

City of Conway, Arkansas

Independent Auditor's Reports and Financial Statements

December 31, 2017



City of Conway, Arkansas
December 31, 2017

Contents

Independent Auditor’s Report..... 1

Management’s Discussion and Analysis 4

Financial Statements

Statement of Net Position 13

Statement of Activities 14

Balance Sheet – Governmental Funds..... 15

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

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

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

Statement of Net Position – Proprietary Funds 19

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

Statement of Cash Flows – Proprietary Funds 21

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

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

Notes to Financial Statements 24

Required Supplementary Information

Other Postemployment Benefits Plan – Schedule of Funding Progress..... 73

Agent Multiple-Employer Plan – Schedule of Changes in the City’s Net Pension Liability
and Related Ratios – FRPF..... 74

Agent Multiple-Employer Plan – Schedule of Contributions – FRPF 75

Agent Multiple-Employer Plan – Schedule of Changes in the City’s Net Pension Liability
and Related Ratios – FRPF..... 76

Agent Multiple-Employer Plan – Schedule of Contributions – FRPF 77

Cost-Sharing Plan – Schedule of the City’s Proportionate Share of the
Net Pension Liability – LOPFI..... 78

Cost-Sharing Plan – Schedule of Contributions – LOPFI..... 79

City of Conway, Arkansas
December 31, 2017

Single Employer Plan – Schedule of Changes in the City’s Net Pension Liability and Related Ratios – Nonuniformed Plan.....	80
Single Employer Plan – Schedule of City Contributions – Nonuniformed Plan.....	81
Single Employer Plan – Schedule of Investment Returns – Nonuniformed Plan.....	82
Single Employer Plan – Schedule of Changes in the Component Unit’s Net Pension Liability and Related Ratios – Conway Corporation Plan.....	83
Single Employer Plan – Schedule of Component Unit Contributions – Conway Corporation Plan	84
Budgetary Comparison Schedule – General Fund.....	85
Budgetary Comparison Schedule – Street Fund.....	86
Note to Required Supplementary Information	87

Other Required Reports

Independent Accountant’s Report on Compliance with Certain State Acts	88
--	-----------

Single Audit Section

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> – Independent Auditor’s Report	89
Report on Compliance for the Major Federal Program and Report on Internal Control over Compliance – Independent Auditor’s Report.....	91
Schedule of Expenditures of Federal Awards	93
Notes to the Schedule of Expenditures of Federal Awards.....	94
Schedule of Findings and Questioned Costs	95
Summary Schedule of Prior Audit Findings	97

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 the City of Conway, Arkansas (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic 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, 2017, 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.

Other Matters

Required Supplementary Information

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

Other 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.

The schedule of expenditures of federal awards is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare 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 September 28, 2018, 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 solely 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 effectiveness of the City's 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
September 28, 2018

City of Conway, Arkansas

Management's Discussion and Analysis

December 31, 2017

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, 2017. Readers should consider the information presented here in conjunction with the City's financial statements that follow this section.

Financial Highlights

- Total assets and deferred outflows of resources of the City exceeded total liabilities and deferred inflows of resources at the close of 2017 by \$134,421,980. Of this amount, \$151,541,467 represents the City's net investment in capital assets; \$17,043,556 is restricted for debt service, capital improvements and other purposes; and there is an unrestricted net deficit of \$34,163,043.
- The City made a transfer to move \$3,000,000 from the Airport Fund to the Sanitation Fund for the repayment of monies moved in prior year.
- The City's reported total net position increased by \$6,610,802 (5.2%) in 2017. Net position of the governmental activities increased \$623,788 (0.6%). Net position of the City's business-type activities, consisting of sanitation and airport operations, increased by \$5,987,014 (20.1%), primarily due to the sale of land owned by the airport.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$27,560,307. The combined governmental funds balances decreased \$728,731 (2.6%) from the prior year. The primary component of this change was related to capital expenditures during 2017. The majority of governmental fund balances (\$17,123,130) are considered restricted to specific purposes at December 31, 2017, and \$10,404,631 is reported as unassigned and can be spent at the discretion of the City Council.
- The General Fund reported fund balance of \$10,597,255 at the end of the current year. The unassigned fund balance for the General Fund was \$10,564,709, or 33.3%, of total General Fund expenditures. There was a \$1,576,346 increase in the total fund balance for the General Fund for the year ended December 31, 2017.
- The City's total debt decreased by \$3,980,521 (7.1%) during the current year. The key factors in this decrease were the scheduled principal payments offset by debt issuance for street projects; sanitation equipment; and a land purchase for parks and recreation in previous years.

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.

City of Conway, Arkansas
Management's Discussion and Analysis
December 31, 2017

The statement of net position presents information on all of the City's assets/ deferred outflows of resources and liabilities/ deferred inflows of resources, 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.

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, and parks and recreation. The business-type activities of the City consists of sanitation operations and municipal airport.

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.

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, 2017

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 and the Debt Service Fund, which are considered to be major funds. Data from the other 21 governmental funds are combined into a single, aggregated presentation.

Proprietary Funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City maintains two enterprise funds, which are 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 and airport operations.

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.

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.

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 and/or Conway Corporation's progress in funding its obligation to provide pension and other postemployment benefits to its employees.

City of Conway, Arkansas
Management's Discussion and Analysis
December 31, 2017

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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$134,421,980 at December 31, 2017.

City of Conway, Arkansas Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 36,171,636	\$ 32,523,749	\$ 13,159,150	\$ 8,284,696	\$ 49,330,786	\$ 40,808,445
Noncurrent assets	-	4,447,290	5,680,766	5,597,552	5,680,766	10,044,842
Capital assets	164,992,174	161,412,635	38,852,367	40,457,036	203,844,541	201,869,671
Total assets	201,163,810	198,383,674	57,692,283	54,339,284	258,856,093	252,722,958
Total deferred outflows of resources	15,485,901	13,138,216	2,025,687	946,349	17,511,588	14,084,565
Total assets and deferred outflows of resources	\$ 216,649,711	\$ 211,521,890	\$ 59,717,970	\$ 55,285,633	\$ 276,367,681	\$ 266,807,523
Current liabilities	\$ 7,356,996	\$ 8,313,843	\$ 1,120,330	\$ 1,355,197	\$ 8,477,326	\$ 9,669,040
Noncurrent liabilities	105,271,004	103,123,373	21,168,935	23,605,976	126,439,939	126,729,349
Total liabilities	112,628,000	111,437,216	22,289,265	24,961,173	134,917,265	136,398,389
Total deferred inflows of resources	5,384,355	2,071,106	1,644,081	526,850	7,028,436	2,597,956
Net position						
Net investment in capital assets	114,818,588	115,085,420	36,722,879	35,003,072	151,541,467	150,088,492
Restricted	17,043,556	15,091,473	-	-	17,043,556	15,091,473
Unrestricted	(33,224,788)	(32,163,325)	(938,255)	(5,205,462)	(34,163,043)	(37,368,787)
Total net position	98,637,356	98,013,568	35,784,624	29,797,610	134,421,980	127,811,178
Total liabilities, deferred inflows of resources and net position	\$ 216,649,711	\$ 211,521,890	\$ 59,717,970	\$ 55,285,633	\$ 276,367,681	\$ 266,807,523

The largest portion of the City's net position (\$151,541,467) 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 (\$17,043,556) represents resources that are subject to restrictions as to how they may be used, and remaining is an unrestricted net deficit of \$34,163,043.

The City's overall net position increased \$6,610,802 from the prior year. The reasons for the overall decrease 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, 2017

City of Conway, Arkansas
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
<i>Program revenues</i>						
Charges for services	\$ 3,837,312	\$ 3,706,446	\$ 10,947,787	\$ 10,301,005	\$ 14,785,099	\$ 14,007,451
Operating grants and contributions	2,152,900	2,128,605	-	-	2,152,900	2,128,605
Capital grants and contributions	2,733,952	3,986,509	435,812	121,914	3,169,764	4,108,423
<i>General revenues</i>						
General property taxes	6,413,021	5,400,774	-	-	6,413,021	5,400,774
Sales and use taxes	28,602,034	27,059,215	-	-	28,602,034	27,059,215
Franchise fees	3,809,083	3,777,743	-	-	3,809,083	3,777,743
General state revenue turnback	942,751	941,369	-	-	942,751	941,369
Investment income	244,592	118,837	111,418	77,103	356,010	195,940
Other	1,107,290	911,026	5,747,199	-	6,854,489	911,026
Total Revenues	49,842,935	48,030,524	17,242,216	10,500,022	67,085,151	58,530,546
Expenses						
General government	8,774,386	11,821,514	-	-	8,774,386	11,821,514
Police	14,058,219	13,871,190	-	-	14,058,219	13,871,190
Fire	11,708,542	11,125,371	-	-	11,708,542	11,125,371
Public works	7,919,827	10,384,270	-	-	7,919,827	10,384,270
Parks and recreation	5,156,540	4,768,667	-	-	5,156,540	4,768,667
Interest expense on long-term debt	2,024,633	1,390,228	-	-	2,024,633	1,390,228
Sanitation	-	-	8,484,659	8,091,741	8,484,659	8,091,741
Airport	-	-	2,347,543	2,139,131	2,347,543	2,139,131
Total Expenses	49,642,147	53,361,240	10,832,202	10,230,872	60,474,349	63,592,112
Increase in net position before transfers	200,788	(5,330,716)	6,410,014	269,150	6,610,802	(5,061,566)
Transfers, net	423,000	2,070,937	(423,000)	(2,070,937)	-	-
Change in Net Position	623,788	(3,259,779)	5,987,014	(1,801,787)	6,610,802	(5,061,566)
Net Position – January 1	98,013,568	101,273,347	29,797,610	31,599,397	127,811,178	132,872,744
Net Position – December 31	\$ 98,637,356	\$ 98,013,568	\$ 35,784,624	\$ 29,797,610	\$ 134,421,980	\$ 127,811,178

Governmental Activities. Governmental activities increased the City's net position by \$623,788 from the prior year for an ending balance of \$98,637,356. The increase was the result of revenues exceeding expenses by \$200,788 in 2017 and net transfers of \$423,000. This is primarily due to an increase of \$2,555,066 in general property taxes and sales and use taxes; a decrease of \$1,252,577 in capital grant contributions; and a decrease of \$3,719,093 in total expenses due to a decrease in general government expenses of \$3,047,128.

Business-Type Activities. Business-type activities decreased the City's net position by \$5,987,014 to an ending net position of \$35,784,624. The increase is primarily due to the sale of airport assets for a net gain of \$5,747,199.

City of Conway, Arkansas
Management's Discussion and Analysis
December 31, 2017

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, 2017, the City's governmental funds reported combined ending fund balances of \$27,560,307, a decrease of \$728,731 during the year. \$17,123,130 is reported as *restricted fund balance* for capital projects and debt service. In addition, \$32,546 of the governmental fund balances is *nonspendable*, representing prepaid expenditures. \$10,404,631 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 \$10,564,709, while the total fund balance increased \$1,576,346 to \$10,597,255. 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 33.3% of total general fund expenditures.

The *Street Fund*, a major fund, had an increase of \$165,977 to an overall Street Fund balance of \$4,679,559 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 \$97,739 during the year to bring the year-end fund balance to \$2,774,688. The increase is due to the sales and use taxes that amounted to approximately \$1.8 million during 2017.

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 \$3,007,465 for sanitation operations, an increase from the prior year of \$4,134,509. Net position at the end of the year amounted to \$32,777,159 for airport operations, an increase of \$1,852,505. The increase in sanitation fund is due to a transfer from the Airport Fund of \$3,000,000 for a repayment of monies moved in prior year.

City of Conway, Arkansas
Management's Discussion and Analysis
December 31, 2017

General Fund Budgetary Highlights

Original Budget Compared to Final Budget. The final amended General Fund budget had total appropriations of \$1,008,480 (3.2%) more than the original budget of \$31,818,950. The primary purpose of the amendments was to increase budgeted expenditures for police and fire salaries and equipment.

Final Budget Compared to Actual Results. Actual General Fund expenditures for the year were \$1,060,161 (3.2%) less than final budgeted expenditures. In addition, actual General Fund revenues exceeded final budgeted revenues by \$1,257,089 (4.0%). This fluctuation is due to an increase in intergovernmental revenue of \$1.3 million; and total expenditures of \$1.06 million less than budgeted.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for governmental and business-type activities as of December 31, 2017, amounts to \$203,844,541 (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 2017 was 0.4%.

City of Conway, Arkansas
 Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 18,827,949	\$ 18,679,490	\$ 2,268,805	\$ 2,621,606	\$ 21,096,754	\$ 21,301,096
Buildings and improvements	38,925,357	36,837,218	5,859,502	6,157,293	44,784,859	42,994,511
Equipment	6,391,399	7,714,509	4,940,031	4,461,125	11,331,430	12,175,634
Infrastructure	96,516,968	70,312,701	25,784,029	26,393,087	122,300,997	96,705,788
Construction in progress	4,330,501	27,868,717	-	2,067,115	4,330,501	29,935,832
Total	<u>\$ 164,992,174</u>	<u>\$ 161,412,635</u>	<u>\$ 38,852,367</u>	<u>\$ 41,700,226</u>	<u>\$ 203,844,541</u>	<u>\$ 203,112,861</u>

Major capital asset events during 2017 included the following:

- Transfers from construction in progress to infrastructure and buildings and improvements totaled \$34,267,037. This was due to the completion of five major construction projects.
- Depreciation expense totaled \$8,530,382 for governmental activities and \$2,734,593 for business-type activities.

City of Conway, Arkansas
Management's Discussion and Analysis
December 31, 2017

Long-Term Debt. At December 31, 2017, the City's primary government had \$52,270,601 of long-term debt outstanding, including bonds payable of \$42,466,794, secured solely by specified revenue sources, *i.e.*, revenue bonds.

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Bonds payable	\$ 42,466,794	\$ 43,988,530	\$ -	\$ -	\$ 42,466,794	\$ 43,988,530
Notes payable	6,927,977	6,000,000	-	2,750,000	6,927,977	8,750,000
Leases payable	448,743	512,592	2,427,087	3,000,000	2,875,830	3,512,592
Total	<u>\$ 49,843,514</u>	<u>\$ 50,501,122</u>	<u>\$ 2,427,087</u>	<u>\$ 5,750,000</u>	<u>\$ 52,270,601</u>	<u>\$ 56,251,122</u>

Total long-term debt at December 31, 2017, decreased \$980,521, a decrease of 1.84%. The net decrease is primarily the result of payment of principal on outstanding debt offset by issuances of notes and leases payable for financing of the improvements on the Conway Expo Center.

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, 2017. 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, 2017, of approximately \$12.2 million are well below the statutory limit of \$52,432,060. Voter approval is not required for short-term financing.

Economic Factors and Next Year's Budgets and Rates

Sales tax revenue in 2017 increased significantly compared to the previous year; however, management continues to take an ultra-conservative approach for budgeting sales tax and projects no growth for 2018. 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 tax revenues without encountering much risk, but to budget for sales tax revenue increases and then have actual collections fall below that mark can cause major problems in the City's ability to stay within its budgetary expenditure limits.

The City's budget for 2018 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 \$64,952,411 and total expenditures amount to \$63,283,231. This leaves a \$1,669,180 surplus to be used for appropriating Parks A&P tax revenue for park construction and improvements, and also for appropriating Parks and Street impact fee revenue for adding park and street capacity as projects may be identified during the year. There were no significant changes in revenue anticipated for 2018. All funds were budgeted within a 2.5% variance of the previous year.

City of Conway, Arkansas
Management's Discussion and Analysis
December 31, 2017

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, 2017

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Conway Corporation	A & P Commission
Assets					
Current Assets					
Cash and cash equivalents	\$ 20,795,574	\$ 11,984,770	\$ 32,780,344	\$ 16,591,166	\$ 1,590,855
Certificates of deposit	-	-	-	31,485,479	-
Restricted cash and cash equivalents – current	1,945,540	-	1,945,540	-	-
Accounts receivable, net of allowance	12,564,724	80,487	12,645,211	8,900,431	334,388
Grants receivable	33,070	311,615	344,685	-	-
Due from component units	694,663	789,484	1,484,147	-	-
Due from fiduciary funds	98,313	-	98,313	-	-
Internal balances	7,206	(7,206)	-	-	-
Other current assets	-	-	-	9,135,098	-
Prepaid items	32,546	-	32,546	1,436,693	-
Total current assets	36,171,636	13,159,150	49,330,786	67,548,867	1,925,243
Noncurrent Assets					
Restricted assets					
Cash and cash equivalents	-	5,680,766	5,680,766	15,921,538	-
Total restricted assets	-	5,680,766	5,680,766	15,921,538	-
Capital assets – nondepreciable	23,158,450	2,268,805	25,427,255	30,935,107	-
Capital assets – depreciable, net	141,833,724	36,583,562	178,417,286	325,830,588	-
	<u>164,992,174</u>	<u>38,852,367</u>	<u>203,844,541</u>	<u>356,765,695</u>	<u>-</u>
Other assets					
Land held for resale	-	-	-	410,296	-
Total other assets	-	-	-	410,296	-
Total noncurrent assets	164,992,174	44,533,133	209,525,307	373,097,529	-
Total assets	201,163,810	57,692,283	258,856,093	440,646,396	1,925,243
Deferred Outflows of Resources					
Loss on refunding	-	-	-	539,241	-
Deferred amounts for pension items	11,556,265	2,025,687	13,581,952	478,445	-
Deferred outflow – pension contributions	3,929,636	-	3,929,636	233,444	-
Total deferred outflows of resources	15,485,901	2,025,687	17,511,588	1,251,130	-
Total assets and deferred outflows of resources	\$ 216,649,711	\$ 59,717,970	\$ 276,367,681	\$ 441,897,526	\$ 1,925,243

See Notes to Financial Statements

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Conway Corporation	A & P Commission
Liabilities and Net Position					
Current liabilities					
Accounts payable	\$ 1,281,141	\$ 325,096	\$ 1,606,237	\$ 5,276,325	\$ 42,229
Accrued expenses and other liabilities	1,007,020	53,779	1,060,799	2,182,576	-
Due to primary government	-	-	-	916,000	519,067
Customer deposits	-	-	-	2,456,494	-
Unearned revenue	-	-	-	306,584	-
Accrued interest payable	330,072	14,016	344,088	864,747	-
Developer deposits	-	-	-	179,137	-
Notes and leases payable – current portion	2,897,118	586,147	3,483,265	17,326	-
Compensated absences – current portion	1,046,645	141,292	1,187,937	-	-
Bonds payable – current portion	795,000	-	795,000	5,726,941	-
Total current liabilities	7,356,996	1,120,330	8,477,326	17,926,130	561,296
Noncurrent Liabilities					
Notes payable	4,082,604	-	4,082,604	564,461	-
Leases payable	396,998	1,840,940	2,237,938	-	-
Bonds payable, net	41,671,794	-	41,671,794	138,596,450	-
Compensated absences	1,325,146	32,640	1,357,786	-	-
Postemployment benefits	-	-	-	1,769,845	-
Net pension liability	57,794,462	10,673,533	68,467,995	8,993,814	-
Estimated liability for landfill closure and postclosure care costs	-	8,621,822	8,621,822	-	-
Total noncurrent liabilities	105,271,004	21,168,935	126,439,939	149,924,570	-
Total liabilities	112,628,000	22,289,265	134,917,265	167,850,700	561,296
Deferred Inflows of Resources					
Deferred amounts for pension items	5,384,355	1,644,081	7,028,436	425,381	-
Total deferred inflows of resources	5,384,355	1,644,081	7,028,436	425,381	-
Net Position					
Net investment in capital assets	114,818,588	36,722,879	151,541,467	218,386,062	-
Restricted – expendable					
Debt service	2,774,688	-	2,774,688	5,378,232	-
Capital improvements	8,075,022	-	8,075,022	-	-
Public works	4,679,559	-	4,679,559	-	-
Parks and recreation	189,750	-	189,750	-	-
Animal welfare	159,749	-	159,749	-	-
Court automation	331,925	-	331,925	-	-
Public safety	398,558	-	398,558	-	-
Other purposes	8,361	-	8,361	-	-
Grant funds	425,944	-	425,944	-	-
Advertising and promotion	-	-	-	-	1,363,947
Total restricted – expendable	17,043,556	-	17,043,556	5,378,232	1,363,947
Unrestricted (Deficit)	(33,224,788)	(938,255)	(34,163,043)	49,857,151	-
Total net position	98,637,356	35,784,624	134,421,980	273,621,445	1,363,947
Total liabilities, deferred inflows of resources and net position	\$ 216,649,711	\$ 59,717,970	\$ 276,367,681	\$ 441,897,526	\$ 1,925,243

City of Conway, Arkansas
Statement of Activities
Year Ended December 31, 2017

Functions/Programs Primary Government	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Conway Corporation	A & P Commission
Governmental Activities									
General government	\$ 8,774,386	\$ 821,319	\$ 826,563	\$ -	\$ (7,126,504)	\$ -	\$ (7,126,504)		
Police	14,058,219	629,345	675,733	125,278	(12,627,863)	-	(12,627,863)		
Fire	11,708,542	97,455	650,604	-	(10,960,483)	-	(10,960,483)		
Public works	7,919,827	18,925	-	2,608,674	(5,292,228)	-	(5,292,228)		
Parks and recreation	5,156,540	2,270,268	-	-	(2,886,272)	-	(2,886,272)		
Interest expense on long-term debt	2,024,633	-	-	-	(2,024,633)	-	(2,024,633)		
Total governmental activities	<u>49,642,147</u>	<u>3,837,312</u>	<u>2,152,900</u>	<u>2,733,952</u>	<u>(40,917,983)</u>	<u>-</u>	<u>(40,917,983)</u>		
Business-Type Activities									
Sanitation	8,484,659	9,919,930	-	10,820	-	1,446,091	1,446,091		
Airport	2,347,543	1,027,857	-	424,992	-	(894,694)	(894,694)		
Total business-type activities	<u>10,832,202</u>	<u>10,947,787</u>	<u>-</u>	<u>435,812</u>	<u>-</u>	<u>551,397</u>	<u>551,397</u>		
Total primary government	<u>\$ 60,474,349</u>	<u>\$ 14,785,099</u>	<u>\$ 2,152,900</u>	<u>\$ 3,169,764</u>	<u>(40,917,983)</u>	<u>551,397</u>	<u>(40,366,586)</u>		
Component Units									
Conway Corporation	\$ 104,940,108	\$ 110,190,890	\$ -	\$ 1,585,365			\$ 6,836,147	\$ -	
A & P Commission	594,496	-	-	-			-	(594,496)	
Total component units	<u>\$ 105,534,604</u>	<u>\$ 110,190,890</u>	<u>\$ -</u>	<u>\$ 1,585,365</u>			<u>6,836,147</u>	<u>(594,496)</u>	
General Revenues									
General property taxes					6,413,021	-	6,413,021	-	-
Sales and use taxes					28,602,034	-	28,602,034	-	825,499
Franchise fees					3,809,083	-	3,809,083	-	-
General state revenue tumback					942,751	-	942,751	-	-
Investment income					244,592	111,418	356,010	364,406	11,520
Other					1,107,290	5,747,199	6,854,489	-	-
Transfers					423,000	(423,000)	-	-	-
Total general revenues and transfers					<u>41,541,771</u>	<u>5,435,617</u>	<u>46,977,388</u>	<u>364,406</u>	<u>837,019</u>
Change in Net Position					623,788	5,987,014	6,610,802	7,200,553	242,523
Net Position, Beginning of Year					<u>98,013,568</u>	<u>29,797,610</u>	<u>127,811,178</u>	<u>266,420,892</u>	<u>1,121,424</u>
Net Position, End of Year					<u>\$ 98,637,356</u>	<u>\$ 35,784,624</u>	<u>\$ 134,421,980</u>	<u>\$ 273,621,445</u>	<u>\$ 1,363,947</u>

City of Conway, Arkansas
Balance Sheet
Governmental Funds
December 31, 2017

	General Fund	Street Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 7,191,841	\$ 4,437,903	\$ 2,379,418	\$ 8,731,952	\$ 22,741,114
Accounts receivable, net of allowance	9,201,294	2,193,863	346,923	1,259,335	13,001,415
Grants receivable	-	-	-	33,070	33,070
Due from other funds	360,144	83,217	-	81,679	525,040
Due from component units	208,892	-	49,080	-	257,972
Prepaid items	32,546	-	-	-	32,546
Total assets	<u>\$ 16,994,717</u>	<u>\$ 6,714,983</u>	<u>2,775,421</u>	<u>\$ 10,106,036</u>	<u>\$ 36,591,157</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 620,601	\$ 268,267	\$ -	\$ 392,273	\$ 1,281,141
Accrued wages payable and related liabilities	981,607	24,120	-	1,293	1,007,020
Due to other funds	158,178	98,427	733	162,183	419,521
Total liabilities	<u>1,760,386</u>	<u>390,814</u>	<u>733</u>	<u>555,749</u>	<u>2,707,682</u>
Deferred Inflows of Resources					
Unavailable revenues	<u>4,637,076</u>	<u>1,644,610</u>	<u>-</u>	<u>41,482</u>	<u>6,323,168</u>
Total deferred inflows of resources	<u>4,637,076</u>	<u>1,644,610</u>	<u>-</u>	<u>41,482</u>	<u>6,323,168</u>
Fund Balances					
Nonspendable	32,546	-	-	-	32,546
Restricted	-	4,679,559	2,774,688	9,668,883	17,123,130
Unassigned	10,564,709	-	-	(160,078)	10,404,631
Total fund balances	<u>10,597,255</u>	<u>4,679,559</u>	<u>2,774,688</u>	<u>9,508,805</u>	<u>27,560,307</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 16,994,717</u>	<u>\$ 6,714,983</u>	<u>\$ 2,775,421</u>	<u>\$ 10,106,036</u>	<u>\$ 36,591,157</u>

City of Conway, Arkansas
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2017

Total Fund Balances – Total Governmental Funds	\$ 27,560,307
 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.	164,992,174
Property tax, grants receivable and other receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	6,323,168
Long-term liabilities and related deferred inflows/outflows of resources 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	(330,072)
Accrued compensated absences	(2,371,791)
Net pension liability	(57,794,462)
Bonds payable, net	(42,466,794)
Notes payable and obligations under capital lease	(7,376,720)
Deferred inflows/outflows of resources related to pensions	10,101,546
 Total Net Position – Governmental Activities	 \$ 98,637,356

City of Conway, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2017

	General Fund	Street Fund	Debt Service Fund	Other Governmental Funds	Total
Revenues					
General property taxes	\$ 4,003,541	\$ 1,417,180	\$ -	\$ 60,263	\$ 5,480,984
Sales and use taxes	19,770,629	271,210	1,784,278	6,775,917	28,602,034
Licenses and permits	440,400	270	-	-	440,670
Charges for services	1,283,753	18,925	-	545,845	1,848,523
Fines and forfeitures	1,363,061	-	-	283,361	1,646,422
Franchise fees	3,242,411	-	566,672	-	3,809,083
Intergovernmental	2,243,959	2,608,674	-	1,107,185	5,959,818
Investment income	90,922	49,947	10,507	93,216	244,592
Miscellaneous	481,939	232,110	-	483,009	1,197,058
Total revenues	<u>32,920,615</u>	<u>4,598,316</u>	<u>2,361,457</u>	<u>9,348,796</u>	<u>49,229,184</u>
Expenditures					
Current					
General government	4,746,491	-	-	476,888	5,223,379
Police	12,712,457	-	-	-	12,712,457
Fire	9,661,920	-	-	-	9,661,920
Public works	-	3,406,562	-	-	3,406,562
Parks and recreation	3,402,549	-	-	-	3,402,549
Information technology	1,087,651	-	-	-	1,087,651
Capital outlay					
General government	27,064	-	-	451,504	478,568
Police	10,870	-	-	-	10,870
Fire	27,964	-	-	-	27,964
Public works	-	1,025,777	-	5,550,797	6,576,574
Parks and recreation	-	-	-	5,034,567	5,034,567
Information technology	-	-	-	150,088	150,088
Debt service					
Principal	63,849	-	874,409	1,872,023	2,810,281
Interest	26,454	-	1,680,387	122,054	1,828,895
Bond issuance costs	-	-	177,102	-	177,102
Agent fees	-	-	13,683	-	13,683
Total expenditures	<u>31,767,269</u>	<u>4,432,339</u>	<u>2,745,581</u>	<u>13,657,921</u>	<u>52,603,110</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,153,346</u>	<u>165,977</u>	<u>(384,124)</u>	<u>(4,309,125)</u>	<u>(3,373,926)</u>
Other Financing Sources (Uses)					
Long-term debt issuance	-	-	9,115,000	2,800,000	11,915,000
Premiums on debt issuance	-	-	17,786	-	17,786
Payment to escrow agent to refund bonds	-	-	(9,710,591)	-	(9,710,591)
Transfers in	423,000	-	1,059,668	-	1,482,668
Transfers out	-	-	-	(1,059,668)	(1,059,668)
Total other financing sources	<u>423,000</u>	<u>-</u>	<u>481,863</u>	<u>1,740,332</u>	<u>2,645,195</u>
Net Change in Fund Balances	1,576,346	165,977	97,739	(2,568,793)	(728,731)
Fund Balances, Beginning of Year	<u>9,020,909</u>	<u>4,513,582</u>	<u>2,676,949</u>	<u>12,077,598</u>	<u>28,289,038</u>
Fund Balances, End of Year	<u>\$ 10,597,255</u>	<u>\$ 4,679,559</u>	<u>\$ 2,774,688</u>	<u>\$ 9,508,805</u>	<u>\$ 27,560,307</u>

City of Conway, Arkansas
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended December 31, 2017

Net Change in Fund Balances – Total Governmental Funds	\$ (728,731)
<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	12,278,631
Depreciation expense	(8,530,382)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and loss on disposal) is to decrease net position	(168,710)
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.	721,305
Long-term debt issuance including premiums, provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.	(11,932,786)
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.	12,520,872
<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	(56,689)
Accrued compensated absences	(76,775)
Amortization of bond discount/ premium	51,736
Net pension liabilities and related deferred outflows and inflows	<u>(3,454,683)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 623,788</u></u>

City of Conway, Arkansas
Statement of Net Position
Proprietary Funds
December 31, 2017

	Business-Type Activities		
	Sanitation	Airport	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 10,991,821	\$ 992,949	\$ 11,984,770
Accounts receivable	24,154	56,333	80,487
Grants receivable	-	311,615	311,615
Due from component unit	789,484	-	789,484
Due from other funds	68	733	801
Total Current Assets	11,805,527	1,361,630	13,167,157
Noncurrent Assets			
Restricted cash and cash equivalents	5,680,766	-	5,680,766
Capital assets			
Land and buildings	4,535,733	6,449,491	10,985,224
Construction in progress	-	-	-
Equipment	13,929,489	1,170,333	15,099,822
Infrastructure	1,623,347	27,102,323	28,725,670
Less accumulated depreciation	(12,681,733)	(3,276,616)	(15,958,349)
Capital assets, net	7,406,836	31,445,531	38,852,367
Total Noncurrent Assets	13,087,602	31,445,531	44,533,133
Total Assets	24,893,129	32,807,161	57,700,290
Deferred Outflows of Resources			
Deferred amounts for pension items	2,025,687	-	2,025,687
Total Deferred Outflows of Resources	2,025,687	-	2,025,687
Total Assets and Deferred Outflows of Resources	\$ 26,918,816	\$ 32,807,161	\$ 59,725,977
Liabilities			
Current Liabilities			
Accounts payable	\$ 306,096	\$ 19,000	\$ 325,096
Accrued wages payable and related liabilities	49,248	4,531	53,779
Due to other funds	6,663	1,344	8,007
Accrued interest payable	14,016	-	14,016
Current portion of compensated absences	136,165	5,127	141,292
Current portion of note and lease payable	586,147	-	586,147
Total Current Liabilities	1,098,335	30,002	1,128,337
Noncurrent Liabilities			
Compensated absences	32,640	-	32,640
Landfill closure and postclosure care costs	8,621,822	-	8,621,822
Lease payable	1,840,940	-	1,840,940
Net pension liability	10,673,533	-	10,673,533
Total Noncurrent Liabilities	21,168,935	-	21,168,935
Total Liabilities	22,267,270	30,002	22,297,272
Deferred Inflows of Resources			
Deferred amounts for pension items	1,644,081	-	1,644,081
Total Deferred Inflows of Resources	1,644,081	-	1,644,081
Net Position			
Net investment in capital assets	4,965,733	31,757,146	36,722,879
Unrestricted	(1,958,268)	1,020,013	(938,255)
Total Net Position	3,007,465	32,777,159	35,784,624
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 26,918,816	\$ 32,807,161	\$ 59,725,977

City of Conway, Arkansas
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended December 31, 2017

	Business-Type Activities		
	Sanitation	Airport	Total
Operating Revenues			
Charges for services	\$ 9,919,930	\$ 1,027,857	\$ 10,947,787
Total operating revenues	<u>9,919,930</u>	<u>1,027,857</u>	<u>10,947,787</u>
Operating Expenses			
Personnel services	4,826,305	250,324	5,076,629
Materials and supplies	1,622,155	40,677	1,662,832
Utilities	89,915	37,544	127,459
Fuel for resale	-	591,093	591,093
Contracted services	321,147	-	321,147
Other services and charges	250,042	81,403	331,445
Depreciation	1,439,718	1,294,875	2,734,593
Total operating expenses	<u>8,549,282</u>	<u>2,295,916</u>	<u>10,845,198</u>
Operating Income	<u>1,370,648</u>	<u>(1,268,059)</u>	<u>102,589</u>
Nonoperating Revenues (Expenses)			
Investment income	111,418	-	111,418
Gain on sale of assets	108,564	5,747,199	5,855,763
Other, net	22,050	-	22,050
Interest expense	(65,991)	(51,627)	(117,618)
Net nonoperating revenues (expenses)	<u>176,041</u>	<u>5,695,572</u>	<u>5,871,613</u>
Income Before Transfers and Capital Contributions	1,546,689	4,427,513	5,974,202
Transfers In	3,000,000	-	3,000,000
Transfers Out	<u>(423,000)</u>	<u>(3,000,000)</u>	<u>(3,423,000)</u>
Total transfers	<u>2,577,000</u>	<u>(3,000,000)</u>	<u>(423,000)</u>
Capital Grants	<u>10,820</u>	<u>424,992</u>	<u>435,812</u>
Change in Net Position	4,134,509	1,852,505	5,987,014
Net Position, Beginning of Year	<u>(1,127,044)</u>	<u>30,924,654</u>	<u>29,797,610</u>
Net Position, End of Year	<u>\$ 3,007,465</u>	<u>\$ 32,777,159</u>	<u>\$ 35,784,624</u>

City of Conway, Arkansas
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2017

	Business-Type Activities		
	Sanitation	Airport	Total
Operating Activities			
Receipts from customers	\$ 9,906,587	\$ 1,015,027	\$ 10,921,614
Payments to employees	(3,892,815)	(876,378)	(4,769,193)
Payments to suppliers	(2,191,358)	(507,481)	(2,698,839)
Other operating receipts	48,952	-	48,952
Net cash provided by (used in) operating activities	<u>3,871,366</u>	<u>(368,832)</u>	<u>3,502,534</u>
Noncapital Financing Activities			
Transfers from other funds	3,000,000	-	3,000,000
Transfers to other funds	(423,000)	(3,000,000)	(3,423,000)
Net cash provided by (used in) noncapital financing activities	<u>2,577,000</u>	<u>(3,000,000)</u>	<u>(423,000)</u>
Capital and Related Financing Activities			
Purchase of capital assets	(1,456,408)	(88,984)	(1,545,392)
Proceeds from the sale of capital assets	150,660	6,100,002	6,250,662
Receipts of federal and state grants	10,820	685,111	695,931
Proceeds from insurance	6,479	-	6,479
Other	22,050	-	22,050
Principal paid on long-term debt	(572,913)	(2,750,000)	(3,322,913)
Interest paid on long-term debt	(65,991)	(51,627)	(117,618)
Net cash provided by (used in) capital and related financing activities	<u>(1,905,303)</u>	<u>3,894,502</u>	<u>1,989,199</u>
Investing Activities			
Interest income	111,418	-	111,418
Net cash provided by investing activities	<u>111,418</u>	<u>-</u>	<u>111,418</u>
Increase in Cash and Cash Equivalents	4,654,481	525,670	5,180,151
Cash and Cash Equivalents, Beginning of Year	<u>12,018,106</u>	<u>467,279</u>	<u>12,485,385</u>
Cash and Cash Equivalents, End of Year	<u>\$ 16,672,587</u>	<u>\$ 992,949</u>	<u>\$ 17,665,536</u>
Presented on the Statement of Fund Net Position – Proprietary Funds as Follows:			
Current assets			
Cash and cash equivalents	\$ 10,991,821	\$ 992,949	\$ 11,984,770
Noncurrent assets			
Restricted cash and cash equivalents	5,680,766	-	5,680,766
	<u>\$ 16,672,587</u>	<u>\$ 992,949</u>	<u>\$ 17,665,536</u>

See Notes to Financial Statements

	Business-Type Activities		
	Sanitation	Airport	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used in) Operating Activities			
Operating income (loss)	\$ 1,370,648	\$ (1,268,059)	\$ 102,589
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	1,439,718	1,294,875	2,734,593
Changes in:			
Receivables, net	(10,800)	(14,264)	(25,064)
Deferred inflows/outflows of resources, net	945,245	-	945,245
Due to/due from other funds, net	(49,479)	201	(49,278)
Accounts payable	138,837	(125,661)	13,176
Accrued expenses	37,197	(255,924)	(218,727)
Net cash provided by (used in) operating activities	<u>\$ 3,871,366</u>	<u>\$ (368,832)</u>	<u>\$ 3,502,534</u>

City of Conway, Arkansas
Statement of Fiduciary Net Position – Fiduciary Funds
December 31, 2017

	Nonuniformed Employees' Pension Plan	Agency Funds
Assets	<hr/>	<hr/>
Cash and cash equivalents	\$ 928,997	\$ 124,493
Investments		
Corporate bonds	930,584	-
Municipal bonds	101,954	-
Equities and mutual funds	9,753,554	-
Receivables		
Taxes receivable from general fund	515,670	-
Due from other funds	41,928	-
Interest and dividends	5,109	-
	<hr/>	<hr/>
Total assets	12,277,796	124,493
	<hr/>	<hr/>
Liabilities		
Accounts payable	144	-
Due to other governmental agencies	-	116,432
Due to other funds	132,180	8,061
	<hr/>	<hr/>
Total liabilities	132,324	\$ 124,493
	<hr/>	<hr/>
Net Position		
Net position restricted for pensions	\$ 12,145,472	\$ -
	<hr/>	<hr/>

City of Conway, Arkansas
Statement of Changes in Fiduciary Net Position – Fiduciary Funds
Year Ended December 31, 2017

	<u>Nonuniformed Employees' Pension Plan</u>
Additions	
Contributions	
Employer	\$ 553,115
Plan members	554,240
Property taxes contributed from general fund	<u>476,225</u>
Total contributions	1,583,580
Investment income	
Net increase in fair value of investments	1,432,247
Interest	36,989
Dividends	<u>171,051</u>
	1,640,287
Less investment expense	<u>64,131</u>
Net investment gain	<u>1,576,156</u>
Total additions	<u>3,159,736</u>
Deductions	
Benefits paid directly to participants	1,614,983
Refunds of contributions	136,657
Administrative expense	<u>21,472</u>
Total deductions	<u>1,773,112</u>
Change in Net Position	1,386,624
Net Position Restricted for Pensions, Beginning of Year	<u>10,758,848</u>
Net Position Restricted for Pensions, End of Year	<u><u>\$ 12,145,472</u></u>

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

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 City is a municipal corporation governed by an elected mayor and six-member governing council (the Council). The accompanying financial statements present the City and its component units, 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 Nonuniformed defined benefit plan, being fiduciary in nature, was not evaluated as a potential component unit but instead is reported as a fiduciary fund. The other benefit plans are maintained by LOPFI and are properly excluded from the financial statements.

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, 2017

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.

City of Conway, Arkansas

Notes to Financial Statements

December 31, 2017

The City reports two major enterprise funds. They account for the City's Sanitation Department operations and the City's Airport operations, which are primarily supported by user charges.

Additionally, the City reports the following fund types:

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

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

Measurement Focus and Basis of Accounting

Government-Wide, Proprietary and Fiduciary Funds

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

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

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

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

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, deferred outflows of resources, liabilities and deferred inflows of resources 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, 2017, 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 with the exception of municipal bonds for which fair value is determined using the present value of future cash flows model.

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

Prepaid Items

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

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

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 acquisition 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.

City of Conway, Arkansas

Notes to Financial Statements

December 31, 2017

Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's defined benefit pension plans (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has four items that qualify for reporting in this category. Each of the items are related to pensions, with one being the amount of contributions made to the pension plans after the measurement date, and the other is including the difference in investment experience between actual earnings and projected earnings on pension plan investments and other pension items, differences between expected and actual experience and difference related to change in assumptions. Deferred outflows related to contributions made after the measurement date will be used in the next year to reduce the net pension liability. The remaining amounts will be amortized to pension expense over the following years as shown within *Note 11*.

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 and deferred pension inflows in the government-wide statement of net position and proprietary funds statement of net position. Unavailable revenue arises under the modified accrual basis of accounting and qualifies for reporting in this category. Accordingly, this item is only reported in the governmental funds balance sheet. Governmental funds report unavailable revenue from property taxes and grants receivable. The other item, deferred pension inflows, consists of the difference between the expected and actual experience related to the pension plans as well as the difference in assumption changes and changes in proportionate share. Deferred pension inflows are amortized to pension expense over future periods as shown within *Note 11*.

Fund Balances – 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.

City of Conway, Arkansas

Notes to Financial Statements

December 31, 2017

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.

Adoption of New Accounting Standards

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

The City implemented GASB Statement No. 82, *Fair Value Measurement and Application*, for 2017. This statement addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard for Practice for financial reporting purposes and (3) the classification of payments made by employees to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 had no impact on the City's financial statements. Note disclosures and required supplementary information (RSI) were incorporated to comply with GASB Statement No. 82.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

New GASB Pronouncements

GASB has issued the following statements which the City has not yet adopted and which require adoption subsequent to December 31, 2017:

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. 84, Fiduciary Activities

This statement provides for greater consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

GASB Statement No. 87, Leases

This statement establishes a new single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset. The effective date is for periods beginning after December 15, 2019. The City has not yet determined the potential impact, if any, that this statement could have on its financial statements.

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period

This statement requires that interest costs incurred before the end of a construction period be recognized as expenses in the period in which the costs are incurred. As a result, the interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The effective date is for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. GASB 89 will be applied prospectively to interest incurred after the date of adoption.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

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, 2017, the City's deposits were fully collateralized and, therefore, were not exposed to custodial credit risk. At December 31, 2017, 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
December 31, 2017

Investments at December 31, 2017, consisted of the following:

Type	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Corporate bonds	\$ 930,584	\$ 99,816	\$ 672,363	\$ 158,405	\$ -
Municipal bonds	101,954	-	101,954	-	-
Money market mutual funds	<u>2,704,124</u>	<u>2,704,124</u>	<u>-</u>	<u>-</u>	<u>-</u>
	3,736,662	<u>\$ 2,803,940</u>	<u>\$ 774,317</u>	<u>\$ 158,405</u>	<u>\$ -</u>
Equities, fixed income mutual funds, equity mutual funds, international equity mutual funds	<u>9,753,554</u>				
	<u>\$ 13,490,216</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, 2017

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	\$ 38,756,016	\$ 65,589,038
Investments	13,490,216	-
	\$ 52,246,232	\$ 65,589,038
Included in the following statement of net position captions		
Cash and cash equivalents	\$ 32,780,344	\$ 18,182,021
Certificates of deposit	-	31,485,479
Restricted cash and cash equivalents – current	1,945,540	-
Restricted cash and cash equivalents – noncurrent	5,680,766	15,921,538
Included in the following fiduciary net assets captions		
Cash and cash equivalents	1,053,490	-
Investments	10,786,092	-
	\$ 52,246,232	\$ 65,589,038

Note 3: Disclosures About Fair Value of Assets and Liabilities

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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Investments by Fair Value Level				
Corporate bonds	\$ 930,584	\$ -	\$ 930,584	\$ -
Municipal bonds	101,954	-	101,954	-
Money market funds	2,704,124	-	2,704,124	-
Equities	4,510,053	4,510,053	-	-
Fixed income mutual funds	2,372,167	2,372,167	-	-
Equity mutual funds	460,284	460,284	-	-
International equity mutual funds	2,411,050	2,411,050	-	-
Total investments by fair value level	<u>\$ 13,490,216</u>	<u>\$ 9,753,554</u>	<u>\$ 3,736,662</u>	<u>\$ -</u>

Note 4: 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, and the nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts:

	General Fund	Street Fund	Other Governmental Funds	Other Governmental Funds	Total Governmental Funds
Property taxes	\$ 5,194,685	\$ 1,887,966	\$ -	\$ 43,730	\$ 7,126,381
Sales taxes	3,763,426	52,733	346,923	1,212,914	5,375,996
State insurance tumbback	126,450	337,562	-	-	464,012
Grants receivable	-	-	-	33,070	33,070
Other receivables	351,677	2,160	-	2,691	356,528
Gross receivable	9,436,238	2,280,421	346,923	1,292,405	13,355,987
Allowance	(234,944)	(86,558)	-	-	(321,502)
Net receivable	<u>\$ 9,201,294</u>	<u>\$ 2,193,863</u>	<u>\$ 346,923</u>	<u>\$ 1,292,405</u>	<u>\$ 13,034,485</u>

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Note 5: Capital Assets

A summary of changes in capital assets for the year ended December 31, 2017, is presented below:

Governmental Activities	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
Capital assets, nondepreciable					
Land	\$ 18,679,490	\$ 148,459	\$ -	\$ -	\$ 18,827,949
Construction in progress	27,868,717	10,835,476	106,654	(34,267,038)	4,330,501
Total capital assets, nondepreciable	<u>46,548,207</u>	<u>10,983,935</u>	<u>106,654</u>	<u>(34,267,038)</u>	<u>23,158,450</u>
Capital assets, depreciable					
Buildings and improvements	49,163,546	37,988	-	3,632,329	52,833,863
Equipment	32,212,783	1,195,502	360,326	-	33,047,959
Infrastructure	133,953,245	-	-	30,634,709	164,587,954
Total capital assets, depreciable	<u>215,329,574</u>	<u>1,233,490</u>	<u>360,326</u>	<u>34,267,038</u>	<u>250,469,776</u>
Less accumulated depreciation					
Buildings and improvements	12,326,328	1,582,178	-	-	13,908,506
Equipment	24,498,274	2,517,762	359,476	-	26,656,560
Infrastructure	63,640,544	4,430,442	-	-	68,070,986
Total accumulated depreciation	<u>100,465,146</u>	<u>8,530,382</u>	<u>359,476</u>	<u>-</u>	<u>108,636,052</u>
Total governmental activities, net	<u>\$ 161,412,635</u>	<u>\$ 3,687,043</u>	<u>\$ 107,504</u>	<u>\$ -</u>	<u>\$ 164,992,174</u>
Business-Type Activities	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
Capital assets, nondepreciable					
Land	\$ 2,621,606	\$ -	\$ 352,801	\$ -	\$ 2,268,805
Construction in progress	823,925	88,984	-	(912,909)	-
Total capital assets, nondepreciable	<u>3,445,531</u>	<u>88,984</u>	<u>352,801</u>	<u>(912,909)</u>	<u>2,268,805</u>
Capital assets, depreciable					
Buildings and improvements	8,650,412	-	-	66,007	8,716,419
Equipment	13,535,501	1,456,408	400,689	508,602	15,099,822
Infrastructure	28,387,370	-	-	338,300	28,725,670
Total capital assets, depreciable	<u>50,573,283</u>	<u>1,456,408</u>	<u>400,689</u>	<u>912,909</u>	<u>52,541,911</u>
Less accumulated depreciation					
Buildings and improvements	2,493,119	363,798	-	-	2,856,917
Equipment	9,074,376	1,423,438	338,023	-	10,159,791
Infrastructure	1,994,283	947,358	-	-	2,941,641
Total accumulated depreciation	<u>13,561,778</u>	<u>2,734,594</u>	<u>338,023</u>	<u>-</u>	<u>15,958,349</u>
Total business-type activities, net	<u>\$ 40,457,036</u>	<u>\$ (1,189,202)</u>	<u>\$ 415,467</u>	<u>\$ -</u>	<u>\$ 38,852,367</u>

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Component Unit	Balance December 31, 2016	Additions and Transfers, Net	Retirements and Transfers, Net	Balance December 31, 2017
Capital assets, nondepreciable				
Land and land rights	\$ 19,132,015	\$ 6,000	\$ -	\$ 19,138,015
Construction in progress	<u>26,499,437</u>	<u>11,017,145</u>	<u>25,719,490</u>	<u>11,797,092</u>
Total capital assets, nondepreciable	<u>45,631,452</u>	<u>11,023,145</u>	<u>25,719,490</u>	<u>30,935,107</u>
Capital assets, depreciable				
Building and improvements	350,549,488	25,827,771	1,300,413	375,076,846
Equipment	148,054,823	13,009,204	3,823,177	157,240,850
Undivided interest in coal-fired generating plants	<u>47,644,917</u>	<u>1,379,782</u>	<u>-</u>	<u>49,024,699</u>
Total capital assets, depreciable	<u>546,249,228</u>	<u>40,216,757</u>	<u>5,123,590</u>	<u>581,342,395</u>
Less accumulated depreciation	<u>240,445,894</u>	<u>19,761,849</u>	<u>4,695,936</u>	<u>255,511,807</u>
Total component unit, net	<u>\$ 351,434,786</u>	<u>\$ 31,478,053</u>	<u>\$ 26,147,144</u>	<u>\$ 356,765,695</u>

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

Governmental activities	
General administration	\$ 590,401
Fire	1,288,894
Highways and streets	4,282,162
Parks and recreation	1,272,231
Law enforcement	884,664
Information technology	<u>212,030</u>
Total depreciation expense	<u>8,530,382</u>
Business-type activities	
Sanitation	1,439,718
Airport	<u>1,294,876</u>
Total depreciation expense	<u>2,734,594</u>
Total depreciation expense, primary government	<u>\$ 11,264,976</u>

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Note 6: Long-Term Liabilities

Changes in long-term liabilities for the year ended December 31, 2017, were as follows:

Governmental Activities	Balance December 31, 2016	Increases	Decreases	Balance December 31, 2017	Amounts Due in One Year
Bonds payable	\$ 43,090,000	\$ 9,115,000	\$ 10,585,000	\$ 41,620,000	\$ 795,000
Unamortized discount/premium	898,530	2,021	53,757	846,794	-
Notes payable	6,000,000	2,800,000	1,872,023	6,927,977	2,845,373
Leases payable	512,592	-	63,849	448,743	51,745
Compensated absences	2,295,016	1,123,420	1,046,645	2,371,791	1,046,645
Net pension liability	55,305,343	3,120,323	631,204	57,794,462	-
Total governmental activities long-term liabilities	\$ 108,101,481	\$ 16,160,764	\$ 14,252,478	\$ 110,009,767	\$ 4,738,763
Business-Type Activities	Balance December 31, 2016	Increases	Decreases	Balance December 31, 2017	Amounts Due in One Year
Notes payable	\$ 2,750,000	\$ -	\$ 2,750,000	\$ -	\$ -
Leases payable	3,000,000	-	572,913	2,427,087	586,147
Compensated absences	173,932	141,292	141,292	173,932	141,292
Net pension liability	9,766,181	907,352	-	10,673,533	-
Estimated liability for landfill closure and postclosure care costs	8,572,870	48,952	-	8,621,822	-
Total business-type activities long-term liabilities	\$ 24,262,983	\$ 1,097,596	\$ 3,464,205	\$ 21,896,374	\$ 727,439
Component Unit – Conway Corporation	Balance December 31, 2016	Increases	Decreases	Balance December 31, 2017	Amounts Due in One Year
Bonds payable	\$ 144,961,400	\$ 3,051,768	\$ 6,953,126	\$ 141,060,042	\$ 5,726,941
Unamortized discount/premium	3,831,802	-	568,453	3,263,349	-
Notes payable	597,886	-	16,099	581,787	17,326
Net pension liability	10,631,578	-	1,637,764	8,993,814	-
Postemployment benefits	1,623,239	146,606	-	1,769,845	-
Total component unit long-term liabilities	\$ 161,645,905	\$ 3,198,374	\$ 9,175,442	\$ 155,668,837	\$ 5,744,267

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Bonds outstanding at December 31, 2017, were as follows:

	Interest Rates	Final Maturity	Original Issue	Total Outstanding
<i>Governmental Activities</i>				
Electric Franchise Fee Revenue Bonds, Series 2015	3%	2019	\$ 565,000	\$ 270,000
Franchise Fee Revenue Bonds, Series 2012	1-3.75%	2030	4,440,000	3,335,000
Sales and Use Tax Bonds, Series 2015	2-4%	2044	26,970,000	25,560,000
Franchise Fee Revenue Bonds, Series 2015	2-3.85%	2035	3,340,000	3,340,000
Restaurant Tax Bonds, Series 2017	2-2.5%	2028	9,115,000	9,115,000
				<u>\$ 41,620,000</u>
	Interest Rates	Final Maturity	Original Issue	Total Outstanding
<i>Component Unit – Conway Corporation</i>				
Electric Revenue Improvement Bonds, Series 2015	3-5%	2027	\$ 25,000,000	\$ 21,605,000
Water Revenue Refunding Bonds, Series 2015	3-4%	2023	10,185,000	7,700,000
Wastewater Revenue Improvement Bonds, Series 2012A	2-4.2%	2037	25,000,000	22,965,000
Wastewater Revenue Refunding Bonds, Series 2014	1-3.25%	2029	9,980,000	8,110,000
Wastewater Revenue Improvement Bonds, Series 2015B	1.5%	2037	10,000,000	9,432,077
Wastewater Revenue Refunding Bonds, Series 2016	2-5%	2040	12,415,000	12,415,000
Wastewater Revenue Refunding Bonds, Series 2017	2%	2037	58,832,965	58,832,965
				<u>\$ 141,060,042</u>

Governmental Activities

Electric Franchise Fee Revenue Bonds, Series 2015 – The City issued \$565,000 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 2015 Bonds is subject and subordinate to the City’s obligations under the Franchise Fee Revenue Lease-Purchase Agreement. Interest payments are due semiannually each December 1 and June 1. Principal and interest paid for the current year and total franchise fee revenues were approximately \$160,000 and \$567,000, respectively. These bonds are subject to redemption in part by sinking fund installments beginning June 1, 2016. These bonds are also subject to redemption at direction of the City beginning June 1, 2016.

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 \$3,589,000, 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.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Sales and Use Tax Bonds, Series 2015 – Bonds in the amount of \$26,970,000 were issued by the City in April 2015 for the purpose of financing the costs of constructing, extending and improving certain City streets and refunding of the City’s outstanding Sales and Use Tax Capital Improvement Bonds, Series 2012. 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.

The interest rates on the bonds range from 2.00% to 4.00%. Principal payments are due annually on May 1. Interest payments are due semiannually on May 1 and November 1. Principal and interest paid for the current year and total restaurant gross receipts tax revenues were approximately \$1,611,000 and \$3,207,000, respectively. These bonds are subject to mandatory redemption from surplus tax receipts beginning May 1, 2016. These bonds are also subject to redemption at direction of the City beginning May 1, 2016.

Franchise Fee Revenue Bonds, Series 2015 – Bonds in the amount of \$3,340,000 were issued with varying interest rates from 2.00% to 3.85% to finance the costs of acquiring and installing a mobile radio communications system and related improvements. 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 \$108,000 and \$3,589,000, respectively. These bonds are subject to redemption in part by sinking fund installments beginning December 1, 2025. These bonds are also subject to redemption at direction of the City beginning December 1, 2025.

Restaurant Gross Receipts Tax Capital Improvement Bonds, Series 2017 – Bonds in the amount of \$9,115,000 were issued with varying interest rates from 2.00% to 2.50% to refund the outstanding Restaurant Gross Receipts Tax Capital Improvement Bonds, Series 2007, which had interest rates ranging from 4.00% to 5.00%. These bonds are special obligations of the City secured by, and payable solely from, restaurant gross receipts tax. The tax shall continue until sufficient monies are accumulated to retire the bonds. Interest payments are due annually on December 1. These bonds are subject to redemption at direction of the City as of December 1, 2020.

Component Unit – Conway Corporation

Electric Revenue Improvement Bonds, Series 2015 – Bonds in the amount of \$25,000,000 were issued with varying interest rates from 2.00% to 5.00% to finance the costs of betterments and improvements to the City’s electric utility system. Principal and interest are payable semiannually and are due on December 1, 2027.

Water Revenue Refunding Bonds, Series 2015 – Bonds in the amount of \$10,185,000 were issued with varying interest rates from 2.00% to 4.00% to accomplish a refunding of the 2010 Series Bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$501,099. This amount is shown as a deferred loss on refunding of bonds payable and is amortized over the life of the new debt through 2023. This refunding transaction was undertaken to reduce the Water Department’s total debt service payments by approximately \$746,000 over nine years and resulted in an economic gain (difference between the present value of debt service payments on the old and new debt) of approximately \$627,000. Principal and interest are payable semiannually and are due on December 1, 2023.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Wastewater Revenue Improvement 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 Refunding 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.

Wastewater Revenue Improvement Bonds, Series 2015B – Bonds in the amount of \$10,000,000 were issued with an interest rate of 1.50% for the purpose of financing improvements to the wastewater collection and treatment facilities and to refund previously issued debt and revenue improvement bonds. Principal and interest are payable semiannually and are due on April 15, 2037.

Wastewater Revenue Refunding Bonds, Series 2016 – Bonds in the amount of \$12,415,000 were issued with varying interest rates from 2.00% to 5.00% to accomplish a current refunding of the 2010 Series Bonds. Principal and interest are payable semiannually and are due on October 1, 2040.

Wastewater Revenue Refunding Bonds, Series 2017 – Bonds in the amount of \$58,832,965 were issued with an interest rate of 1.50% to accomplish a current refunding of the outstanding Wastewater Revenue Improvement Bonds, 2015 Series, which was initially issued for the purpose of financing improvements to the wastewater collection and treatment facilities and to refund previously issued debt and revenue improvement bonds. Principal and interest are payable semiannually and are due on October 15, 2037.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Notes Payable

Notes payable at December 31, 2017, 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%. The outstanding balance is \$400,000 at December 31, 2017.
- 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. The outstanding balance is \$800,000 at December 31, 2017.
- A \$2,000,000 promissory note was issued by the City in June 2016 to purchase land; interest due in annual installments and the entire principal balance due on July 23, 2021, if no demand is made prior; interest rate 2.52%. At December 31, 2017, only \$1,200,000 of the funds had been received by the City, and the balance outstanding is \$799,137.
- A \$2,600,000 promissory note was issued by the City in May 2016 to finance street improvements; interest due in annual installments and the entire principal balance due on May 12, 2021; interest rate 2.14%. The balance outstanding is \$2,128,840 at December 31, 2017.
- A \$2,800,000 promissory note was issued by the City in April 2017 to finance Expo Center improvements; due in annual installments of approximately \$613,390 through April 5, 2022; interest rate 3.07%. The outstanding balance is \$2,800,000 at December 31, 2017.

Business-Type Activities

- A \$6,500,000 promissory note was issued by the City in February 2014 to finance the construction of an airport. The promissory note was paid in full during 2017.

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%. The outstanding balance is \$581,787 at December 31, 2017.

Leases Payable – Governmental Activities

Leases payable at December 31, 2017, were as follows:

- An \$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, 2017. The outstanding balance is \$448,743 at December 31, 2017.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Leases Payable – Business-Type Activities

Leases payable at December 31, 2017, were as follows:

- A \$3,000,000 lease-purchase agreement effective September 2016 to finance the purchase of equipment; annual payments of \$642,213 through September 30, 2021. The related equipment under the lease-purchase agreement has a net book value of approximately \$1,200,000 as of December 31, 2017. The outstanding balance is \$2,427,087 as of December 31, 2017.

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, 2017:

Governmental Activities

Fiscal Year	Principal	Interest	Total
2018	\$ 3,692,118	\$ 1,978,687	\$ 5,670,805
2019	2,936,867	1,898,880	4,835,747
2020	3,025,087	1,795,619	4,820,706
2021	3,143,381	1,716,159	4,859,540
2022	2,649,837	1,581,942	4,231,779
2023–2027	10,760,192	6,419,678	17,179,870
2028–2032	7,535,000	3,934,317	11,469,317
2033–2037	6,385,000	2,486,381	8,871,381
Thereafter	<u>8,869,238</u>	<u>1,349,589</u>	<u>10,218,827</u>
	<u>\$ 48,996,720</u>	<u>\$ 23,161,252</u>	<u>\$ 72,157,972</u>

Business-Type Activities

Fiscal Year	Principal	Interest	Total
2018	\$ 586,147	\$ 373,573	\$ 959,720
2019	599,687	36,000	635,687
2020	613,540	36,000	649,540
2021	<u>627,713</u>	<u>36,000</u>	<u>663,713</u>
	<u>\$ 2,427,087</u>	<u>\$ 481,573</u>	<u>\$ 2,908,660</u>

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Component Unit – Conway Corporation

Fiscal Year	Principal	Interest	Total
2018	\$ 5,744,267	\$ 4,561,729	\$ 10,305,996
2019	7,312,774	4,358,101	11,670,875
2020	7,542,717	4,129,799	11,672,516
2021	7,786,725	3,887,037	11,673,762
2022	8,052,353	3,617,349	11,669,702
2023–2027	38,595,915	13,927,057	52,522,972
2028–2032	29,146,271	8,327,314	37,473,585
2033–2037	33,954,007	3,533,474	37,487,481
Thereafter	3,880,507	196,015	4,076,522
	<u>142,015,536</u>	<u>46,537,875</u>	<u>188,553,411</u>
Less amounts to be drawn by the Corporation after December 31, 2017	<u>373,707</u>	<u>-</u>	<u>373,707</u>
	<u>\$ 141,641,829</u>	<u>\$ 46,537,875</u>	<u>\$ 188,179,704</u>

Note 7: Construction Commitments

At December 31, 2017, the City had the following commitments:

	Project Authorization	Expended Through December 31, 2017	Remaining Commitment
Bruce & 6th Street	\$ 3,446,343	\$ 2,203,914	\$ 1,242,429
Tennis Center at Laurel Park	2,310,000	1,462,279	847,721
Dave Ward Dr. Adaptive Traffic Signals	<u>94,462</u>	<u>30,000</u>	<u>64,462</u>
Total	<u>\$ 5,850,805</u>	<u>\$ 3,696,193</u>	<u>\$ 2,154,612</u>

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Note 8: Interfund Balances and Transfers

Interfund receivables and payables as of December 31, 2017, are as follows:

	Interfund Receivables	Interfund Payables
General fund	\$ 360,144	\$ 158,178
Street fund	83,217	98,427
Debt service fund	-	733
Other governmental funds	81,679	162,183
Sanitation fund	68	6,663
Airport fund	733	1,344
Fiduciary fund	41,928	140,241
	\$ 567,769	\$ 567,769

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, 2017, are as follows:

	Transfers Out			
	Governmental Funds	Proprietary Funds		Total
	Other Funds	Airport Fund	Sanitation Fund	
Transfers In				
Governmental funds				
General fund	\$ -	\$ -	\$ 423,000	\$ 423,000
Debt service fund	1,059,668	-	-	1,059,668
Proprietary fund				
Sanitation	-	3,000,000	-	3,000,000
	\$ 1,059,668	\$ 3,000,000	\$ 423,000	\$ 4,482,668

During the year, transfers are used to move sanitation fees to the general fund and to transfer funds from capital projects to the debt service fund for debt-related payments. Further, during 2017, a nonrecurring transfer was made to move \$3,000,000 from the airport fund back to the sanitation fund for repayment of monies moved in prior year.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Note 9: Fund Balances

The City classified governmental fund balances as follows:

	General Fund	Street Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances					
Nonspendable:					
Prepays	\$ 32,546	\$ -	\$ -	\$ -	\$ 32,546
Restricted					
Debt service	-	-	2,774,688	-	2,774,688
Street maintenance	-	4,679,559	-	-	4,679,559
Street capital projects	-	-	-	3,692,619	3,692,619
Parks and recreation capital projects	-	-	-	4,279,291	4,279,291
Special projects	-	-	-	1,696,973	1,696,973
Assigned	-	-	-	-	-
Unassigned	10,564,709	-	-	(160,078)	10,404,631
Total Fund Balances	<u>\$ 10,597,255</u>	<u>\$ 4,679,559</u>	<u>\$ 2,774,688</u>	<u>\$ 9,508,805</u>	<u>\$ 27,560,307</u>

Note 10: Related Party Transactions

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

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

Cable Television Department – The Corporation operates the Cable Television Department for the City under a lease agreement, which expires December 31, 2025. 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 \$800,000 during the year ended December 31, 2017. At December 31, 2017, the Cable Television Department was indebted to the City in the amount of approximately \$65,000, which is recorded as due from component units.

Electric Department – The Corporation operates the Electric Department for the City pursuant to an exclusive franchise agreement requiring the Electric Department to assess each customer a 2.5% franchise fee on certain revenues. The Electric Department remitted approximately \$1,260,000 in franchise fees. At December 31, 2017, the Electric Department was indebted to the City in the amount of approximately \$61,000, which is recorded as due from component units. The Electric Department also pays the City \$120,000 in annual rent.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

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 \$63,000 for billing and collection services and remitted approximately \$8,950,000 to the City in gross receipts during the year ended December 31, 2017. At December 31, 2017, the Corporation was indebted to the Sanitation Department in the amount of approximately \$790,000, which is recorded as due from component units.

The City paid the Corporation approximately \$814,000 during 2017 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 \$3,200,000 to the City during the year ended December 31, 2017. At December 31, 2017, the Commission was indebted to the City in the amount of \$519,067, which is recorded as due from component units.

Note 11: Pension Plans

The City participates in four defined benefit pension plans, which are comprised of two agent multiple-employer defined benefit pension plans, one cost-sharing multiple-employer defined benefit pension plan, and one single employer defined benefit plan, each of which are described and illustrated in detail below. Aggregate amounts for the four pension plans are as follows:

	Governmental Activities					Business-Type Activities	
	LOPFI	FRPF	PRPF	Nonuniformed	Total	Nonuniformed	Total
Net Pension Liability	\$ (21,829,157)	\$ (4,206,775)	\$ (4,298,683)	\$ (27,459,847)	\$ (57,794,462)	\$ (10,673,533)	\$ (68,467,995)
Deferred Outflows – Pension	5,741,928	279,306	323,538	5,211,493	11,556,265	2,025,687	13,581,952
Deferred Outflows – Contributions	2,676,599	590,164	662,873	-	3,929,636	-	3,929,636
Pension Expense	4,186,346	663,667	198,186	3,365,510	8,413,709	945,245	9,358,954
Deferred Inflows – Pension	(1,154,622)	-	-	(4,229,733)	(5,384,355)	(1,644,081)	(7,028,436)

Pensions items listed above for the Nonuniformed Plan have been allocated between governmental activities and business-type activities (also proprietary funds) on the basis of covered payroll.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Policemen's Relief and Pension Fund (PRPF)

Plan Description. The Policemen's Relief and Pension Fund (PRPF) is an agent multiple-employer defined benefit pension plan for employees of the Police Department who were hired prior to January 1, 1983. The plan was established in accordance with Arkansas statutes and was closed, by state law, to new employees effective January 1, 1983. On June 25, 2013, the City entered into an agreement with the Arkansas Local Police and Fire (LOPFI) Retirement System whereby LOPFI assumed responsibility for administration and a portion of the obligation of the plan pursuant to Act 364 of 1981, as amended, and Act 655 of 1983 of the General Assembly of the State of Arkansas. Per the agreement between the City and LOPFI, the City will contribute an actuarially determined rate sufficient to support the current plan benefit levels and fund the plan's net pension obligation over a 30 year closed amortization period. The plan's benefit structure remains unchanged under the administration of LOPFI. The plan issues separate stand-alone financial statements and can be obtained from the Arkansas Local Police and Fire Retirement System, 620 West 3rd Street, Little Rock, Arkansas 72201.

Benefits. The PRPF 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 the Police department. The PRPF also provides benefits for surviving spouses and dependent children of deceased policemen. No participants' benefits vest until normal retirement age. At normal retirement, participants may elect to continue working and enter the Deferred Retirement Option Plan (DROP) for up to five years. All policemen hired after January 1, 1983, participate in the LOPFI Retirement System created by Act 364 of 1981 and described later in the footnote. Therefore, the PRPF is effectively closed to new members.

At the December 31, 2016, valuation and measurement date, the following employees were covered by the benefit terms:

	Policemen's Pension and Relief Plan
Inactive plan members or beneficiaries receiving benefits	36
Inactive plan members entitled to but not yet receiving benefits	0
Active plan members	0
Members on Deferred Retirement Option Plan (DROP)	0
Total	36

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Contributions. Arkansas state statutes require yearly contributions at a level percentage of covered payroll sufficient to cover the costs of benefit commitments made to participants for their service rendered in that year and, over a reasonable period of time, to fully cover the unfunded costs of benefit commitments for services previously rendered. The City is required to contribute the actuarially required normal costs and amortized costs of the unfunded actuarial accrued liability. Contributions by the City to the Plan for the year ended December 31, 2017, were \$662,873.

Net Pension Liability

The City's net pension liability of \$4,298,683 as of December 31, 2017, was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated December 31, 2016.

Actuarial Assumptions

Actuarial valuation date	12/31/2016
Actuarial cost method	Entry age normal
Amortization method	Closed amortization period based on projected future payroll
Remaining amortization period	9 years
Asset valuation method	5-year smoothed market
Investment rate of return	7.75%
Projected salary increases	3.75%
Includes inflation at	2.75%
Cost-of-living adjustments	None

Mortality rates for retirees, beneficiaries, and DROP members were based on the gender-distinct RP2000 Combined Mortality Table, projected to 2017 and set forward two years for males. For disabled members, the mortality rates are the rates applicable to non-disabled lives set forward 10 years.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in PRPF was for the period January 1, 2008 through December 31, 2011, first used in the December 31, 2012, valuation. Assumptions are reviewed annually.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments is 7.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the LOPFI Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of the Plan.

The long-term expected rate of return on pension plan investment 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 and inflation are developed for each major asset class). These ranges 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 and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Long-term Expected Real Rate of Return		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Fixed Income	30%	2.97%
International Fixed Income	6%	1.50%
Domestic Equity	33%	5.88%
Foreign Equity	7%	6.25%
Index	11%	6.73%
Alternative Investments	10%	6.13%
Cash	3%	-0.40%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of retired members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
January 1, 2017	\$ 9,781,259	\$ 4,957,414	\$ 4,823,845
Changes for the year:			
Interest	724,823	-	724,823
Difference between expected and actual experience	(261,942)	-	(261,942)
Changes of assumptions	-	-	-
Contributions – employer	-	706,602	(706,602)
Local plan administrative mergers	-	2,625	(2,625)
Net investment income	-	288,502	(288,502)
Benefit payments, including refunds of employee contributions	(857,419)	(857,419)	-
Administrative expenses	-	(9,686)	9,686
Net changes	(394,538)	130,624	(525,162)
December 31, 2017	\$ 9,386,721	\$ 5,088,038	\$ 4,298,683

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability for 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
	6.75%	7.75%	8.75%
City's net pension liability	\$ 5,139,473	\$ 4,298,683	\$ 3,493,437

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued LOPFI financial report, which can be found at <http://lopfi-prb.com/lopfi/reports/>.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions

For the year ended December 31, 2017, the City recognized pension expense of \$198,186 related to this plan.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

At December 31, 2017, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 323,538
Contributions subsequent to the measurement date	662,873
Total	\$ 986,411

The amount reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$662,873 will be recognized as a reduction of the net pension liability for the year ending December 31, 2018.

Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,		
2018	\$	104,420
2019		104,420
2020		96,782
2021		17,916
Total	\$	323,538

Firemen’s Relief and Pension Fund (FRPF)

Plan Description. The Firemen’s Relief and Pension Fund (FRPF) is an agent multiple-employer defined benefit pension plan for employees of the Fire Department who were hired prior to January 1, 1983. The Plan was established in accordance with Arkansas statutes and was closed, by state law, to new employees effective January 1, 1983. On June 25, 2013, the City entered into an agreement with the LOPFI retirement system whereby LOPFI assumed responsibility for administration and a portion of the obligation of the plan pursuant to Act 364 of 1981, as amended, and Act 655 of 1983 of the General Assembly of the State of Arkansas. Per the agreement between the City and LOPFI, the City will contribute an actuarially determined rate sufficient to support the current plan benefit levels and fund the plan’s net pension obligation over a 30-year closed amortization period.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

The plan's benefit structure remains unchanged under the administration of LOPFI. The plan issues separate stand-alone financial statements and can be obtained from the Arkansas Local Police and Fire Retirement System, 620 West 3rd Street, Little Rock, Arkansas 72201.

Benefits. The FRPF 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 the fire department. The FRPF also provides benefits for surviving spouses and dependent children of deceased firemen. No participants' benefits vest until normal retirement age. At normal retirement, participants may elect to continue working and enter the DROP for up to five years. All firemen hired after January 1, 1983, participate in the LOPFI Retirement System created by Act 364 of 1981. Therefore, the FRPF is effectively closed to new members.

At the December 31, 2016, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries	
receiving benefits	25
Inactive plan members entitled to but not	
yet receiving benefits	0
Active plan members	0
Members on Deferred Retirement	
Option Plan (DROP)	1
Total	26

Contributions. Arkansas state statutes require yearly contributions at a level percentage of covered payroll sufficient to cover the costs of benefit commitments made to participants for their service rendered in that year and, over a reasonable period of time, to fully cover the unfunded costs of benefit commitments for services previously rendered. The City is required to contribute the actuarially required normal costs and amortized costs of the unfunded actuarial accrued liability. Contributions by the City to the Plan for the year ended December 31, 2017, were \$590,164.

Net Pension Liability

The City's net pension liability of \$4,206,775 as of December 31, 2017, was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated December 31, 2016.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Actuarial Assumptions

Actuarial valuation date	12/31/2016
Actuarial cost method	Entry age normal
Amortization method	Closed amortization period based on projected future payroll
Remaining amortization period	9 years
Asset valuation method	5-year smoothed market
Investment rate of return	7.75%
Projected salary increases	3.75%
Includes inflation at	2.75%
Cost-of-living adjustments	None

Mortality rates for retirees, beneficiaries and DROP members were based on the gender-distinct RP2000 Combined Mortality Table, projected to 2017 and set forward two years for males. For disabled members, the mortality rates are the rates applicable to non-disabled lives set forward 10 years.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in FRPF was for the period January 1, 2008 through December 31, 2011, first used in the December 31, 2012, valuation. Assumptions are reviewed annually.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments is 7.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the LOPFI Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of the plan.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

The long-term expected rate of return on pension plan investment 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 and inflation are developed for each major asset class). These ranges 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 and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic fixed income	30%	2.97%
International fixed income	6%	1.50%
Domestic equities	33%	5.88%
International equities	7%	6.25%
Index funds	11%	6.73%
Alternative investments	10%	6.13%
Cash	3%	-0.40%

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of retired and DROP members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
January 1, 2017	\$ 8,660,950	\$ 4,348,133	\$ 4,312,817
Changes for the year:			
Interest	645,070	-	645,070
Difference between expected and actual experience	258,794	-	258,794
Changes of assumptions	-	-	-
Contributions – employer	-	759,393	(759,393)
Net investment income	-	259,280	(259,280)
Benefit payments, including refunds of employee contributions	(674,923)	(674,923)	-
Administrative expenses	-	(8,767)	8,767
Net changes	228,941	334,983	(106,042)
December 31, 2017	<u>\$ 8,889,891</u>	<u>\$ 4,683,116</u>	<u>\$ 4,206,775</u>

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability for 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
	6.75%		7.75%		8.75%
City's net pension liability	\$ 4,954,017	\$	4,206,775	\$	3,572,366

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued LOPFI financial report, which can be found at <http://lopfi-prb.com/lopfi/reports/>.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions

For the year ended December 31, 2017, the City recognized pension expense of \$663,667 related to this plan.

At December 31, 2017, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 279,306
Contributions subsequent to the measurement date	590,164
Total	\$ 869,470

The amount reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$590,164 will be recognized as a reduction of the net pension liability for the year ending December 31, 2018.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u> <u>December 31,</u>		
2018	\$	89,969
2019		89,969
2020		83,241
2021		16,127
2022		-
Thereafter		-
Total	\$	<u>279,306</u>

Local Police and Fire Retirement System (LOPFI)

Plan Description. The Arkansas Local Police and Fire Retirement System (LOPFI) is a statewide cost-sharing multiple-employer defined benefit plan administered by the LOPFI Board of Trustees. LOPFI 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. 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. On January 1, 2008, only firemen of the City participated in the plan. Effective July 1, 2008, policemen of the City began participating in the plan. LOPFI issues a publicly available report, which may be obtained by writing to LOPFI, P.O. Drawer 34164, Little Rock, Arkansas 72203, or by calling 501.682.1745.

Benefits provided. LOPFI provides for a retirement benefit paid to the member on a monthly basis. The monthly benefit is based on a formula provided by law for the member's lifetime. The member has several options in calculating the benefit, which is normally the result of these factors: age at retirement, retirement multiplier, amount of credit services (years and months), and final average pay (FAP). Each option available to the member provides for a different calculation based on these factors.

Contributions. Contributions to LOPFI are made by both the member and employers. Member contribution rates are established by the LOPFI Board of Trustees. The employer contributions are actuarially determined on an annual basis. The current employee contribution rate is 8.5% of covered payroll for policemen and firemen. The City contributed 22.00% of covered employees' salaries to the plan for policemen and 21.16% of covered employees' salaries to the plan for firemen for the year ended December 31, 2017. Contributions by the City to the plan for the year ended December 31, 2017 were \$2,676,599.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the City reported a liability of \$21,829,154 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the ratio of the City's actual contributions to the plan during the measurement period to the total employer contributions to the plan of the group for the measurement period. At December 31, 2015, the City's proportion was 3.9909%, which was a decrease of 0.0725% from the December 31, 2014, proportion of 4.0634%.

For the year ended December 31, 2017, the City recognized pension expense of \$4,186,346 related to this plan. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 760,458	\$ 5,135
Change of assumptions	1,163,335	-
Change in proportion	351,849	1,149,487
Net difference between projected and actual earnings on pension plan investments	3,466,284	-
Contributions subsequent to the measurement date	<u>2,676,599</u>	<u>-</u>
Total	<u>\$ 8,418,525</u>	<u>\$ 1,154,622</u>

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

The amount reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$2,676,599 will be recognized as a reduction of the net pension liability for the year ended December 31, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u> <u>December 31,</u>		
2018	\$	1,565,052
2019		1,565,481
2020		1,435,046
2021		<u>21,725</u>
 Total	 \$	 <u><u>4,587,304</u></u>

Actuarial Assumptions

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	12/31/2016
Investment rate of return	7.75%, compounded annually, after administrative expense
Projected salary increases	4.25% to 18.75%, including inflation
Wage Inflation	3.75%
Price Inflation	2.75%

Mortality rates were based on the RP-2000 Combined Mortality Table Projected to 2017.

The actuarial assumptions used in the December 31, 2016, valuation were based on the results of an actuarial experience study for the period January 1, 2008 to December 31, 2011. As a result of the 2011 actuarial experience study, the expectation of life after disability was adjusted in the December 31, 2015, actuarial evaluation to more closely reflect actual experience. Assumptions are reviewed annually with no changes in the current year.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Long-Term Expected Return on Plan Assets

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. The rates were built on a target allocation for all pension funds; the target for an individual fund will vary within the guidelines of Arkansas law and regulation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic fixed income	30%	2.97%
International fixed income	6%	1.50%
Domestic equities	33%	5.88%
International equities	7%	6.25%
Index funds	11%	6.73%
Alternative investments	10%	6.13%
Cash	3%	-0.40%

Discount Rate

In the December 31, 2016, actuarial valuation, a single discount rate of 7.75% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. The projection of cash flows, based on the assumptions made, found that the pension plan's net position was available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	Sensitivity of the Net Position Liability to the Single Discount Rate Assumption		
	1% Decrease	Current Single Rate Assumption	1% Increase
	6.75%	7.75%	8.75%
City's proportional share of the net pension liability	\$ 34,181,865	\$ 21,829,157	\$ 11,709,946

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued LOPFI financial report, which can be found at <http://lopfi-prb.com/lopfi/reports/>.

Nonuniformed Employees’ Defined Benefit Pension Plan (Nonuniformed Plan)

Plan Description. 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.

Benefits. The Plan provides retirement, disability and death benefits. Retirement benefits for general plan members are calculated as 50 % of the member’s final average salary compensation. Plan members with 10 years of continuous service are eligible to retire at age 60. Plan members may retire at any age after 20 years of service. All plan members are eligible for disability benefits after five years of service. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately. Death benefits equal \$50 per month to the surviving spouse for their lifetime, ending upon remarriage and dependent children, until the child reaches 16. A plan member who leaves employment may withdraw his or her contributions, plus any accumulated interest.

At the January 1, 2018, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries	
receiving benefits	104
Inactive plan members entitled to but not	
yet receiving benefits	12
Active plan members	238
Total	354

Contributions. The City contributes the actuarially required normal costs and amortized costs of the unfunded actuarial accrued liability. In addition, active employees are required to make contributions equal to 6% of their gross salary. The City’s required contributions for the 2017 fiscal year were \$2,845,285; however, the City made contributions of \$1,029,340, or 11.14%, of covered payroll.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Actuarial Assumptions

Actuarial valuation date	1/1/2018
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Remaining amortization period	20 years
Asset valuation method	Market value
Investment rate of return	6.5%
Projected salary increases	3.5%
Includes inflation at	2.75%
Cost-of-living adjustments	None

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.

For the Nonuniformed Plan, mortality rates were based on the RP-2000 Combined Healthy Mortality Table, projected to 2020 using Projection Scale BB.

Method Used to Determine Fair Value of Investments

The fair value of investments is determined using quoted market prices.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Net Pension Liability

The components of the net pension liability of the City at December 31, 2017, and the total pension liability used to calculate the net pension liability were determined by an actuarial valuation as of January 1, 2018, and were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
January 1, 2017	\$ 45,750,539	\$ 10,758,848	\$ 34,991,691
Changes for the year:			
Service cost	3,032,617	-	3,032,617
Interest	1,851,930	-	1,851,930
Difference between expected and actual experience	(4,321,636)	-	(4,321,636)
Assumption changes	5,717,042	-	5,717,042
Contributions – employer	-	1,029,340	(1,029,340)
Contributions – employees	-	554,240	(554,240)
Net investment income	-	1,576,156	(1,576,156)
Benefit payments, including refunds of employee contributions	(1,751,640)	(1,751,640)	-
Administrative expenses	-	(21,472)	21,472
	<u>4,528,313</u>	<u>1,386,624</u>	<u>3,141,689</u>
Net changes			
	<u>4,528,313</u>	<u>1,386,624</u>	<u>3,141,689</u>
December 31, 2017	<u>\$ 50,278,852</u>	<u>\$ 12,145,472</u>	<u>\$ 38,133,380</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability		24.16%	

Long-Term Expected Return on Plan Assets

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, 2016, are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and cash equivalents	20%	0.60%
Corporate bonds	7%	3.00%
Equities	73%	7.50%

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Discount Rate

A single discount rate of 3.56% was used to measure the total pension liability as of December 31, 2017. The single discount rate of 3.56% is based on the expected rate of return on pension plan investments of 6.50% and a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) of 3.31%. 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 2028. Therefore, a single discount rate of 3.56% was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2017. A single discount rate of 3.99% was used to measure the total pension liability as of December 31, 2016. The change in the single discount rate is presented as an assumption change in the changes to the net pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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 2.56%	Current Single Rate Assumption 3.56%	1% Increase 4.56%
City's net pension liability	\$ 46,030,031	\$ 38,133,380	\$ 31,776,273

Money-Weighted Rate of Return

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	2017	15.80%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the City recognized pension expense of \$4,310,755 related to this plan.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 4,905,999
Change of assumptions	7,237,180	747,203
Net difference between projected and actual earnings on pension plan investments	-	220,612
Total	\$ 7,237,180	\$ 5,873,814

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the pensions will be recognized in pension expense as follows:

Year Ending December 31,			
2018	\$	652,140	
2019		622,502	
2020		445,618	
2021		(235,623)	
2022		(121,271)	
Total	\$	1,363,366	

Note 12: 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.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Copies of this report may be obtained by contacting the Corporation. The Corporation does not issue a stand-alone financial report for the Plan.

Benefits Provided. The Plan provides retirement benefits for full-time employees of the Corporation with at least one year of service and are at least 21 years of age. Retirement benefits are calculated as 1.5% of the employee's final five-year average salary times the employee's years of service. All employees may retire on the latter of an employee's 65th birthday or the fifth anniversary of the first day of the plan year in which participation in the Plan commenced. An employee who retires after the age of 62, but before age 65, and has completed at least 10 years of service may withdraw their vested accrued benefit, subject to a 0.250% per month actuarial reduction (if hired on or after January 1, 1990) or 0.167% actual reduction (if hired before January 1, 1990) for early commencement.

At August 1, 2017, the following employees of the Corporation were covered by the benefit terms:

Inactive plan members or beneficiaries	
receiving benefits	62
Inactive plan members entitled to but not	
yet receiving benefits	44
Active plan members	225
Total	331

Contributions. The Corporation's policy is to contribute at least 100% of the actuarially determined contribution, subject to approval by the Corporation's Board of Directors. The Corporation's contribution rate and required contributions for the year ended December 31, 2017, were 13.41% and \$1,974,274, respectively. Actual contributions for all departments totaled \$1,931,179, or 97.82%, of required contributions.

Net Pension Liability

The Corporation's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 1, 2017, and then projected forward to the measurement date. There have been no significant changes between the valuation date and the measurement date.

Total pension liability in the August 1, 2017, actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

Actuarial valuation date	8/1/2017
Investment rate of return	7%
Projected salary increases	4%
Inflation	3%

Mortality rates were based on the RP-2000 Mortality Table for Healthy Annuitants and Employees for Males and Females with Scale AA generational projection.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

The best-estimate range for the long-term expected rate of return on pension plan investments was determined by adding expected inflation to expected long-term real returns. The target allocations and the expected real returns were developed based on consultation with the Plan's investment advisor. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of August 1, 2017, are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Stock	75%	7.50%
Fixed income	20%	3.00%
Cash equivalents	5%	0.50%

Discount Rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will total the actuarially determined contribution. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

Changes in the Corporation's net pension liability for the year ended December 31, 2017, were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
January 1, 2017	\$ 37,720,571	\$ 27,088,993	\$ 10,631,578
Changes for the year:			
Service cost	836,923	-	836,923
Interest	2,662,858	-	2,662,858
Difference between expected and actual experience	434,692	-	434,692
Contributions – employer	-	1,931,179	(1,931,179)
Net investment income	-	3,652,273	(3,652,273)
Benefit payments, including refunds of employee contributions	(1,051,119)	(1,051,119)	-
Administrative expenses	-	(11,215)	11,215
Net changes	2,883,354	4,521,118	(1,637,764)
December 31, 2017	\$ 40,603,925	\$ 31,610,111	\$ 8,993,814

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

The schedule of changes in the net pension liability and related ratios, presented on Page 84 as required supplementary information following the notes to the financial statements, presents information about the changes in the net pension liability of the Plan, differences between the actuarial determined contributions and employer contributions and related ratios.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Corporation, calculated using the discount rate of 7.00%, as well as what the Corporation's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

	Sensitivity of the Net Position Liability to the Single Discount Rate Assumption		
	1% Decrease 6.00%	Current Single Rate Assumption 7.00%	1% Increase 8.00%
Corporation's net pension liability	\$ 14,985,665	\$ 8,993,814	\$ 4,042,061

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended December 31, 2017, the Corporation recognized pension expense of \$1,770,663. At December 31, 2017, the Corporation reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 478,445	\$ (92,343)
Net difference between projected and actual earnings on pension plan investments	-	(333,038)
Contributions subsequent to the measurement date	233,444	-
Total	\$ 711,889	\$ (425,381)

The amount reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$233,444 will be recognized as a reduction of the net pension liability for the year ending December 31, 2018.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Section 457 Deferred Compensation Plan

The Conway Corporation 457 Supplemental Retirement Plan was formed, effective January 1, 2000, as a supplemental defined contribution retirement program for employees. Employee participation in this plan is optional. The Corporation makes matching contributions for eligible employees who elect to participate up to 25% of the first 3% of each participant's gross pay. Matching contributions for all Corporation employees for the year ended December 31, 2017, totaled \$102,291.

Note 13: Component Unit Postemployment Health Care 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, 2016. 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*. 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	\$ 215,017
Interest on net OPEB obligation	48,697
Adjustment to annual required contribution	<u>(54,108)</u>
Annual OPEB cost	209,606
Contributions made	<u>(63,000)</u>
Increase in net OPEB obligation	146,606
Net OPEB – beginning of year	<u>1,623,239</u>
Net OPEB – end of year	<u><u>\$ 1,769,845</u></u>

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

The Corporation's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2017, 2016 and 2015 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	\$ 193,304	18.1%	\$ 1,470,690
12/31/2016	201,549	24.3%	1,623,239
12/31/2017	209,606	30.1%	1,769,845

Funded Status and Funding Progress: As of January 1, 2016, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 2,540,506
Actuarial value of plan assets	-
Unfunded actual accrued liability (UAAL)	\$ 2,540,506
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 14,326,979
UAAL as a percentage of covered payroll	17.7%

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, 2016, actuarial valuation utilizes the unit credit actuarial cost method. The actuarial assumptions include an annual health care cost trend rate of 4.4%, reduced by decrements to an ultimate rate of 4.2% after 71 years. The rate includes a 3.0% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll, assuming 3.0% growth in covered payroll, on an open basis. The remaining amortization period at January 1, 2016, is 30 years.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

Note 14: 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 2016 to 2017; nor have settlement amounts exceeded insurance coverage for the current year or the three prior years.

Note 15: 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 16: 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 statement of net position date.

City of Conway, Arkansas
Notes to Financial Statements
December 31, 2017

The estimated liability for landfill closure and postclosure care costs was approximately \$8,621,822 as of December 31, 2017, 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, 2017, the trust held funds of approximately \$5,681,000. The financial assurance is funded by a capital improvement sanitation surcharge that also funds sanitation capital improvements.

Note 17: 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, 2017, the aggregate principal amount payable on these bonds was approximately \$211,210,000.

Note 18: Subsequent Events

Subsequent events have been evaluated through September 28, 2018, which is the date the financial statements were available to be issued.

Required Supplementary Information

City of Conway, Arkansas
Other Postemployment Benefits Plan
Schedule of Funding Progress
Year Ended December 31, 2017

<i>Discretely Presented Component Units</i>	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)
Conway Corporation Postemployment Healthcare and Life Insurance Plan	1/1/2016	\$ -	\$ 2,540,506	\$ 2,540,506	0%	\$ 14,326,979	17.7%
	1/1/2013	-	2,128,668	2,128,668	0%	12,472,834	17.1%
	1/1/2011	-	2,118,827	2,118,827	0%	10,937,948	19.4%

City of Conway, Arkansas
Agent Multiple-Employer Plan
Schedule of Changes in the City's Net Pension Liability
and Related Ratios – PRPF
Year Ended December 31, 2017

Fiscal Year Ended December 31,	2017	2016	2015
Total Pension Liability			
Interest	\$ 724,823	\$ 764,021	\$ 762,953
Difference between actual and expected experience	(261,942)	(276,923)	112,870
Assumption changes	-	167,104	-
Benefit payments	(857,419)	(846,418)	(878,531)
Net Change in Total Pension Liability	(394,538)	(192,216)	(2,708)
Total Pension Liability – Beginning	9,781,259	9,973,475	9,976,183
Total Pension Liability – Ending (a)	<u>\$ 9,386,721</u>	<u>\$ 9,781,259</u>	<u>\$ 9,973,475</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 706,602	\$ 667,367	\$ 714,536
Local plan administrative mergers	2,625	-	-
Net investment income	288,502	9,168	351,703
Benefit payments	(857,419)	(846,418)	(878,531)
Administrative expense	(9,686)	(11,907)	(8,357)
Net Change in Plan Fiduciary Net Position	130,624	(181,790)	179,351
Plan Fiduciary Net Position – Beginning	4,957,414	5,139,204	4,959,853
Plan Fiduciary Net Position – Ending (b)	<u>\$ 5,088,038</u>	<u>\$ 4,957,414</u>	<u>\$ 5,139,204</u>
City's Net Pension Liability (a) – (b)	<u>\$ 4,298,683</u>	<u>\$ 4,823,845</u>	<u>\$ 4,834,271</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	54.20%	50.68%	51.53%
Covered Payroll	\$ -	\$ -	\$ -
City's Net Pension Liability as a Percentage of Covered Payroll	N/A	N/A	N/A

Note: Information in this schedule has been determined as of the measurement date (December 31 of the year prior to the most recent fiscal year-end) of the City's net pension liability.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

Assumption changes for 2016 include a decrease in the price inflation from 3.00 percent to 2.75 percent; a decrease in wage inflation from 4.00 percent to 3.75 percent; a decrease in the salary increases from 4.50 percent to 19.00 percent to 4.25 percent to 18.75 percent; and a decrease in the investment rate of return from 8.00 percent to 7.75 percent.

City of Conway, Arkansas
Agent Multiple-Employer Plan
Schedule of Contributions – PRPF
Year Ended December 31, 2017

FY Ended December 31,	Actuarially Determined Contribution (ADC)	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	\$ 714,536	\$ 714,536	\$ -	\$ -	N/A
2015	\$ 667,367	\$ 667,367	\$ -	\$ -	N/A
2016	\$ 706,602	\$ 706,602	\$ -	\$ -	N/A
2017	\$ 662,873	\$ 662,873	\$ -	\$ -	N/A

Key Assumptions for ADC:

Cost Method	Entry Age Normal
Amortization Method	Closed Amortization Period based on projected future payroll
Remaining Amortization	9 years beginning January 1, 2018
Asset Valuation	5-Year smoothed market; 20% corridor (for funding purposes)
Inflation	2.75%
Salary Increases	3.75%, which is the portion of the individual pay increase assumptions attributable to wage inflation
Investment Rate of Return	7.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2012 pursuant to an experience study of the period 2008–2011.
Mortality	RP-2000 Combined Mortality Table, projected to 2017 and set forward two years for men. For disabled lives, the mortality rates are the rates applicable to nondisabled lives set forward 10 years.

Note: Information in this schedule has been determined as of the City's most recent fiscal year-end.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

City of Conway, Arkansas
Agent Multiple-Employer Plan
Schedule of Changes in the City's Net Pension Liability
and Related Ratios – FRPF
Year Ended December 31, 2017

Fiscal Year Ended December 31,	2017	2016	2015
Total Pension Liability			
Interest	\$ 645,070	\$ 669,923	\$ 699,332
Difference between actual and expected experience	-	(197,714)	754
Assumption changes	258,794	162,206	-
Benefit payments	(674,923)	(695,006)	(1,440,380)
Net Change in Total Pension Liability	<u>228,941</u>	<u>(60,591)</u>	<u>(740,294)</u>
Total Pension Liability – Beginning	<u>8,660,950</u>	<u>8,721,541</u>	<u>9,461,835</u>
Total Pension Liability – Ending (a)	<u>\$ 8,889,891</u>	<u>\$ 8,660,950</u>	<u>\$ 8,721,541</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 759,393	\$ 801,590	\$ 729,371
Net investment income	259,280	7,802	309,822
Benefit payments	(674,923)	(695,006)	(1,440,380)
Administrative expense	(8,767)	(10,200)	(7,362)
Net Change in Plan Fiduciary Net Position	<u>334,983</u>	<u>104,186</u>	<u>(408,549)</u>
Plan Fiduciary Net Position – Beginning	<u>4,348,133</u>	<u>4,243,947</u>	<u>4,652,496</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 4,683,116</u>	<u>\$ 4,348,133</u>	<u>\$ 4,243,947</u>
City's Net Pension Liability (a) – (b)	<u>\$ 4,206,775</u>	<u>\$ 4,312,817</u>	<u>\$ 4,477,594</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	52.68%	50.20%	48.66%
Covered Payroll	\$ -	\$ -	\$ -
City's Net Pension Liability as a Percentage of Covered Payroll	N/A	N/A	N/A

Note: Information in this schedule has been determined as of the measurement date (December 31 of the year prior to the most recent fiscal year-end) of the City's net pension liability.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

Assumption changes for 2016 include a decrease in the price inflation from 3.00 percent to 2.75 percent; a decrease in wage inflation from 4.00 percent to 3.75 percent; a decrease in the salary increases from 4.50 percent to 19.00 percent to 4.25 percent to 18.75 percent; and a decrease in the investment rate of return from 8.00 percent to 7.75 percent.

City of Conway, Arkansas
Agent Multiple-Employer Plan
Schedule of Contributions – FRPF
Year Ended December 31, 2017

FY Ended December 31,	Actuarially Determined Contribution (ADC)	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	\$ 729,371	\$ 729,371	\$ -	\$ -	N/A
2015	\$ 801,590	\$ 801,590	\$ -	\$ -	N/A
2016	\$ 759,393	\$ 759,393	\$ -	\$ -	N/A
2017	\$ 590,164	\$ 590,164	\$ -	\$ -	N/A

Key Assumptions for ADC:

Cost Method	Entry Age Normal
Amortization Method	Closed Amortization Period based on projected future payroll
Remaining Amortization	10 years beginning January 1, 2017
Asset Valuation	5-Year smoothed market; 20% corridor (for funding purposes)
Inflation	2.75%
Salary Increases	3.75%, which is the portion of the individual pay increase assumptions attributable to wage inflation
Investment Rate of Return	7.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2012 pursuant to an experience study of the period 2008–2011.
Mortality	RP-2000 Combined Mortality Table, projected to 2017 and set forward two years for men. For disabled lives, the mortality rates are the rates applicable to nondisabled lives set forward 10 years.

Note: Information in this schedule has been determined as of the City's most recent fiscal year-end.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

City of Conway, Arkansas
Cost-Sharing Plan

Schedule of City's Proportionate Share of the Net Pension Liability – LOPFI
Year Ended December 31, 2017

Fiscal Year Ended December 31,	2017	2016	2015
City's proportion of the net pension liability	3.8261%	3.9910%	4.0634%
City's proportionate share of the net pension liability	\$ 21,829,154	\$ 20,943,166	\$ 14,710,048
City's covered payroll	\$ 11,704,504	\$ 11,477,083	\$ 9,375,666
City's proportionate share of the net pension liability as a percentage of its covered payroll	186.50%	182.48%	156.90%
Plan fiduciary net position as a percentage of the total pension liability	79.14%	72.92%	79.14%

Note: Information in this schedule has been determined as of the measurement date (December 31 of the year prior to the most recent fiscal year-end) of the City's net pension liability.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

City of Conway, Arkansas
Cost-Sharing Plan
Schedule of Contributions – LOPFI
Year Ended December 31, 2017

Fiscal year ended December 31,	2017	2016	2015
Actuarially required contribution	\$ 2,676,599	\$ 2,527,860	\$ 3,250,175
Contributions in relation to the actuarially required contribution	<u>(2,676,599)</u>	<u>(2,527,860)</u>	<u>(3,250,175)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 11,704,504	\$ 11,477,083	\$ 9,375,666
Contributions as a percentage of covered payroll	22.87%	22.03%	34.67%

Note: Information in this schedule has been determined as of the City's most recent fiscal year-end.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

City of Conway, Arkansas
Single Employer Plan
Schedule of Changes in the City's Net Pension Liability
and Related Ratios – Nonuniformed Plan
Year Ended December 31, 2017

Fiscal Year Ended December 31,	2017	2016	2015
Total Pension Liability			
Service cost	\$ 3,032,617	\$ 3,010,273	\$ 2,967,258
Interest	1,851,930	1,698,455	1,696,589
Difference between actual and expected experience	(4,321,636)	-	(2,678,338)
Assumption changes	5,717,042	(1,060,169)	349,465
Benefit payments	(1,751,640)	(1,710,134)	(1,531,519)
Net Change in Total Pension Liability	4,528,313	1,938,425	803,455
Total Pension Liability – Beginning	45,750,539	43,812,114	43,008,659
Total Pension Liability – Ending (a)	<u>\$ 50,278,852</u>	<u>\$ 45,750,539</u>	<u>\$ 43,812,114</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 1,029,340	\$ 938,264	\$ 940,301
Contributions – employee	554,240	531,381	543,809
Net investment income	1,576,156	505,146	(185,133)
Benefit payments	(1,751,640)	(1,710,134)	(1,531,519)
Administrative expense	(21,472)	(45,306)	(19,674)
Net Change in Plan Fiduciary Net Position	1,386,624	219,351	(252,216)
Plan Fiduciary Net Position – Beginning	10,758,848	10,539,497	10,791,713
Plan Fiduciary Net Position – Ending (b)	<u>\$ 12,145,472</u>	<u>\$ 10,758,848</u>	<u>\$ 10,539,497</u>
City's Net Pension Liability (a)–(b)	<u>\$ 38,133,380</u>	<u>\$ 34,991,691</u>	<u>\$ 33,272,617</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	24.16%	23.52%	24.06%
Covered Payroll	\$ 9,237,333	\$ 8,856,350	\$ 8,443,332
City's Net Pension Liability as a Percentage of Covered Payroll	412.82%	395.10%	394.07%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

City of Conway, Arkansas
Single Employer Plan
Schedule of City Contributions – Nonuniformed Plan
Year Ended December 31, 2017

FY Ended December 31,	Actuarially Determined Contribution (ADC)	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%
2015	\$ 2,681,954	\$ 940,301	\$ (1,741,653)	\$ 8,443,332	11.14%
2016	\$ 2,762,413	\$ 938,264	\$ (1,824,149)	\$ 8,856,350	10.59%
2017	\$ 2,845,285	\$ 1,029,340	\$ (1,815,945)	\$ 9,237,333	11.14%

Key Assumptions for ADC:

Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization	20 years beginning January 1, 2018
Asset Valuation	Market Value
Inflation	2.75%
Salary Increases	3.50%
Investment Rate of Return	6.50%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2012 pursuant to an experience study of the period 2008–2011.
Mortality	RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and set-forward 1 year for females. The disabled rates of mortality are set-forward 10 years and are otherwise the same as the healthy rates.

Note: Information in this schedule has been determined as of the City's most recent fiscal year-end.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

City of Conway, Arkansas
Single Employer Plan
Schedule of Investment Returns – Nonuniformed Plan
Year Ended December 31, 2017

Fiscal Year Ended December 31,	Annual Return
2014	5.60%
2015	-1.74%
2016	5.50%
2017	15.80%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

City of Conway, Arkansas
Single Employer Plan
Schedule of Changes in the Component Unit's Net Pension Liability and
Related Ratios – Conway Corporation Plan
Year Ended December 31, 2017

Fiscal Year Ended December 31,	2017	2016	2015
Total Pension Liability			
Service cost	\$ 836,923	\$ 708,579	\$ 677,103
Interest	2,662,858	2,504,323	2,337,528
Difference between actual and expected experience	434,692	(121,199)	152,673
Assumption changes	-	-	-
Benefit payments	<u>(1,051,119)</u>	<u>(862,586)</u>	<u>(770,966)</u>
Net Change in Total Pension Liability	2,883,354	2,229,117	2,396,338
Total Pension Liability – Beginning	<u>37,720,571</u>	<u>35,491,454</u>	<u>33,095,116</u>
Total Pension Liability – Ending (a)	<u>\$ 40,603,925</u>	<u>\$ 37,720,571</u>	<u>\$ 35,491,454</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 1,931,179	\$ 1,852,707	\$ 2,024,664
Net investment income	3,652,273	1,275,030	(168,046)
Benefit payments	(1,051,119)	(862,586)	(770,966)
Administrative expense	<u>(11,215)</u>	<u>(11,239)</u>	<u>(11,110)</u>
Net Change in Plan Fiduciary Net Position	4,521,118	2,253,912	1,074,542
Plan Fiduciary Net Position – Beginning	<u>27,088,993</u>	<u>24,835,081</u>	<u>23,760,539</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 31,610,111</u>	<u>\$ 27,088,993</u>	<u>\$ 24,835,081</u>
Corporation's Net Pension Liability (a)–(b)	<u>\$ 8,993,814</u>	<u>\$ 10,631,578</u>	<u>\$ 10,656,373</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	77.85%	71.81%	69.97%
Covered Payroll	\$ 14,721,678	\$ 13,824,271	\$ 13,111,553
Corporation's Net Pension Liability as a Percentage of Covered Payroll	61.09%	76.91%	81.27%

Note: Information in this schedule has been determined as of the measurement date (August 1 of the most recent fiscal year-end) of the Corporation's net pension liability.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the Corporation will only present available information.

City of Conway, Arkansas
Single Employer Plan
Schedule of Component Unit Contributions – Conway Corporation Plan
Year Ended December 31, 2017

FY Ended December 31,	Actuarially Determined Contribution (ADC)	Actual Contribution	Contribution Excess (Deficiency)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	\$ 1,737,774	\$ 2,024,664	\$ 286,890	\$ 13,111,553	15.44%
2016	\$ 1,779,575	\$ 1,852,707	\$ 73,132	\$ 13,824,271	13.40%
2017	\$ 1,974,247	\$ 1,931,179	\$ (43,068)	\$ 14,721,678	13.12%

Note: Information in this schedule has been determined as of the Corporation's most recent fiscal year-end.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the City will only present available information.

City of Conway, Arkansas
Budgetary Comparison Schedule
General Fund
Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
General property taxes	\$ 3,920,000	\$ 3,920,000	\$ 4,003,541	\$ 83,541
Sales and use taxes	18,600,000	18,600,000	19,770,629	1,170,629
Licenses and permits	380,500	380,500	440,400	59,900
Charges for services	1,050,300	1,230,998	1,283,753	52,755
Fines and forfeitures	1,473,400	1,473,400	1,363,061	(110,339)
Franchise fees	3,437,000	3,437,000	3,242,411	(194,589)
Intergovernmental	930,000	930,000	2,243,959	1,313,959
Investment income	22,000	22,000	90,922	68,922
Miscellaneous	1,592,000	1,669,628	481,939	(1,187,689)
Total revenues	31,405,200	31,663,526	32,920,615	1,257,089
Expenditures				
General government	4,280,986	4,587,108	2,785,381	1,801,727
Finance	445,568	447,200	448,498	(1,298)
Planning	421,729	426,369	366,771	59,598
Physical Plant	523,288	526,384	441,642	84,742
Police	11,306,495	11,673,530	12,723,327	(1,049,797)
Fire	9,791,726	9,914,139	9,689,884	224,255
Parks and recreation	3,005,098	3,209,714	3,402,549	(192,835)
Info Tech	1,173,039	1,161,017	1,087,651	73,366
District Court	871,021	881,969	821,566	60,403
Total expenditures	31,818,950	32,827,430	31,767,269	1,060,161
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(413,750)	(1,163,904)	1,153,346	2,317,250
Other Financing Sources				
Transfers in	423,000	423,000	423,000	-
Total other financing sources	423,000	423,000	423,000	-
Net Change in Fund Balances	9,250	(740,904)	1,576,346	2,317,250
Fund Balances, Beginning of Year	9,020,909	9,020,909	9,020,909	-
Fund Balances, End of Year	\$ 9,030,159	\$ 8,280,005	\$ 10,597,255	\$ 2,317,250

City of Conway, Arkansas
Budgetary Comparison Schedule
Street Fund
Year Ended December 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
General property taxes	\$ 1,515,000	\$ 1,515,000	\$ 1,417,180	\$ (97,820)
Sales and use taxes	325,000	329,559	271,210	(58,349)
Licenses and permits	500	500	270	(230)
Charges for services	5,000	5,000	18,925	13,925
Intergovernmental	3,783,474	2,683,474	2,608,674	(74,800)
Investment income	20,000	20,000	49,947	29,947
Miscellaneous	-	-	232,110	232,110
Total revenues	<u>5,648,974</u>	<u>4,553,533</u>	<u>4,598,316</u>	<u>44,783</u>
Expenditures				
Public works	5,558,261	4,613,441	3,406,562	1,206,879
Capital outlay	<u>80,000</u>	<u>1,647,577</u>	<u>1,025,777</u>	<u>621,800</u>
Total expenditures	<u>5,638,261</u>	<u>6,261,018</u>	<u>4,432,339</u>	<u>1,828,679</u>
Net Change in Fund Balances	10,713	(1,707,485)	165,977	1,873,462
Fund Balances, Beginning of Year	<u>4,513,582</u>	<u>4,513,582</u>	<u>4,513,582</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 4,524,295</u>	<u>\$ 2,806,097</u>	<u>\$ 4,679,559</u>	<u>\$ 1,873,462</u>

City of Conway, Arkansas
Note to Required Supplementary Information
Year Ended December 31, 2017

Note 1: 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, 2017.

- (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 its compliance with the aforementioned Act and State Statutes. Our responsibility is to express an opinion on management's assertion about the City's compliance with the aforementioned requirements above based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion about compliance with the specified requirements is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about whether management's assertion is fairly stated, in all material respects. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide legal determination on the City's compliance with specified requirements.

In our opinion, management's assertion that the City of Conway, Arkansas, complied with the aforementioned requirements during the year ended December 31, 2017, is fairly stated, in all material respects.

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
September 28, 2018

Single Audit Section

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

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 28, 2018. 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

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*.

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
September 28, 2018

**Report on Compliance for the 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 the Major Federal Program

We have audited the City of Conway, Arkansas' (the City) compliance 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, 2017. 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 federal statutes, regulations and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the 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, 2017.

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 types of requirements that could have a direct and material effect on the 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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Little Rock, Arkansas
September 28, 2018

City of Conway, Arkansas
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Housing and Urban Development/ Community Development Block Grant	14.218		\$ 43,138	\$ 391,078
Total CDBG – Entitlement Grants Cluster			<u>43,138</u>	<u>391,078</u>
U.S. Department of Justice/ Edward Byrne Memorial Justice Assistance Grant	16.738		-	23,237
U.S. Department of Transportation/ Airport Improvement Program	20.106		-	333,591
U.S. Department of Transportation/ Arkansas State Highway Department/ State and Community Highway Safety	20.600	OP-2017-03-02-09/ SE-2017-13-01-09	-	23,020
U.S. Department of Transportation/ Arkansas State Highway Department/ Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	M5X-2017-05-06-09	-	<u>2,109</u>
Total Highway Safety Cluster			<u>-</u>	<u>25,129</u>
U.S. Environmental Protection Agency/ Brownsfield Assessment and Cleanup Cooperative Agreements	66.818		-	204,700
U.S. Department of Homeland Security/ Homeland Security Grant Program	97.067		-	<u>338,598</u>
Total Expenditures of Federal Awards			<u>\$ 43,138</u>	<u>\$ 1,316,333</u>

City of Conway, Arkansas
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Conway, Arkansas, under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Conway, Arkansas, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Conway, Arkansas.
2. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB A-87 or the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Conway, Arkansas, has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

City of Conway, Arkansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2017

7. The City's major program was:

Cluster/Program	CFDA Number
Community Development Block Grant	14.218

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The City qualified as a low-risk auditee?

Yes No

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
------------------	---------

No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
------------------	---------

No matters are reportable.

City of Conway, Arkansas
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2017

Reference Number	Summary of Finding	Status
-----------------------------	---------------------------	---------------

No matters are reportable.