

City of Conway, Arkansas

Independent Auditor's Reports and Financial Statements

December 31, 2014



City of Conway, Arkansas
December 31, 2014

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Independent Auditor's Report

The Mayor and City Council
City of Conway, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of City of Conway, Arkansas (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 the aggregate discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for such entities, is 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, 2014, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2014 the City implemented the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. 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 and budgetary and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 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 July 11, 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
July 11, 2016

City of Conway, Arkansas

Management's Discussion and Analysis

December 31, 2014

The following discussion and analysis of the City of Conway, Arkansas' (the City) financial performance provides an overview of the City's financial activities for the year ended December 31, 2014. 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 2014 by \$170,167,098. Of this amount, \$155,134,648 represents the City's net investment in capital assets; \$11,497,680 is restricted for debt service, capital improvements and other restrictions; and there is an unrestricted net position of \$3,534,770.
- The City's reported total net position increased by \$11,333,638 (7.1%) in 2014. Net position of the governmental activities increased \$11,034,632 (7.2%). Net position of the City's business-type activities, consisting of the Sanitation Fund, increased by \$299,006 (5.1%).
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$17,096,509. The combined governmental funds fund balances increased \$236,504 (1.4%) from the prior year. The primary components of this change were that Street Fund revenues exceeded expenditures by \$1,079,489 and \$7,200,000 of long-term debt was issued. The majority of governmental fund balances (\$11,029,022) are considered restricted to specific purposes at December 31, 2014, and \$5,048,209 is reported as unassigned and can be spent at the discretion of the City Council.
- The General Fund reported fund balance of \$5,083,190 at the end of the current year. Unassigned fund balance for the General Fund was \$5,048,209, or 15.1%, of total General Fund expenditures. There was a \$505,119 decrease in the total fund balance for the General Fund for the year ended December 31, 2014.
- The City's total debt increased by \$3,303,708 (11%) during the current year. The key factors in this increase were the issuance of short-term financing notes for airport construction and street projects.

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, 2014

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, 2014

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 24–58 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's General Fund and Street Fund budgets and the City's progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found on Page 59 of this report.

City of Conway, Arkansas
Management's Discussion and Analysis
December 31, 2014

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 \$170,167,098 at December 31, 2014.

City of Conway, Arkansas Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current assets	\$ 26,281,150	\$ 21,188,480	\$ 3,471,803	\$ 2,324,941	\$ 29,752,953	\$ 23,513,421
Noncurrent assets	889,619	2,241,436	5,476,430	4,972,584	6,366,049	7,214,020
Capital assets	<u>179,052,037</u>	<u>166,035,110</u>	<u>8,648,407</u>	<u>9,788,275</u>	<u>187,700,444</u>	<u>175,823,385</u>
Total assets	<u>206,222,806</u>	<u>189,465,026</u>	<u>17,596,640</u>	<u>17,085,800</u>	<u>223,819,446</u>	<u>206,550,826</u>
Current liabilities	6,631,668	6,364,501	813,886	786,580	7,445,554	7,151,081
Noncurrent liabilities	<u>35,683,701</u>	<u>30,179,765</u>	<u>10,571,048</u>	<u>10,386,520</u>	<u>46,254,749</u>	<u>40,566,285</u>
Total liabilities	<u>42,315,369</u>	<u>36,544,266</u>	<u>11,384,934</u>	<u>11,173,100</u>	<u>53,700,303</u>	<u>47,717,366</u>
Net position						
Net investment in capital assets	146,905,232	139,102,637	8,229,416	8,978,402	155,134,648	148,081,039
Restricted	11,497,680	9,121,105	-	-	11,497,680	9,121,105
Unrestricted	<u>5,504,525</u>	<u>4,697,018</u>	<u>(2,017,710)</u>	<u>(3,065,702)</u>	<u>3,486,815</u>	<u>1,631,316</u>
Total net position	<u>\$163,907,437</u>	<u>\$152,920,760</u>	<u>\$ 6,211,706</u>	<u>\$ 5,912,700</u>	<u>\$170,119,143</u>	<u>\$158,833,460</u>

The largest portion of the City's net position (\$155,134,648) 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 (\$11,497,680) represents resources that are subject to restrictions as to how they may be used, and remaining is an unrestricted net position of \$3,534,770.

The City's overall net position increased \$11,333,638 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, 2014

City of Conway, Arkansas
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
<i>Program revenues</i>						
Charges for services	\$ 4,207,249	\$ 3,967,410	\$ 9,332,263	\$ 8,325,514	\$ 13,539,512	\$ 12,292,924
Operating grants and contributions	1,598,890	1,984,247	-	-	1,598,890	1,984,247
Capital grants and contributions	13,413,425	9,982,653	-	50,000	13,413,425	10,032,653
<i>General revenues</i>						
General property taxes	5,174,990	3,288,649	-	-	5,174,990	3,288,649
Sales and use taxes	25,980,114	25,996,368	-	-	25,980,114	25,996,368
Franchise fees	3,194,870	3,163,738	-	-	3,194,870	3,163,738
General state revenue turnback	1,130,366	899,762	-	-	1,130,366	899,762
Investment income	78,390	103,598	52,762	54,781	131,152	158,379
Other	1,159,550	491,203	-	-	1,159,550	491,203
Total Revenues	55,937,844	49,877,628	9,385,025	8,430,295	65,322,869	58,307,923
Expenses						
General government	7,607,103	7,283,940	-	-	7,607,103	7,283,940
Police	12,125,989	11,928,068	-	-	12,125,989	11,928,068
Fire	10,356,135	10,250,903	-	-	10,356,135	10,250,903
Public works	9,405,269	8,298,060	-	-	9,405,269	8,298,060
Parks and recreation	4,102,227	3,453,123	-	-	4,102,227	3,453,123
Airport	675,200	55,882	-	-	675,200	55,882
Interest expense on long-term debt	1,023,662	1,332,761	-	-	1,023,662	1,332,761
Sanitation	-	-	8,741,601	7,976,843	8,741,601	7,976,843
Total Expenses	45,295,585	42,602,737	8,741,601	7,976,843	54,037,186	50,579,580
Increase in net position before transfers	10,642,259	7,274,891	643,424	453,452	11,285,683	7,728,343
Transfers	344,418	423,000	(344,418)	(423,000)	-	-
Change in Net Position	10,986,677	7,697,891	299,006	30,452	11,285,683	7,728,343
Net Position – January 1	152,920,760	145,222,869	5,912,700	5,882,248	158,833,460	151,105,117
Net Position – December 31	163,907,437	\$ 152,920,760	\$ 6,211,706	\$ 5,912,700	\$ 170,119,143	\$ 158,833,460

Governmental Activities. Governmental activities increased the City's net position by \$11,034,632 from the prior year for an ending balance of \$152,920,760. The increase was the result of revenues exceeding expenses by \$10,690,214 in 2014 and transfers of \$344,418.

Business-Type Activities. Business-type activities increased the City's net position by \$299,006 (5.1%) to an ending net position of \$6,211,706. The increase is the result of sanitation net income of \$643,424 less transfers to the governmental activities of \$344,418.

City of Conway, Arkansas
Management's Discussion and Analysis
December 31, 2014

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, 2014, the City's governmental funds reported combined ending fund balances of \$17,096,509, an increase of \$236,504 during the year. \$11,029,022 is reported as *restricted fund balance* for capital projects and debt service. In addition, \$1,019,278 of the governmental fund balances is *nonspendable*, representing inventories and prepaid expenditures. \$5,048,209 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 \$5,048,209, while the total fund balance decreased \$505,119 to \$5,083,190. 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 15.1% of total general fund expenditures, while overall General Fund balance represents 15.2% of that same amount.

The *Street Fund*, a major fund, had an increase of \$1,079,489 to an overall Street Fund balance of \$3,500,215 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 \$130,850 during the year to bring the year-end fund balance to \$2,717,008.

The *Airport Grant Fund*, a major governmental fund, had a decrease in fund balance of \$281,833 during the year to bring the year-end fund balance to \$0.

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 \$6,211,706 for sanitation operations, an increase from the prior year of \$299,006. 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, 2014

General Fund Budgetary Highlights

Original Budget Compared to Final Budget. The final amended General Fund budget had total appropriations of \$5,731,537 (19.7%) more than the original budget of \$29,089,111. The primary purpose of the amendments was to increase budgeted revenues and expenditures to reflect long-term debt issuance for airport construction expenditures.

Final Budget Compared to Actual Results. Actual General Fund expenditures for the year were \$1,465,348 (4.0%) less than final budgeted expenditures. However, actual General Fund revenues exceeded final budgeted revenues by \$863,977 (3.0%) primarily due to the better than expected charges for services from airport operations, resulting in an overall deficiency of \$3,307,454, \$2,247,431 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, 2014, amounts to \$187,700,444 (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 2014 was 6.8% (a 7.8% increase for governmental activities and a 11.6% decrease for business-type activities).

City of Conway, Arkansas
 Capital Assets, net of depreciation

	Governmental Activities		Business-Type activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 16,709,998	\$ 16,336,204	\$ 1,014,332	\$ 1,014,332	\$ 17,724,330	\$ 17,350,536
Buildings and improvements	40,451,093	38,826,909	1,684,762	1,792,952	42,135,855	40,619,861
Equipment	8,365,268	9,599,421	4,823,029	5,801,928	13,188,297	15,401,349
Infrastructure	71,991,107	75,719,176	1,126,284	1,179,063	73,117,391	76,898,239
Construction in progress	41,534,571	25,553,400	-	-	41,534,571	25,553,400
Total	<u>\$ 179,052,037</u>	<u>\$ 166,035,110</u>	<u>\$ 8,648,407</u>	<u>\$ 9,788,275</u>	<u>\$ 187,700,444</u>	<u>\$ 175,823,385</u>

Major capital asset events during 2014 included the following:

- Construction in progress additions were \$17,809,695.
- Equipment additions were \$2,502,821.
- Building and improvement additions \$3,054,299.
- Depreciation expense totaled \$9,511,594.

Additional information on the City's capital assets can be found in *Note 4* on Pages 36–37 of this report.

City of Conway, Arkansas
Management's Discussion and Analysis
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Long-Term Debt. At December 31, 2014, the City's primary government, had \$33,287,490 of long-term debt outstanding, including bonds payable of \$23,952,611, secured solely by specified revenue sources, *i.e.*, revenue bonds.

City of Conway, Arkansas Outstanding Debt						
<i>(net of premium/discount)</i>						
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Bonds payable	\$ 23,952,611	\$ 26,239,514	\$ -	\$ -	\$ 23,952,611	\$ 26,239,514
Notes payable	8,300,000	2,261,762	410,587	809,873	8,710,587	3,071,635
Leases payable	624,292	672,633	-	-	624,292	672,633
Total	\$ 32,876,903	\$ 29,173,909	\$ 410,587	\$ 809,873	\$ 33,287,490	\$ 29,983,782

Total long-term debt at December 31, 2014, increased \$3,303,708, an increase of 11%. The net increase is primarily the result short term financing notes for airport construction and street projects.

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, 2014. 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, 2014, of approximately \$9.3 million are well below the statutory limit of \$51,530,269. Voter approval is not required for short-term financing.

Additional information regarding the City's long-term debt can be found in *Note 5* on Pages 38–43 of this report.

Economic Factors and Next Year's Budgets and Rates

Sales tax revenue was relatively flat in 2014 when compared to what was collected in 2013, and management opted to continue with an ultra-conservative approach and budget flat amounts for sales tax for 2015. This is 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.

City Council elected in 2014 to establish a new franchise fee on both water and wastewater utilities. This added \$880,000 in revenue to the 2015 budget for the General Fund.

City of Conway, Arkansas
Management's Discussion and Analysis
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New construction permits, both commercial and residential, have seen a steady decline in recent years due to the slowing economy for both markets. Impact fee revenue is directly tied to the issuance of these permits, thus budgeted revenue was sharply reduced in both the Street Impact Fund and the Parks Impact Fund. Respectively, the reductions were 42% and 25%.

The City's budget for 2015 is balanced with total resources greater than or equal to total expense appropriation within each fund, as well as in the aggregate. Total estimated revenues amount to \$58,517,501, and total expenses amount to \$54,154,758. This leaves a \$4,362,743 surplus to be used for appropriating Parks A&P tax revenue for park construction and improvements, and also for appropriating Parks and Street Impact Funds fee revenue for adding park and street capacity as projects may be identified during the year.

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, 2014

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Conway Corporation	A & P Commission
Assets					
Current Assets					
Cash and cash equivalents	\$ 9,009,342	\$ 2,527,704	\$ 11,537,046	\$ 13,773,077	\$ 1,304,669
Certificates of deposit	-	-	-	32,197,053	-
Restricted cash and cash equivalents – current	1,988,412	-	1,988,412	-	-
Accounts receivable, net of allowance	13,670,669	-	13,670,669	8,349,551	300,563
Due from component units	652,374	883,787	1,536,161	-	-
Internal balances	(58,925)	58,925	-	-	-
Other current assets	-	1,387	1,387	7,046,953	-
Prepaid items	1,019,278	-	1,019,278	683,955	-
Total current assets	26,281,150	3,471,803	29,752,953	62,050,589	1,605,232
Noncurrent Assets					
Restricted assets					
Cash and cash equivalents	889,619	5,476,430	6,366,049	6,024,822	-
Total restricted assets	889,619	5,476,430	6,366,049	6,024,822	-
Capital assets – nondepreciable	58,244,569	1,014,332	59,258,901	32,091,095	-
Capital assets – depreciable, net	120,807,468	7,634,075	128,441,543	303,897,789	-
	179,052,037	8,648,407	187,700,444	335,988,884	-
Other assets					
Land held for resale	-	-	-	410,296	-
Total other assets	-	-	-	410,296	-
Total noncurrent assets	179,941,656	14,124,837	194,066,493	342,424,002	-
Total assets	206,222,806	17,596,640	223,819,446	404,474,591	1,605,232
Deferred Outflows of Resources					
Loss on refunding	-	-	-	570,785	-
Total deferred outflows of resources	-	-	-	570,785	-
Total assets and deferred outflows of resources	\$ 206,222,806	\$ 17,596,640	\$ 223,819,446	\$ 405,045,376	\$ 1,605,232

See Notes to Financial Statements

	Primary Government			Component Units	
	Governmental	Business-Type	Total	Conway	A & P
	Activities	Activities		Corporation	Commission
Liabilities and Net Position					
Current liabilities					
Accounts payable	\$ 1,864,597	\$ 153,398	\$ 2,017,995	\$ 6,258,721	\$ 50,181
Accrued expenses and other liabilities	916,986	138,990	1,055,976	3,963,510	-
Due to primary government	-	-	-	1,062,151	474,010
Due to fiduciary fund	29,577	12,427	42,004	-	-
Customer deposits	-	-	-	1,906,771	-
Unearned revenue	-	-	-	417,173	-
Accrued interest payable	159,521	8,404	167,925	898,124	-
Developer deposits	-	-	-	80,934	-
Notes and leases payable – current portion	652,071	410,587	1,062,658	-	-
Compensated absences – current portion	758,916	90,080	848,996	-	-
Bonds payable – current portion	2,250,000	-	2,250,000	3,813,729	-
Total current liabilities	6,631,668	813,886	7,445,554	18,401,113	524,191
Noncurrent Liabilities					
Net pension obligation	4,233,051	1,993,140	6,226,191	-	-
Notes payable	7,700,000	-	7,700,000	-	-
Leases payable	572,221	-	572,221	-	-
Bonds payable, net	21,702,611	-	21,702,611	122,051,765	-
Compensated absences	1,475,818	121,824	1,597,642	-	-
Postemployment benefits	-	-	-	1,317,386	-
Estimated liability for landfill closure and postclosure care costs	-	8,456,084	8,456,084	-	-
Total noncurrent liabilities	35,683,701	10,571,048	46,254,749	123,369,151	-
Total liabilities	42,315,369	11,384,934	53,700,303	141,770,264	524,191
Net Position					
Net investment in capital assets	146,905,232	8,229,416	155,134,648	205,309,786	-
Restricted – expendable					
Debt service	2,717,008	-	2,717,008	3,568,226	-
Capital improvements	4,354,749	-	4,354,749	-	-
Public works	3,500,215	-	3,500,215	-	-
Parks and recreation	111,842	-	111,842	-	-
Animal welfare	83,343	-	83,343	-	-
Court automation	399,767	-	399,767	-	-
Public safety	121,814	-	121,814	-	-
Other purposes	6,496	-	6,496	-	-
Grant funds	202,446	-	202,446	-	-
Advertising and promotion	-	-	-	-	1,081,041
Total restricted – expendable	11,497,680	-	11,497,680	3,568,226	1,081,041
Unrestricted (Deficit)	5,504,525	(2,017,710)	3,486,815	54,397,100	-
Total net position	163,907,437	6,211,706	170,119,143	263,275,112	1,081,041
Total liabilities and net position	\$ 206,222,806	\$ 17,596,640	\$ 223,819,446	\$ 405,045,376	\$ 1,605,232

City of Conway, Arkansas
Statement of Activities
Year Ended December 31, 2014

Functions/Programs Primary Government	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Conway Corporation	A & P Commission
					Governmental Activities	Business-Type Activities	Total		
Governmental Activities									
General government	\$ 7,607,103	\$ 1,784,136	\$ 532,345	\$ -	\$ (5,290,622)	\$ -	\$ (5,290,622)		
Police	12,125,989	689,432	513,734	23,097	(10,899,726)	-	(10,899,726)		
Fire	10,356,135	91,321	507,757	-	(9,757,057)	-	(9,757,057)		
Public works	9,405,269	434,901	45,054	3,510,093	(5,415,221)	-	(5,415,221)		
Parks and recreation	4,102,227	887,477	-	-	(3,214,750)	-	(3,214,750)		
Airport	675,200	319,982	-	9,880,235	9,525,017	-	9,525,017		
Interest expense on long-term debt	1,023,662	-	-	-	(1,023,662)	-	(1,023,662)		
Total governmental activities	45,295,585	4,207,249	1,598,890	13,413,425	(26,076,021)	-	(26,076,021)		
Business-Type Activities									
Sanitation	8,741,601	9,332,263	-	-	-	590,662	590,662		
Total business-type activities	8,741,601	9,332,263	-	-	-	590,662	590,662		
Total primary government	\$ 54,037,186	\$ 13,539,512	\$ 1,598,890	\$ 13,413,425	(26,076,021)	590,662	(25,485,359)		
Component Units									
Conway Corporation	\$ 103,287,679	\$ 110,248,287	\$ -	\$ 3,078,871			\$ 10,039,479	\$ -	
A & P Commission	635,561	-	-	-			-	(635,561)	
Total component units	\$ 103,923,240	\$ 110,248,287	\$ -	\$ 3,078,871			10,039,479	(635,561)	
General Revenues									
General property taxes					5,174,990	-	5,174,990	-	-
Sales and use taxes					25,980,114	-	25,980,114	-	798,594
Franchise fees					3,194,870	-	3,194,870	-	-
General state revenue turnback					1,130,366	-	1,130,366	-	-
Investment income					78,390	52,762	131,152	184,054	3,778
Other					1,159,550	-	1,159,550	-	-
Transfers					344,418	(344,418)	-	-	1,640
Total general revenues and transfers					37,062,698	(291,656)	36,771,042	184,054	804,012
Change in Net Position					10,986,677	299,006	11,285,683	10,223,533	168,451
Net Position, Beginning of Year					152,920,760	5,912,700	158,833,460	253,051,579	912,590
Net Position, End of Year					\$ 163,907,437	\$ 6,211,706	\$ 170,119,143	\$ 263,275,112	\$ 1,081,041

City of Conway, Arkansas
Balance Sheet
Governmental Funds
December 31, 2014

	General Fund	Street Fund	Debt Service Fund	Airport Grant Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 1,872,775	\$ 3,055,767	\$ 2,357,788	\$ 485,341	\$ 4,115,702	\$ 11,887,373
Accounts receivable	8,077,871	1,815,721	318,932	2,145,814	1,312,331	13,670,669
Due from other funds	314,569	175,925	-	-	13,399	503,893
Due from component units	612,086	-	40,288	-	-	652,374
Prepaid items	34,981	-	-	-	984,297	1,019,278
Total assets	<u>\$ 10,912,282</u>	<u>\$ 5,047,413</u>	<u>\$ 2,717,008</u>	<u>\$ 2,631,155</u>	<u>\$ 6,425,729</u>	<u>\$ 27,733,587</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 694,821	\$ 87,061	\$ -	\$ 884,261	\$ 198,454	\$ 1,864,597
Accrued wages payable and related liabilities	839,135	69,867	-	-	7,984	916,986
Due to other funds	185,451	19,565	-	-	387,379	592,395
Total liabilities	<u>1,719,407</u>	<u>176,493</u>	<u>-</u>	<u>884,261</u>	<u>593,817</u>	<u>3,373,978</u>
Deferred Inflows of Resources						
Unavailable revenues	<u>4,135,351</u>	<u>1,370,705</u>	<u>-</u>	<u>1,746,894</u>	<u>35,816</u>	<u>7,288,766</u>
Total deferred inflows of resources	<u>4,135,351</u>	<u>1,370,705</u>	<u>-</u>	<u>1,746,894</u>	<u>35,816</u>	<u>7,288,766</u>
Fund Balances						
Nonspendable	34,981	-	-	-	984,297	1,019,278
Restricted	-	3,500,215	2,717,008	-	5,945,222	12,162,445
Unassigned	<u>5,022,543</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,133,423)</u>	<u>3,889,120</u>
Total fund balances	<u>5,057,524</u>	<u>3,500,215</u>	<u>2,717,008</u>	<u>-</u>	<u>5,796,096</u>	<u>17,070,843</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 10,912,282</u>	<u>\$ 5,047,413</u>	<u>\$ 2,717,008</u>	<u>\$ 2,631,155</u>	<u>\$ 6,425,729</u>	<u>\$ 27,733,587</u>

City of Conway, Arkansas
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2014

Total Fund Balances – Total Governmental Funds	\$	17,070,843
Amounts Reported for the Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		179,052,037
Property tax, grants receivable and other receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		7,288,766
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		(159,521)
Accrued compensated absences		(2,234,734)
Net pension obligations		(4,233,051)
Bonds payable, net		(23,952,611)
Notes payable and obligations under capital lease		<u>(8,924,292)</u>
Total Net Position – Governmental Activities	\$	<u>163,907,437</u>

City of Conway, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2014

	General Fund	Street Fund	Debt Service Fund	Airport Grant Fund	Other Governmental Funds	Total
Revenues						
General property taxes	\$ 2,630,564	\$ 1,362,853	\$ -	\$ -	\$ 41,042	\$ 4,034,459
Sales and use taxes	17,996,841	246,684	1,622,919	-	6,113,670	25,980,114
Licenses and permits	400,756	240	-	-	-	400,996
Charges for services	1,569,894	10,600	-	-	600,714	2,181,208
Fines and forfeitures	1,453,669	-	-	-	161,580	1,615,249
Franchise fees	2,585,280	-	609,590	-	-	3,194,870
Intergovernmental	2,869,045	3,510,093	-	7,191,257	626,767	14,197,162
Investment income	30,912	19,207	892	-	27,379	78,390
Miscellaneous	567,113	399,718	-	-	187,283	1,154,114
Total revenues	30,104,074	5,549,395	2,233,401	7,191,257	7,758,435	52,836,562
Expenditures						
Current						
General government	5,876,310	-	-	-	407,807	6,284,117
Police	10,991,885	-	-	-	-	10,991,885
Fire	9,015,169	-	-	-	-	9,015,169
Public works	-	4,000,558	-	-	-	4,000,558
Parks and recreation	2,360,598	-	-	-	24,353	2,384,951
Airport	341,033	-	-	-	-	341,033
Capital outlay						
General government	11,483	-	-	-	302,329	313,812
Police	6,450	-	-	-	504,644	511,094
Fire	34,025	-	-	-	106,831	140,856
Public works	-	469,348	-	-	4,216,377	4,685,725
Parks and recreation	727	-	-	-	2,233,725	2,234,452
Airport	4,717,620	-	-	10,048,258	-	14,765,878
Debt service						
Principal	44,016	-	2,285,000	-	1,160,651	3,489,667
Interest	37,878	-	896,197	-	67,133	1,001,208
Agent fees	-	-	9,737	-	-	9,737
Total expenditures	33,437,194	4,469,906	3,190,934	10,048,258	9,023,850	60,170,142
Excess (Deficiency) of Revenues Over Expenditures	(3,333,120)	1,079,489	(957,533)	(2,857,001)	(1,265,415)	(7,333,580)
Other Financing Sources (Uses)						
Long-term debt issuance	5,000,000	-	-	-	2,200,000	7,200,000
Transfers in	423,000	-	1,587,979	2,575,168	545,093	5,131,240
Transfers out	(2,620,665)	-	(499,596)	-	(1,666,561)	(4,786,822)
Total other financing sources	2,802,335	-	1,088,383	2,575,168	1,078,532	7,544,418
Net Change in Fund Balances	(530,785)	1,079,489	130,850	(281,833)	(186,883)	210,838
Fund Balances, Beginning of Year	5,588,309	2,420,726	2,586,158	281,833	5,982,979	16,860,005
Fund Balances, End of Year	\$ 5,057,524	\$ 3,500,215	\$ 2,717,008	\$ -	\$ 5,796,096	\$ 17,070,843

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, 2014

Net Change in Fund Balances – Total Governmental Funds	\$ 210,838
<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	20,548,826
Depreciation expense	(7,531,899)
<p>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.</p>	
	3,095,845
<p>Long-term debt issuance provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.</p>	
	(7,200,000)
<p>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.</p>	
	3,497,006
<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>	
Accrued interest	(14,620)
Accrued compensated absences	(548,253)
Net pension obligations	(1,071,066)
Change in Net Position of Governmental Activities	\$ 10,986,677

City of Conway, Arkansas
Statement of Net Position
Proprietary Funds
December 31, 2014

	Business-Type Activities – Enterprise Fund
Assets	
Current Assets	
Cash and cash equivalents	\$ 2,527,704
Due from component unit	883,787
Due from other funds	159,968
Other current assets	1,387
Total Current Assets	3,572,846
Noncurrent Assets	
Capital assets	
Land and buildings	4,538,986
Equipment	12,031,906
Infrastructure	1,623,347
Less accumulated depreciation	(9,545,832)
Capital assets, net	8,648,407
Restricted cash and cash equivalents	5,476,430
Total Noncurrent Assets	14,124,837
Total Assets	17,697,683
Liabilities	
Current Liabilities	
Accounts payable	153,398
Accrued wages payable and related liabilities	138,990
Due to other funds	113,470
Accrued interest payable	8,404
Note payable	410,587
Current portion of compensated absences	90,080
Total Current Liabilities	914,929
Noncurrent Liabilities	
Compensated absences	121,824
Landfill closure and post closure care costs	8,456,084
Net pension obligation	1,993,140
Total Noncurrent Liabilities	10,571,048
Total Liabilities	11,485,977
Net Position	
Net investment in capital assets	8,229,416
Unrestricted	(2,017,710)
Total Net Position	\$ 6,211,706

City of Conway, Arkansas
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended December 31, 2014

	Business-Type Activities – Enterprise Fund
Operating Revenues	
Charges for services	\$ 9,332,263
Total operating revenues	9,332,263
Operating Expenses	
Personnel services	4,303,781
Materials and supplies	1,604,005
Utilities	100,506
Contracted services	358,845
Other services and charges	122,502
Depreciation	1,958,541
Total operating expenses	8,448,180
Operating Income	884,083
Nonoperating Revenues (Expenses)	
Investment income	52,762
Loss on sale of assets	(278,675)
Interest expense	(14,746)
Net nonoperating revenues (expenses)	(240,659)
Income Before Transfers	643,424
Transfers In	78,582
Transfers Out	(423,000)
	(344,418)
Change in Net Position	299,006
Net Position, Beginning of Year	5,912,700
Net Position, End of Year	\$ 6,211,706

City of Conway, Arkansas
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2014

	Business-Type Activities – Enterprise Fund
Operating Activities	
Receipts from customers	\$ 9,298,335
Payments to employees	(4,290,543)
Payments to suppliers	(1,498,576)
	3,509,216
 Noncapital Financing Activities	
Transfers to other funds	(344,418)
	(344,418)
 Capital and Related Financing Activities	
Purchase of capital assets	(1,228,777)
Proceeds from the sale of capital assets	106,000
Other	25,429
Principal paid on long-term debt	(399,286)
Interest paid on long-term debt	(14,746)
	(1,511,380)
 Investing Activities	
Interest income	52,762
	52,762
 Increase in Cash and Cash Equivalents	1,706,180
Cash and Cash Equivalents, Beginning of Year	6,297,954
Cash and Cash Equivalents, End of Year	\$ 8,004,134
 Presented on the Statement of Fund Net Position – Proprietary Funds as Follows:	
Current assets	
Cash and cash equivalents	\$ 2,527,704
Noncurrent assets	
Restricted cash and cash equivalents	5,476,430
	\$ 8,004,134

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

Operating income	\$	884,083
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense		1,958,541
Changes in assets and liabilities		
Due to/due from other funds, net		67,899
Accounts payable		40,242
Accrued expenses		<u>558,451</u>
Net cash provided by operating activities	\$	<u><u>3,509,216</u></u>

City of Conway, Arkansas
Statement of Fiduciary Net Position – Fiduciary Funds
December 31, 2014

	Nonuniformed Employees' Pension Plan	Agency Funds
Assets	<hr/>	<hr/>
Cash and cash equivalents	\$ 718,688	\$ 410,328
Investments		
Corporate bonds	838,997	-
Bond funds	1,476,572	-
Equities	5,118,571	
Equity funds	2,148,646	-
Receivables		
Taxes receivable from general fund	439,036	-
Due from other funds	42,004	-
Interest and dividends	9,199	-
	<hr/>	<hr/>
Total assets	<u>10,791,713</u>	<u>410,328</u>
Liabilities		
Due to others	<hr/> -	<hr/> 410,328
Total liabilities	<hr/> -	<u><u>\$ 410,328</u></u>
Net Position		
Net position restricted for pensions	<u><u>\$ 10,791,713</u></u>	

City of Conway, Arkansas
Statement of Changes in Fiduciary Net Position – Fiduciary Funds
Year Ended December 31, 2014

	Nonuniformed Employees' Pension Plan
Additions	
Contributions	
Employer	\$ 529,837
Plan members	529,837
Property taxes contributed from general fund	399,623
Total contributions	1,459,297
Investment Income:	
Net increase in fair value of investments	401,006
Interest	49,850
Dividends	121,338
	572,194
Less investment expense	58,111
Net investment income	514,083
Total additions	1,973,380
Deductions	
Benefits paid directly to participants	1,224,717
Refunds of contributions	53,856
Administrative expense	3,079
Total deductions	1,281,652
Change in Net Position	691,728
Net Position Restricted for Pensions, Beginning of Year	10,099,985
Net Position Restricted for Pensions, End of Year	\$ 10,791,713

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

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

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

Reporting Entity

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

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

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

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, 2014

Government-Wide and Fund Financial Statements

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

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.

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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.

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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, 2014, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Investments and Investment Income

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

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.

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Capital Assets

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

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

Capital assets are depreciated using the straight-line method over their estimated useful lives ranging from 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.

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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 and grant revenues in the governmental funds.

Fund Balance – Governmental Funds

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

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

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

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

The City considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The City applies unassigned amounts when an expenditure is incurred for purposes for which the amount in the unrestricted fund balance classification 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.

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Adoption of New Accounting Standard

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, for 2014. The objective of this statement is to improve financial reporting by state and local governmental pension plans. For defined benefit pension plans, this statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer-contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented.

The statement resulted from a comprehensive review of the effectiveness of previously existing standards of accounting and financial reporting for pensions with regard to providing decision useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, as they relate to pension plans that are administered through trusts or equivalent arrangements.

Adoption of GASB No. 67 had no effect on net position restricted for pensions or net increase (decrease) in net position. It did, however, change required footnote disclosures and information required to be reported as required supplementary information for the City. This information has been added to *Note 10* and to the required supplementary information, as required.

New Governmental Accounting Standards Board (GASB) Pronouncements

GASB has issued the following statements which the City has not yet adopted and which require adoption subsequent to December 31, 2014:

GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27

This statement replaces requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, 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.

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GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68

This statement addresses an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of GASB No. 71 are required to be applied simultaneously with the provisions of GASB No. 68.

GASB Statement No. 72, Fair Value Measurement and Application

This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The provisions of GASB No. 72 are effective for periods beginning after June 15, 2015, and would be applied on a retroactive basis. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

This statement replaces GASB No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace requirements for those plans previously followed in GASB No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, GASB No. 43 and GASB No. 50, *Pension Disclosures*. The statement is intended to provide additional information to enhance decision-making, support accountability and create additional transparency in the accounting and financial reporting for these plans. This statement is effective for periods beginning after June 15, 2016. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

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GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

This statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures. This statement also identifies methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to the actuarial present value and attribute the present value to periods of employee service. It replaces the requirements of GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* for GASB No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement, which will result in more robust disclosures and notes, is effective for periods beginning after June 15, 2017. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

GASB Statement No. 77, Tax Abatement Disclosures

This statement includes the disclosure of additional information allowing financial statement users to be better equipped to understand how tax abatements affect a government's future ability to raise resources and meet its financial obligations and understand the impact that those abatements have on the government's financial position and economic condition. This Statement is effective for periods beginning after December 15, 2015. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

GASB Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73

This statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement is effective for periods beginning after June 15, 2016, except in certain circumstances which extend the application date to the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

Note 2: Deposits and Investments

Deposits

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

State law requires that deposits in financial institutions be collateralized with federal depository insurance and other acceptable collateral in specific amounts. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

At December 31, 2014, the City's deposits were fully collateralized and, therefore, were not exposed to custodial credit risk. At December 31, 2014, none of City's component units' bank balances were uninsured or uncollateralized.

Investments

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

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

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

City of Conway, Arkansas
Notes to Financial Statements
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Investments at December 31, 2014, consisted of the following:

Type	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Corporate bonds	\$ 838,997	\$ 79,808	\$ 463,099	\$ 296,090	\$ -
Money market mutual funds	<u>2,950,162</u>	<u>2,950,162</u>	<u>-</u>	<u>-</u>	<u>-</u>
	3,789,159	<u>\$ 3,029,970</u>	<u>\$ 463,099</u>	<u>\$ 296,090</u>	<u>\$ -</u>
Equities	5,118,571				
Equity funds	<u>2,148,646</u>				
	<u>\$ 11,056,376</u>				

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

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 AA-/A1
Money market mutual funds	S&P/Moody’s	AAA/Aaa

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

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

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

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

Summary of Carrying Values

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

	Primary Government	Component Units
Carrying value		
Deposits	\$ 19,546,933	\$ 51,111,165
Investments	11,056,376	-
	\$ 30,603,309	\$ 51,111,165
Included in the following statement of net position captions		
Cash and cash equivalents	\$ 11,537,046	\$ 12,889,290
Certificates of deposit	-	32,197,053
Restricted cash and cash equivalents – current	1,988,412	-
Restricted cash and cash equivalents – noncurrent	6,366,049	6,024,822
Included in the following fiduciary net assets captions		
Cash and cash equivalents	1,129,016	-
Investments	9,582,786	-
	\$ 30,603,309	\$ 51,111,165

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	\$ 4,282,412	\$ 1,522,046	\$ -	\$ -	\$ 39,503	\$ 5,843,961
Sales taxes	2,837,495	45,416	298,580	-	1,070,078	4,251,569
State insurance turnback	123,747	320,401	-	-	-	444,148
Grants receivable	567,254	-	-	2,145,814	202,750	2,915,818
Other receivables	511,826	-	20,352	-	-	532,178
Gross receivable	8,322,734	1,887,863	318,932	2,145,814	1,312,331	13,987,674
Allowance	(195,815)	(72,142)	-	-	-	(267,957)
Net receivable	\$ 8,126,919	\$ 1,815,721	\$ 318,932	\$ 2,145,814	\$ 1,312,331	\$ 13,719,717

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

Note 4: Capital Assets

A summary of changes in capital assets for the year ended December 31, 2014, is presented below:

Governmental Activities	Balance, December 31, 2013	Additions and Transfers, Net	Retirements and Transfers, Net	Balance, December 31, 2014
Capital assets, nondepreciable				
Land	\$ 16,336,204	\$ 373,794	\$ -	\$ 16,709,998
Construction in progress	25,553,400	17,809,695	1,828,524	41,534,571
Total capital assets, nondepreciable	<u>41,889,604</u>	<u>18,183,489</u>	<u>1,828,524</u>	<u>58,244,569</u>
Capital assets, depreciable				
Buildings and improvements	47,391,872	3,054,299	-	50,446,171
Equipment	29,923,890	1,276,050	1,048,918	30,151,022
Infrastructure	127,911,218	-	-	127,911,218
Total capital assets, depreciable	<u>205,226,980</u>	<u>4,330,349</u>	<u>1,048,918</u>	<u>208,508,411</u>
Less accumulated depreciation				
Buildings and improvements	8,564,963	1,430,115	-	9,995,078
Equipment	20,324,469	2,394,867	933,582	21,785,754
Infrastructure	52,192,042	3,728,069	-	55,920,111
Total accumulated depreciation	<u>81,081,474</u>	<u>7,553,051</u>	<u>933,582</u>	<u>87,700,943</u>
Total governmental activities, net	<u>\$ 166,035,110</u>	<u>\$ 14,960,787</u>	<u>\$ 1,943,860</u>	<u>\$ 179,052,037</u>
Business-Type Activities	Balance, December 31, 2013	Additions and Transfers, Net	Retirements and Transfers, Net	Balance, December 31, 2014
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	11,650,261	1,226,771	845,125	12,031,907
Infrastructure	1,623,347	-	-	1,623,347
Total capital assets, depreciable	<u>16,798,262</u>	<u>1,226,771</u>	<u>845,125</u>	<u>17,179,908</u>
Less accumulated depreciation				
Buildings and improvements	1,731,702	108,190	-	1,839,892
Equipment	5,848,333	1,797,574	437,029	7,208,878
Infrastructure	444,284	52,779	-	497,063
Total accumulated depreciation	<u>8,024,319</u>	<u>1,958,543</u>	<u>437,029</u>	<u>9,545,833</u>
Total business-type activities, net	<u>\$ 9,788,275</u>	<u>\$ (731,772)</u>	<u>\$ 408,096</u>	<u>\$ 8,648,407</u>

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

Component Unit	Balance, December 31, 2013	Additions and Transfers, Net	Retirements and Transfers, Net	Balance, December 31, 2014
Capital assets, nondepreciable				
Land and land rights	\$ 18,845,882	\$ 207,228	\$ 2,670	\$ 19,050,440
Construction in progress	<u>109,090,461</u>	<u>17,135,974</u>	<u>113,185,780</u>	<u>13,040,655</u>
Total capital assets, nondepreciable	<u>127,936,343</u>	<u>17,343,202</u>	<u>113,188,450</u>	<u>32,091,095</u>
Capital assets, depreciable				
Building and improvements	189,916,632	119,270,894	9,526,985	299,660,541
Equipment	156,277,141	7,155,151	645,775	162,786,517
Undivided interest in coal-fired generating plants	<u>46,261,511</u>	<u>584,887</u>	<u>-</u>	<u>46,846,398</u>
Total capital assets, depreciable	<u>392,455,284</u>	<u>127,010,932</u>	<u>10,172,760</u>	<u>509,293,456</u>
Less accumulated depreciation	<u>196,882,579</u>	<u>15,217,933</u>	<u>6,704,845</u>	<u>205,395,667</u>
Total component unit, net	<u><u>\$ 323,509,048</u></u>	<u><u>\$ 129,136,201</u></u>	<u><u>\$ 116,656,365</u></u>	<u><u>\$ 335,988,884</u></u>

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

Governmental activities	
General administration	\$ 547,818
Airport	42,950
Fire	1,201,507
Highways and streets	4,015,912
Parks and recreation	1,012,247
Law enforcement	<u>711,465</u>
Total depreciation expense	<u>7,531,899</u>
Business-type activities	
Sanitation	<u>1,958,541</u>
Total depreciation expense	<u>1,958,541</u>
Total depreciation expense, primary government	<u><u>\$ 9,490,440</u></u>

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

Note 5: Long-Term Liabilities

Changes in long-term liabilities for the year ended December 31, 2014, were as follows:

Governmental Activities	Balance December 31, 2013	Increases	Decreases	Balance December 31, 2014	Amounts Due in One Year
Bonds payable	\$ 26,150,000	\$ -	\$ 2,285,000	\$ 23,865,000	\$ 2,250,000
Unamortized discount/premium	89,514	-	1,903	87,611	-
Notes payable	2,261,762	7,200,000	1,161,762	8,300,000	600,000
Leases payable	672,633	-	48,341	624,292	52,071
Compensated absences	1,686,481	1,307,169	758,916	2,234,734	758,916
Net pension obligation	<u>3,161,985</u>	<u>1,702,985</u>	<u>631,919</u>	<u>4,233,051</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 34,022,375</u>	<u>\$ 10,210,154</u>	<u>\$ 4,887,841</u>	<u>\$ 39,344,688</u>	<u>\$ 3,660,987</u>
Business-Type Activities	Balance December 31, 2013	Increases	Decreases	Balance December 31, 2014	Amounts Due in One Year
Notes payable	\$ 809,873	\$ -	\$ 399,286	\$ 410,587	\$ 410,587
Compensated absences	187,666	114,318	90,080	211,904	90,080
Net pension obligation	1,488,827	801,854	297,541	1,993,140	-
Estimated liability for landfill closure and postclosure care costs	<u>8,408,471</u>	<u>47,613</u>	<u>-</u>	<u>8,456,084</u>	<u>-</u>
Total business-type activities long-term liabilities	<u>\$ 10,894,837</u>	<u>\$ 963,785</u>	<u>\$ 786,907</u>	<u>\$ 11,071,715</u>	<u>\$ 500,667</u>
Component Unit – Conway Corporation	Balance December 31, 2013	Increases	Decreases	Balance December 31, 2014	Amounts Due in One Year
Bonds payable	\$ 121,586,930	\$ 15,743,103	\$ 12,139,627	\$ 125,190,406	\$ 3,796,515
Unamortized discount/premium	32,495	14,903	1,197	46,201	-
Notes payable	643,148	-	14,261	628,887	17,214
Postemployment benefits	<u>1,157,012</u>	<u>-</u>	<u>-</u>	<u>1,157,012</u>	<u>-</u>
Total component unit long-term liabilities	<u>\$ 123,419,585</u>	<u>\$ 15,758,006</u>	<u>\$ 12,155,085</u>	<u>\$ 127,022,506</u>	<u>\$ 3,813,729</u>

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

Bonds outstanding at December 31, 2014, were as follows:

	Interest Rates	Final Maturity	Original Issue	Total Outstanding
<i>Governmental Activities</i>				
Restaurant Tax Bonds, Series 2007	4–5%	2028	\$ 14,100,000	\$ 10,670,000
Franchise Fee Revenue Bonds, Series 2008	6.25%	2019	2,220,000	760,000
Franchise Fee Revenue Bonds, Series 2012	1–3.75%	2030	4,440,000	3,960,000
Sales and Use Tax Bonds, Series 2012	2–2.75%	2021	11,255,000	8,475,000
				<u>\$ 23,865,000</u>
	Interest Rates	Final Maturity	Original Issue	Total Outstanding
<i>Component Unit – Conway Corporation</i>				
Sewer Revenue Bonds, Series 1992	3.00%	2015	\$ 13,700,000	\$ 442,750
Wastewater Revenue Bonds, Series 2010	2–4.625%	2040	14,955,000	13,640,000
Water Revenue Bonds, Series 2010	2.5–4%	2023	13,100,000	11,230,000
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	64,967,656
Wastewater Revenue Bonds, Series 2014	2–3.25%	2029	9,980,000	9,910,000
				<u>\$ 125,190,406</u>

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. Principal and interest paid for the current year and total restaurant gross receipts tax revenues were approximately \$1,050,000 and \$2,870,000, respectively.

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.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

Electric Franchise Fee Revenue Bonds, Series 2008 – The City issued \$2,220,000 Electric Franchise 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. Principal and interest paid for the current year and total electric franchise fee revenues were approximately \$200,000 and \$610,000, respectively. 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. Principal and interest paid for the current year and total franchise fee revenues were approximately \$320,000 and \$2,590,000, respectively. 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.

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. Principal and interest paid for the current year and total related sales tax revenues were approximately \$1,620,000 and \$1,610,000, respectively.

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 semiannually through maturity on April 15, 2015.

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 semiannually through maturity on October 1, 2040.

City of Conway, Arkansas
Notes to Financial Statements
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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 semiannually through maturity on December 1, 2023.

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 semiannually 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.

Wastewater Revenue Bonds, Series 2014 – Bonds in the amount of \$9,980,000 were issued with varying interest rates from 1.00% to 3.25% to accomplish a current refunding of the 2009 Series Bonds. Principal and interest are payable semiannually and are due on October 1, 2029.

Notes Payable

Notes payable at December 31, 2014, were as follows:

Governmental Activities

- A \$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%.
- A \$6,500,000 promissory note was issued by the City in February 2014 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. At December 31, 2014, only \$5,000,000 of the funds had been received by the City.
- A \$3,000,000 promissory note was issued by the City in May 2014 to finance the construction of a street project. The promissory note has an interest rate of 1.92% and is due May 2019. At December 31, 2014, only \$1,700,000 of the funds had been received by the City.

Business-Type Activities

- A \$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%.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

Component Unit – Conway Corporation

- A \$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, 2014, were as follows:

- A \$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 \$600,000 as of December 31, 2014.

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, 2014:

Governmental Activities

Fiscal Year	Principal	Interest	Total
2015	\$ 2,902,071	\$ 1,033,933	\$ 3,936,004
2016	2,977,098	950,961	3,928,059
2017	2,942,457	872,892	3,815,349
2018	9,123,168	798,432	9,921,600
2019	2,509,251	589,922	3,099,173
2020–2024	7,103,509	1,923,188	9,026,697
2025–2029	4,565,000	657,006	5,222,006
2030–2034	895,000	11,625	906,625
	<u>\$ 33,017,554</u>	<u>\$ 6,837,959</u>	<u>\$ 39,855,513</u>

Business-Type Activities

Fiscal Year	Principal	Interest	Total
2015	\$ 410,587	\$ 11,620	\$ 422,207
	<u>\$ 410,587</u>	<u>\$ 11,620</u>	<u>\$ 422,207</u>

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

Component Unit – Conway Corporation

Fiscal Year	Principal	Interest	Total
2015	\$ 3,813,729	\$ 3,270,777	\$ 7,084,506
2016	5,469,291	4,293,890	9,763,181
2017	5,619,259	4,141,924	9,761,183
2018	5,807,014	3,980,186	9,787,200
2019	5,977,651	3,800,651	9,778,302
2020–2024	31,155,440	16,014,749	47,170,189
2025–2029	30,011,738	10,983,016	40,994,754
2030–2034	31,291,227	5,670,927	36,962,154
2035–2039	10,866,288	1,175,554	12,041,842
2040	840,000	38,850	878,850
	<u>130,851,637</u>	<u>53,370,524</u>	<u>184,222,161</u>
Less amounts to be drawn by the Corporation after December 31, 2014	<u>5,032,344</u>	<u>-</u>	<u>5,032,344</u>
	<u>\$ 125,819,293</u>	<u>\$ 53,370,524</u>	<u>\$ 179,189,817</u>

Note 6: Construction Commitments

At December 31, 2014, the City had the following commitments:

	Project Authorization	Expended Through December 31, 2014	Remaining Commitment
Western Loop Street Project	\$ 7,050,000	\$ 1,919,378	\$ 5,130,622
New Airport – T-hangar	1,955,862	1,898,500	57,362
New Airport – Community Hangar	649,902	433,904	215,998
New Airport – Fuel System	345,114	207,304	137,810
New Airport – Perimeter Fence	892,342	765,409	126,933
New Airport – Utility Construction	318,730	260,773	57,957
New Airport – Access Road	1,597,814	1,617,488	(19,674)
New Airport – Paving Stage 1	1,162,457	1,130,742	31,715
New Airport – Paving Stage 2 and Lighting	4,947,752	4,751,047	196,705
Total	<u>\$ 18,919,973</u>	<u>\$ 12,984,545</u>	<u>\$ 5,935,428</u>

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

Note 7: Interfund Balances and Transfers

Interfund receivables and payables as of December 31, 2014, are as follows:

	Interfund Receivables	Interfund Payables
General fund	\$ 314,569	\$ 185,451
Street fund	175,925	19,565
Other governmental funds	13,399	387,379
Sanitation fund	159,968	113,470
Fiduciary fund	42,004	-
	\$ 705,865	\$ 705,865

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, 2014, are as follows:

	Transfers Out				
	Governmental Funds			Proprietary Fund	
	Transfers In	General Fund	Debt Service	Other Funds	Sanitation Fund
Governmental funds					
General fund	\$ -	\$ -	\$ -	\$ 423,000	\$ 423,000
Debt service fund	-	-	1,587,979	-	1,587,979
Airport grant fund	2,575,168	-	-	-	2,575,168
Other funds	45,497	499,596	-	-	545,093
Proprietary fund					
Sanitation fund	-	-	78,582	-	78,582
	\$ 2,620,665	\$ 499,596	\$ 1,666,561	\$ 423,000	\$ 5,209,822

During the year, transfers are used to move sanitation fees to the general fund and to move general funds to the airport grant fund for construction costs. Further, during 2014, 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, 2014

Note 8: Fund Balances

The City classified governmental fund balances as follows:

Fund Balances	General Fund	Street Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:					
Prepays	\$ 34,981	\$ -	\$ -	\$ 984,297	\$ 1,019,278
Restricted					
Debt service	-	-	2,717,008	-	2,717,008
Street maintenance	-	3,500,215	-	-	3,500,215
Street capital projects	-	-	-	3,050,089	3,050,089
Parks and recreation capital projects	-	-	-	1,014,683	1,014,683
Special projects	-	-	-	1,880,450	1,880,450
Unassigned	5,022,543	-	-	(1,133,423)	3,889,120
Total Fund Balances	<u>\$ 5,057,524</u>	<u>\$ 3,500,215</u>	<u>\$ 2,717,008</u>	<u>\$ 5,796,096</u>	<u>\$ 17,070,843</u>

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 expired 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 \$815,000 during the year ended December 31, 2014. At December 31, 2014, 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, 2014

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 \$1,560,000 in franchise fees. At December 31, 2014, the Electric Department was indebted to the City in the amount of approximately \$110,000, 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 \$8,635,000 to the City in gross receipts during the year ended December 31, 2014. At December 31, 2014, the Corporation was indebted to the Sanitation Department in the amount of approximately \$880,000, which is recorded as due from component units.

The City paid the Corporation approximately \$803,000 during 2014 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 \$2,870,000 to the City during the year ended December 31, 2014. At December 31, 2014, the Commission was indebted to the City in the amount of approximately \$470,000, which is recorded as due from component units.

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. Disclosures herein include those required under GASB No. 27 for all plans and those required under GASB No. 67 for only the Nonuniformed Plan.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

Membership of each plan consisted of the following at December 31, 2014:

	Policemen's Pension and Relief Plan	Firemen's Pension and Relief Plan	Nonuniformed Employees' Defined Benefit Pension Plan
Inactive plan members or beneficiaries receiving benefits	40	26	82
Inactive plan members entitled to but not yet receiving benefits	0	0	5
Active plan members	0	0	241
Members on Deferred Retirement Option Plan (DROP)	0	1	0
Total	<u>40</u>	<u>27</u>	<u>328</u>

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 2014. The participants contributed 6% of their salaries in 2014. Participant contributions are returned without interest if the participant terminates covered employment. Participant contributions are returned without interest if the participant terminates covered employment. Administrative costs are financed by the Policemen's Plan.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

As of December 31, 2014, the most recent actuarial valuation date, the Policemen's Pension and Relief Plan was 48% funded. The actuarial accrued liability for benefits was \$9,973,475 and the actuarial value of assets was \$4,783,165, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,190,310. The covered payroll (annual payroll of active employees covered by the plan) was \$5,381,191 and the ratio of the UAAL to the covered payroll was 96%.

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.

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 LOPFI 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 2014. The participants contributed 6% of their salaries in 2014. 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, 2014, the most recent actuarial valuation date, the Firemen's Pension and Relief Plan was 36% funded. The actuarial accrued liability for benefits was \$8,721,541 and the actuarial value of assets was \$3,096,297 resulting in a UAAL of \$5,625,244. The covered payroll (annual payroll of active employees covered by the plan) was \$5,281,794 and the ratio of the UAAL to the covered payroll was 107%.

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 LOPFI, 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.

City of Conway, Arkansas
Notes to Financial Statements
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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 a 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%.

	Policemen's Pension and Relief Plan	Firemen's Pension and Relief Plan	Nonuniformed Employees' Defined Benefit Pension Plan
Annual required contribution	\$ 607,129	\$ 654,541	\$ 2,526,083
Interest on net pension obligation	-	-	302,303
Adjustment to annual required contribution	-	-	(323,547)
Annual pension cost	<u>607,129</u>	<u>654,541</u>	<u>2,504,839</u>
Contributions made	<u>607,129</u>	<u>654,541</u>	<u>929,460</u>
Increase in net pension obligation	-	-	1,575,379
Net pension obligation at beginning of the year	<u>-</u>	<u>-</u>	<u>4,650,812</u>
Net pension obligation at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,226,191</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, 2014.

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.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

	Policemen's Pension and Relief Fund	Firemen's Pension and Relief Fund	Nonuniformed Employees' Defined Benefit Pension Plan
Actuarial valuation date	12/31/2014	12/31/2014	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	11 years	11 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

For the Nonuniformed Employees' Defined Benefit Pension Plan, mortality rates were based on the RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB.

Three-Year Trend Information

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Policemen's Fund	12/31/2014	\$ 654,541	100%	\$ -
	12/31/2013	598,684	100%	-
	12/31/2012	379,250	100%	-
Firemen's Fund	12/31/2014	\$ 307,129	100%	\$ -
	12/31/2013	489,539	100%	-
	12/31/2012	477,305	100%	-
Nonuniformed Employees' Defined Benefit Pension Plan	12/31/2014	\$ 2,504,839	37%	\$ 6,226,191
	12/31/2013	1,585,812	57%	3,210,180
	12/31/2012	1,473,145	54%	2,527,299

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

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

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.

Net Pension Liability (Nonuniformed Plan only)

The components of the net pension liability of the City at December 31, 2014, and the total pension liability used to calculate the net pension liability were determined by an actuarial valuation as of January 1, 2015 and were as follows:

Year	Total Pension Liability	Plan Fiduciary Net Position	City's Pension Liability	Net	Plan Fiduciary Net Position as a % of Total Pension Liability
2014	\$ 43,008,659	\$ 10,791,713	\$ 32,216,946		25.09%

Long-Term Expected Return on Plan Assets (Nonuniformed Plan only)

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. Best estimates of arithmetic real rates of return for each major asset class included in the nonuniformed plan's asset allocation as of December 31, 2014, are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and cash equivalents	11%	-0.30%
Corporate bonds	8%	0.60%
Equities	81%	5.60%

Discount Rate (Nonuniformed Plan only)

In the January 1, 2015, actuarial valuation, a single discount rate of 3.88% was used to measure the total pension liability based on the expected rate of return on pension plan investments of 6.5% and a municipal bond rate of 3.65%. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members until 2026. Therefore, a single discount rate of 3.88% was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2014.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (Nonuniformed Plan only)

The following table presents the net pension liability of the City using the current rate as compared to what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage higher than the current rate:

Sensitivity of the Net Position Liability to the Single Discount Rate Assumption			
	1% Decrease	Current Single Rate Assumption	1% Increase
	2.88%	3.88%	4.88%
Net Pension Liability	\$ 38,620,524	\$ 32,216,946	\$ 26,978,978

Money-Weighted Rate of Return (Nonuniformed Plan only)

The annual money-weighted rate of return on pension plan investments is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense, adjusted for the changing amounts actually invested. The money-weighted rate of return is shown in the table below:

	Year	Annual Return
Annual money-weighted rate of return, net of investment expense	2014	5.60%

Cost Sharing Multiple-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, 2014

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 36.24% for participating policemen and 31.04% for participating firemen. Employer contributions totaled \$2,092,139, \$2,200,155 and \$1,759,415 for the years ended December 31, 2014, 2013 and 2012, respectively.

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 \$1,767,000, \$1,528,000 and \$1,716,000 for the years ended December 31, 2014, 2013 and 2012, respectively. There was no net pension obligation at December 31, 2014, 2013 or 2012.

Funded Status and Funding Progress: As of August 1, 2014, the most recent actuarial valuation date, the funded status was as follows:

Actuarial accrued liability (AAL)	\$ 24,603,161
Actuarial value of plan assets	<u>22,061,645</u>
Unfunded actual accrued liability (UAAL)	<u><u>\$ 2,541,516</u></u>
Funded ratio (actuarial value of plan assets/AAL)	89.7%
Covered payroll (active plan members)	\$ 12,887,004
UAAL as a percentage of covered payroll	19.7%

Actuarial Methods and Assumptions: In the August 1, 2014, 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 3% 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, 2014, was 20 years.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

Section 457 Deferred Compensation Plan

The Conway Corporation 457 Supplemental Retirement Plan was formed, effective January 1, 2000, as a supplemental defined contribution retirement program for employees. Employee participation in this plan is optional. The Corporation makes matching contributions for eligible employees who elect to participate up to 25% of the first 3% of each participant's gross pay. Matching contributions for all Corporation employees for the years ended December 31, 2014, totaled \$80,483.

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.

Annual OPEB Cost and Net OPEB Obligation: The Corporation's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (GASB No. 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 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	\$ 189,231
Interest on net OPEB obligation	34,710
Adjustment to annual required contribution	<u>(38,567)</u>
Annual OPEB cost	185,374
Contributions made	<u>(30,000)</u>
Increase in net OPEB obligation	155,374
Net OPEB – beginning of year	<u>1,157,012</u>
Net OPEB – end of year	<u><u>\$ 1,312,386</u></u>

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

The Corporation's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014, 2013 and 2012 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	\$ 184,164	27.1%	\$ 1,005,380
12/31/2013	177,632	14.6%	1,157,012
12/31/2014	185,374	16.2%	1,312,386

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

Actuarial accrued liability (AAL)	\$ 2,274,532
Actuarial value of plan assets	<u>-</u>
Unfunded actual accrued liability (UAAL)	<u>\$ 2,274,532</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 12,887,004
UAAL as a percentage of covered payroll	17.6%

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 6.4%, reduced by decrements to an ultimate rate of 4.5% after 85 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 January 1, 2013, is 30 years.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

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 2013 to 2014; 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, 2014

The estimated liability for landfill closure and postclosure care costs was approximately \$8,456,084 as of December 31, 2014, 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 postclosure care. The City Council approved the establishment of a trust fund in which annual contributions would be made, commencing in 2003. At December 31, 2014, the trust held funds of approximately \$5,476,430. 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, 2014, the aggregate principal amount payable on these bonds was approximately \$140,543,605.

Note 17: Subsequent Events

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 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 June 26, 2016, the City obtained a loan in the amount of \$2,000,000 for the purchase of certain property. The loan has an interest rate of 2.25% and is due in full upon the lender's demand. If no demand is made, the final payment will be due June 2021. At June 30, 2016, only \$1,200,000 of the funds had been received by the City.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2014

Component Unit – Conway Corporation

On May 1, 2015, the Series 2015 Water Revenue Refunding Bonds in the amount of \$10,185,000 were issued for the purpose of refunding the Corporation's outstanding Series 2010 Water Revenue Bonds. The Series 2015 Water Revenue Refunding Bonds have a varying interest rate from 2% to 4% and are due December 2023.

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 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 Corporation'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 Corporation'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
Schedules of Funding Progress
Year Ended December 31, 2014

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
Primary Government							
Nonuniformed Employees' Defined Benefit Pension Plan	1/1/2014	\$ 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	12/31/2014	\$ 3,096,297	\$ 8,721,541	\$ 5,625,244	36%	\$ 5,281,794	107%
	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%
Policemen's Pension and Relief Plan	12/31/2014	\$ 4,783,165	\$ 9,973,475	\$ 5,190,310	48%	\$ 5,381,191	96%
	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%
Discretely Presented Component Units							
The Retirement Plan of Conway Corporation	8/1/2014	\$ 22,061,645	\$ 24,603,161	\$ 2,541,516	90%	\$ 12,887,004	20%
	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%
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
Defined Benefit Pension Plan
Schedule of City Contributions (Nonuniformed Plan only)
Year Ended December 31, 2014

Year	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	\$ 2,526,083	\$ 929,460	\$ 1,596,623	\$ 8,638,180	10.76%

Note: A full 10-year schedule will be completed as information is available.

City of Conway, Arkansas
Defined Benefit Pension Plan
Schedule of Changes in the City's Net Pension Liability
and Related Ratios (Nonuniformed Plan only)
Year Ended December 31, 2014

Total Pension Liability	
Service cost	\$ 2,313,305
Interest	1,744,947
Benefit changes	-
Difference between actual & expected experience	-
Assumption changes	5,707,257
Benefit payments	(1,224,717)
Refunds	<u>(53,856)</u>
Net Change in Total Pension Liability	8,486,936
Total Pension Liability – Beginning	<u>34,521,723</u>
Total Pension Liability – Ending (a)	<u><u>\$ 43,008,659</u></u>
Plan Fiduciary Net Position	
Contributions – employer	\$ 929,460
Contributions – member	529,837
Net investment income	514,083
Benefit payments	(1,224,717)
Refunds	(53,856)
Administrative expense	<u>(3,079)</u>
Net Change in Plan Fiduciary Net Position	691,728
Plan Fiduciary Net Position – Beginning	<u>10,099,985</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 10,791,713</u></u>
City's Net Pension Liability (a) – (b)	\$ 32,216,946
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	25.09%
Covered Employee Payroll	\$ 8,638,180
City's Net Pension Liability as a Percentage of Covered Employee Payroll	372.96%

Note: A full 10-year schedule will be completed as information is available.

City of Conway, Arkansas
Defined Benefit Pension Plan
Schedule of Investment Returns (Nonuniformed Plan only)
Year Ended December 31, 2014

	<u>Year</u>	<u>Annual Return</u>
Annual money-weighted rate of return, net of investment expense	2014	5.60%

Note: A full 10-year schedule will be completed as information is available.

City of Conway, Arkansas
Budgetary Comparison Schedule
General Fund
Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
General property taxes	\$ 2,985,000	\$ 2,985,000	\$ 2,630,564	\$ (354,436)
Sales and use taxes	17,770,000	17,770,000	17,996,841	226,841
Licenses and permits	539,000	539,000	400,756	(138,244)
Charges for services	493,500	674,332	1,569,894	895,562
Fines and forfeitures	1,325,000	1,324,744	1,453,669	128,925
Franchise fees	2,655,000	2,655,000	2,585,280	(69,720)
Intergovernmental	2,373,402	2,373,402	2,869,045	495,643
Investment income	5,200	5,200	30,912	25,712
Miscellaneous	411,800	939,085	567,113	(371,972)
Total revenues	28,557,902	29,265,763	30,104,074	838,311
Expenditures				
General government	6,214,883	6,494,589	5,876,310	618,279
Police	10,919,059	11,220,795	10,991,885	228,910
Fire	9,101,029	9,177,351	9,015,169	162,182
Parks and recreation	2,821,640	2,838,588	2,360,598	477,990
Airport	32,500	32,500	341,033	(308,533)
Capital outlay	-	5,056,825	4,770,305	286,520
Debt service	-	-	81,894	(81,894)
Total expenditures	29,089,111	34,820,648	33,437,194	1,383,454
Excess (Deficiency) of Revenues Over Expenditures	(531,209)	(5,554,885)	(3,333,120)	2,221,765
Other Financing Sources (Uses)				
Bonds issued	-	5,000,000	5,000,000	-
Transfers in	423,000	423,000	423,000	-
Transfers out	-	-	(2,620,665)	(2,620,665)
Total other financing sources	423,000	5,423,000	2,802,335	(2,620,665)
Net Change in Fund Balances	(108,209)	(131,885)	(530,785)	(398,900)
Fund Balances, Beginning of Year	5,588,309	5,588,309	5,588,309	-
Fund Balances, End of Year	\$ 5,480,100	\$ 5,456,424	\$ 5,057,524	\$ (398,900)

City of Conway, Arkansas
Budgetary Comparison Schedule
Street Fund
Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
General property taxes	\$ 1,465,000	\$ 1,465,000	\$ 1,362,853	\$ (102,147)
Sales and use taxes	245,000	245,000	246,684	1,684
Licenses and permits	500	500	240	(260)
Charges for services	10,000	10,000	10,600	600
Intergovernmental	3,652,296	3,652,296	3,510,093	(142,203)
Investment income	3,500	3,500	19,207	15,707
Miscellaneous	-	42,929	399,718	356,789
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	5,376,296	5,419,225	5,549,395	130,170
Expenditures				
Public works	5,087,296	5,350,754	4,000,558	1,350,196
Capital outlay	289,000	394,000	469,348	(75,348)
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	5,376,296	5,744,754	4,469,906	1,274,848
Net Change in Fund Balances	-	(325,529)	1,079,489	1,405,018
Fund Balances, Beginning of Year	<hr/>	<hr/>	<hr/>	<hr/>
	2,420,726	2,420,726	2,420,726	-
Fund Balances, End of Year	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 2,420,726	\$ 2,095,197	\$ 3,500,215	\$ 1,405,018

City of Conway, Arkansas
Notes to Required Supplementary Information
Year Ended December 31, 2014

Note 1: Defined Benefit Pension Plans

Actuarial Assumptions

	Policemen's Pension and Relief Fund	Firemen's Pension and Relief Fund	Nonuniformed Employees' Defined Benefit Pension Plan
Actuarial valuation date	12/31/2014	12/31/2014	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	11 years	11 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

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 Reports

Independent Accountant'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, 2014.

- (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.

In our opinion, the City of Conway, Arkansas, complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2014.

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
July 11, 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 11, 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, 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 designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free 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*.

We noted certain matters that we reported to the City's management in a separate letter dated July 11, 2016.

Purpose of this Report

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

BKD, LLP

Little Rock, Arkansas
July 11, 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, 2014. 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, 2014.

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
July 11, 2016

City of Conway, Arkansas
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

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	\$ 1,400
Alcohol Impaired Driving Countermeasures Incentive Grants I	U.S. Department of Transportation/AR State Highway Dept.	20.601	13,820
Occupant Protection Incentive Grants	U.S. Department of Transportation/AR State Highway Dept.	20.602	<u>19,418</u>
	Total Highway Safety Cluster		<u>34,638</u>
Community Development Block Grant	U.S. Department of Housing and Urban Development	14.128	325,687
Edward Byrne Memorial Justice Assistance Grant	U.S. Department of Justice	16.738	26,147
Airport Improvement Program	U.S. Department of Transportation	20.106	8,770,386
Homeland Security Grant Program	U.S. Department of Homeland Security/ AR Dept. of Emergency Management	97.067	142,620
Staffing for Adequate Fire and Emergency Response Grant	U.S. Department of Homeland Security	97.083	<u>20,294</u>
Total Expenditures of Federal Awards			<u><u>\$ 9,319,772</u></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, 2014

Summary of Auditor's Results

1. The opinions expressed in the independent auditor's report were:

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 opinion expressed in the independent auditor's report on compliance for major federal awards was:

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, 2014

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, 2014

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
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No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

City of Conway, Arkansas
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2014

Reference Number	Summary of Finding	Status
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No matters are reportable.