013.

- Reconciliation of the completed citation books for the County Sheriff's office was not performed.

In our opinion, except for the material noncompliance described above, the City of Conway, Arkansas, complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2013.

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

*BKD, LLP*

Little Rock, Arkansas  
March 1, 2016

## **Single Audit Section**

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

The Mayor and City Council  
City of Conway, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Conway, Arkansas (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 1, 2016, which contained an emphasis of matter paragraph regarding a change in accounting principle. 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 (internal control). In planning and performing our audit of the financial statements, we considered the City's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance**

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

### **Purpose of this Report**

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

*BKD, LLP*

Little Rock, Arkansas  
March 1, 2016

## Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance

### Independent Auditor's Report

The Mayor and City Council  
City of Conway, Arkansas

#### Report on Compliance for Each Major Federal Program

We have audited the compliance of City of Conway, Arkansas (the City), with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2013. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above.

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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

### ***Opinion on a Major Federal Program***

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

### **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program 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.

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 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. A significant deficiency in internal control over compliance is a deficiency, or a 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.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Little Rock, Arkansas  
March 1, 2016

**City of Conway, Arkansas**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2013**

Cluster/Program	Federal Agency/ Pass-through Entity	CFDA Number	Amount Expended
State and Community Highway Safety	U.S. Department of Transportation/AR State Highway Dept.	20.600	\$ 3,659
Alcohol Impaired Driving Countermeasures Incentive Grants I	U.S. Department of Transportation/AR State Highway Dept.	20.601	11,655
Occupant Protection Incentive Grants	U.S. Department of Transportation/AR State Highway Dept.	20.602	<u>12,689</u>
	Total Highway Safety Cluster		<u>28,003</u>
Community Development Block Grant	U.S. Department of Housing and Urban Development	14.128	428,983
Edward Byrne Memorial Justice Assistance Grant	U.S. Department of Justice	16.738	22,431
Airport Improvement Program	U.S. Department of Transportation	20.106	6,205,973
Highway Planning and Construction	U.S. Department of Transportation/AR State Highway Dept.	20.205	447,750
Recreation Trails Program	U.S. Department of Transportation	20.219	59,291
Homeland Security Grant Program	U.S. Department of Homeland Security/ AR Dept. of Emergency Management	97.067	146,241
Staffing for Adequate Fire and Emergency Response Grant	U.S. Department of Homeland Security	97.083	<u>45,007</u>
Total Expenditures of Federal Awards			<u>\$ 7,383,679</u>

**Notes to Schedule**

1. This schedule includes the federal award activities of City of Conway, Arkansas, 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.
2. No awards were provided to subrecipients.

**City of Conway, Arkansas**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2013**

**Summary of Auditor's Results**

1. The opinion expressed in the independent auditor's report was:

Unmodified       Qualified       Adverse       Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?       Yes       None reported

Material weakness(es)?       Yes       No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

Yes       No

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies)?       Yes       None reported

Material weakness(es)?       Yes       No

5. The opinions expressed in the independent auditor's report on compliance for major federal awards were:

Unmodified       Qualified       Adverse       Disclaimer

6. The audit disclosed findings required to be reported by OMB Circular A-133?

Yes       No

**City of Conway, Arkansas**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2013**

7. The City's major program was:

<u>Cluster/Program</u>	<u>CFDA Number</u>
Airport Improvement Program	20.106

8. The threshold used to distinguish between Type A and Type B programs, as those terms are defined in OMB Circular A-133, was \$300,000.

9. The City qualified as a low-risk auditee, as that term is defined in OMB Circular A-133?  Yes  No

**City of Conway, Arkansas**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2013**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>
-----------------------------	----------------

---

No matters are reportable.

**Findings Required to be Reported by OMB Circular A-133**

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
-----------------------------	----------------	-----------------------------

---

No matters are reportable.

**City of Conway, Arkansas**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended December 31, 2013**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
-----------------------------	---------------------------	---------------

---

No matters are reportable.