

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT**

**CITY OF FAYETTEVILLE,
ARKANSAS**

For the Year Ended December 31, 2011

**Prepared by
DEPARTMENT OF FINANCE**

**Paul A. Becker
Director of Finance**

**Marsha Hertweck
Accounting Director**

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 COMPREHENSIVE ANNUAL FINANCIAL REPORT
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Introductory Section



THE CITY OF FAYETTEVILLE, ARKANSAS

June 25, 2012

To Members of the City Council and Citizens of the City of Fayetteville:

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles in the United States of America, (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report (CAFR) of the City of Fayetteville for the fiscal year ended December 31, 2011.

This report consists of management's representations concerning the finances of the City of Fayetteville. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Fayetteville has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Fayetteville financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Fayetteville's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Fayetteville's financial statements have been audited by BKD, LLP, a firm of licensed independent certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Fayetteville for the fiscal year ended December 31, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering unqualified opinions on the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund and aggregate remaining fund information that collectively comprise the City of Fayetteville's basic financial statements as of and for the fiscal year ended December 31, 2011. The independent accountant's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Fayetteville was part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Fayetteville’s Single Audit Section included herein.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Fayetteville’s MD&A can be found immediately following the report of the independent accountants.

During 2011 the City of Fayetteville adopted GASB statement 54 which is reflected in the financial statements of the City. Essentially, GASB 54 establishes an expansion in the number and more specific definition of classifications identified in the fund balance section of the Governmental Fund Balance Sheets. However, the Unassigned Fund Balance amount is calculated in the same manner as the previous Unreserved Fund Balance amount for the General Fund and may be used for comparison purposes to prior years for the General Fund. The General Fund is the only fund with the classification Unassigned Fund Balance.

The other noticeable impact on the financial statements caused by GASB statement 54 is that the results of operations and assets and liabilities for the City’s Disaster Recovery and Replacement Funds is consolidated in the General Fund on the City’s official audited financial statements because it does not meet the definition of a true stabilization fund. However, this fund is budgeted and accounted for as a separate special revenue fund on the City’s internal records and internal statements. Within the audited financial statement, the activities of the Disaster Recovery and Replacement Fund have been identified to enable easy comparisons with prior years. The fund balance amounts associated with the Disaster Recovery and Replacement Fund is classified as Committed on the General Fund Balance Sheet.

Profile of the Government

The City of Fayetteville was incorporated in 1870. The City is located in the northwestern part of the state, which is considered to be the top growth area in the state, and one of the top growth areas in the country. The City of Fayetteville currently occupies a land area of 55 square miles and serves a population of 73,580 as of the 2010 census. The City of Fayetteville is authorized to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City of Fayetteville has operated under the Mayor-Council form of government since 1992. Policy-making and legislative authority are vested in the City Council consisting of eight aldermen. The City Council is responsible, among other things, for passing ordinances, adopting the budget and appointing committees. The Mayor is responsible for carrying out the policies and ordinances

of the City Council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The City Council and Mayor are elected on a non-partisan basis. The Mayor is elected to serve a four-year term. The Council members serve four-year staggered terms with four council members elected every two years. All eight Council members are elected by ward and the Mayor is elected at large.

The City of Fayetteville provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets, and other infrastructure; water and wastewater services; solid waste collection; and recreational activities and cultural events. The City of Fayetteville also reports the financial activity of the Fayetteville Public Library and the Fayetteville Advertising & Promotion Commission on a component unit basis. Additional information on these component units can be found in Note 1.A in the notes to the financial statements.

The annual budget serves as the basis for the City of Fayetteville's financial planning and control. Traditionally, all divisions and departments of the City of Fayetteville are required to submit requests for appropriation to the Mayor on or before the end of August. Not-for-profit agencies that provide City services submit their funding request to the Mayor and City Council each August/September. The Mayor uses these requests as the initial basis for developing a proposed budget. Usually in September, the Mayor presents the proposed General Fund budget to the Council for review. It must be adopted prior to October 31, which is the last day a levy ordinance must be filed with the County. The Council conducts work sessions with staff and conducts public discussions on the proposed Citywide budget as part of regularly scheduled City Council meetings and during agenda sessions in November and December. Arkansas statutes establish the fiscal year for municipalities as the calendar year and require municipal budgets be submitted to the Council by December 1 of each year in Mayor-Council forms of government. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may initiate transfers of appropriations within a department. Transfers of appropriations between departments or programs within a fund require the special approval of the Mayor or his designee. However, amendments to the budget which increase the total amount of a fund must be approved by the Council unless delegated by a Bond Trustee agreement.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Fayetteville operates.

Local Economy. Fayetteville and the Northwestern Arkansas area continue to enjoy a stable and diverse economic environment. Major industries with headquarters or divisions in the immediate area include Wal-Mart, Tyson Foods, JB Hunt and, of course, the main campus of the University of Arkansas is located in Fayetteville.

The economic conditions in the City Fayetteville improved significantly in 2011. Sales Taxes increased 4.38% over prior year for the City. Sales Taxes for the County were also up 4.48% as compared to 2010. Building permits were up 9% compared to 2010 which indicates construction activity is increasing somewhat. Fayetteville also saw several businesses expand during the year. The unemployment rate continued to remain low at 5.3% which was well below both the state and national averages. The University is in an expansion phase and approximately 2,000 new students enrolled in the university during 2011.

Even though the economic environment continued to improve during the year, the 2012 budget was conservatively based on revenue estimates remaining flat to 2011 expectations. This will provide the City with a sound financial base for 2012. Reserves should be more than sufficient should the economy take an unexpected downturn as we continue to experience unstable economic times.

Long-term Financial Planning

In 2011, the City renewed a contract with the Fayetteville Chamber of Commerce to provide economic development services to the City. This underscores the City's commitment to economic development as a critical component of the long-term financial plan.

As a budgeting tool, the City prepares a five year Capital Improvement Program (CIP) to address capital needs. The current CIP was prepared for the period 2010-2014 and was adopted by the Council in October 2010. This plan will be reviewed and adjusted in 2012.

During 2006, a referendum was adopted by the voters which authorized the issuance of \$110 million in bonds to fund important infrastructure projects. Specifically the bonds provided for \$65.9 million for transportation projects, \$42 million to complete the Wastewater System Improvement Project, and \$2.1 million for trails. The bonds are secured by a special sales tax as well as the continuation of a previously authorized special sales tax. These bonds are being issued in increments with the final increments scheduled for 2014 and 2015 depending on sales tax collections.

Planning and engineering work continued during 2011 on the City-Wide Transportation Improvement Program. During 2011, the following major work relating to the transportation program was accomplished as follows:

- Mount Comfort Road Project was completed.
- The design and right of way acquisition for the roundabout at North Hills was completed.
- Secured federal funding aid for Maple and Lafayette Street Bridges.
- Completed construction of Lake Wilson Spillway.
- Began construction on Cato Springs Road.
- Worked on Design phase of Van Ash Drive (Gregg to Howard Nickell).
- Utility Relocation on Crossover (Highway 265).

In 2012 it is anticipated that the following work will be accomplished:

- Construction of the roundabout at North Hills and Millsap.
- Complete construction on Cato Springs Road.
- Obtain easements and begin utility relocation on Highways 16 and 112 (Garland).

In addition to the Transportation bonds, an issue of \$800,000 for Trail projects was completed in 2006, and the remaining \$1.3 million of authorized bonds for Trail projects were issued in 2009. Both issues were authorized by the 2006 referendum. Work on the Trail bond program continued in 2011 and will carry into 2012. Major projects worked on include: Oak Ridge Trail, U of A Farm Trail and planning of the Greenway Trail. In 2012 it is anticipated that work on the U of A Farm Trail, Lake Fayetteville Trail Extension and Town Branch Trail will be completed. The Frisco trail design phase should also be complete by the end of 2012.

Construction on the Wastewater System Improvement Project continued during 2011 and was expanded to include the construction of thermal dryers. The entire project was estimated to cost approximately \$183 million when completed. It should be finalized in 2012.

Revenue bonds in the amount of \$8.2 million were also issued in 2009 for the Water & Sewer Fund. The bonds were necessary to provide for the relocation, installation and upgrade of certain water and sewer lines and related components in conjunction with road construction programs. Work will continue on those projects in 2012.

The Mayor and City Council continue to focus on financial stability. By ordinance, the City has a minimum fund balance requirement of 60 days expenditures for the General Fund. Based on the final expenditures for 2011, the City currently exceeds that minimum balance for the General Fund.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fayetteville for its comprehensive annual financial report for the fiscal year ended December 31, 2010. This was the twenty-third consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its 2011 annual budget. This was the twenty-third consecutive year the City received this award. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Fayetteville's finances.

Respectfully submitted,

A handwritten signature in blue ink that reads "Lioneld Jordon". The signature is written in a cursive style with a large initial 'L'.

Lioneld Jordon
Mayor

A handwritten signature in blue ink that reads "Paul A. Becker". The signature is written in a cursive style.

Paul A. Becker
Finance and Internal Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fayetteville
Arkansas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davison

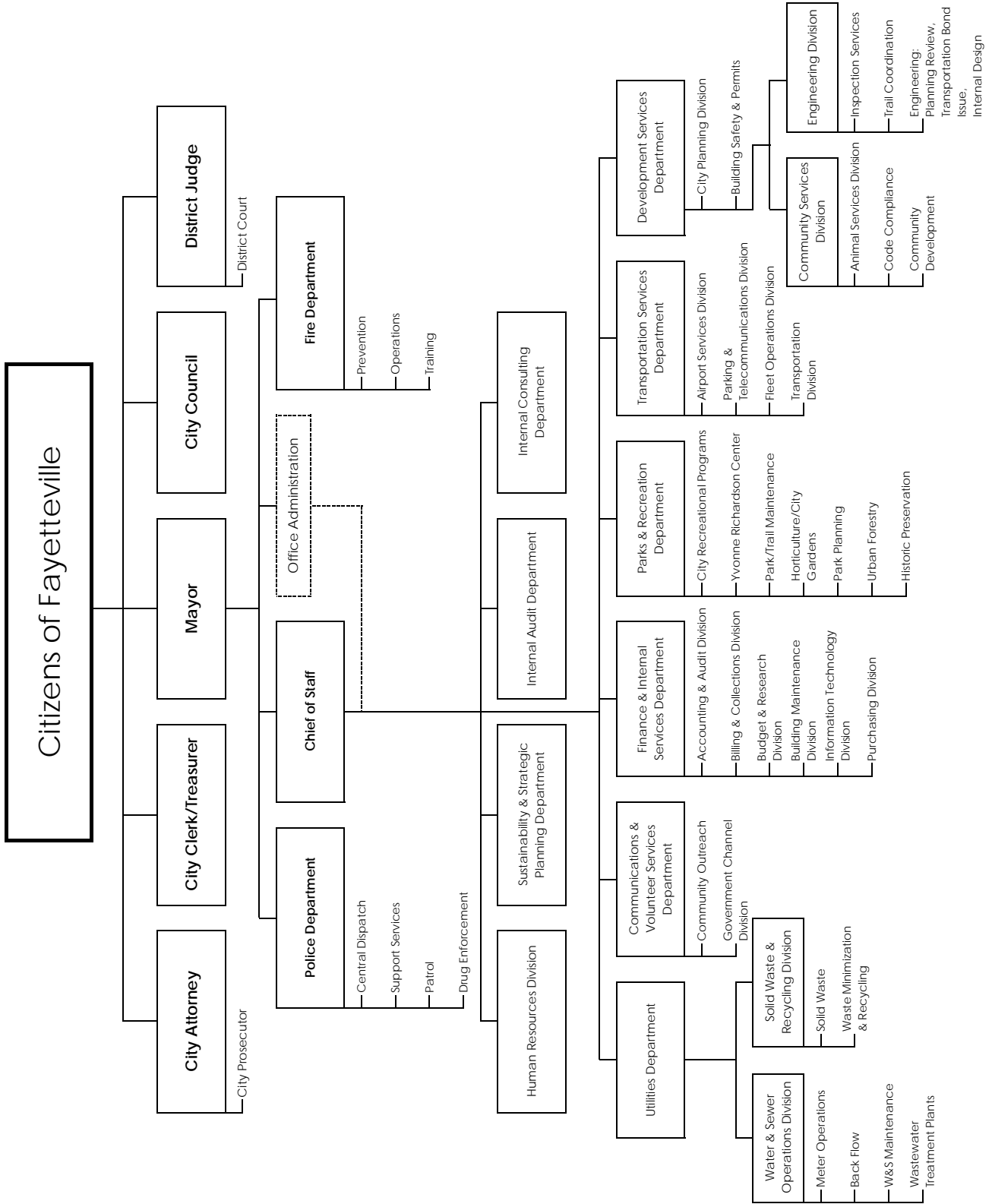
President

Jeffrey R. Emer

Executive Director

City of Fayetteville, Arkansas

Organizational Chart



Officials of the City of Fayetteville, Arkansas

Elected Officials

Lioneld Jordan	Mayor
Adella Gray	Ward 1, Position 1
Brenda Boudreaux	Ward 1, Position 2
Mark Kinion	Ward 2, Position 1
Matthew Petty	Ward 2, Position 2
Justin Tennant	Ward 3, Position 1
Bobby Ferrell	Ward 3, Position 2
Rhonda Adams	Ward 4, Position 1
Sarah Lewis	Ward 4, Position 2
Kit Williams	City Attorney
Sondra Smith	City Clerk/Treasurer
Rudy Moore	District Judge

Executive Staff and Senior Directors

Paul Becker	Finance and Internal Services Department Director
Connie Edmonston	Parks and Recreation and Community Spaces Department Director
David Dayringer	Fire Chief
Terry Gulley	Transportation Services Department Director
David Jurgens	Utilities Department Director
Don Marr	Chief of Staff
Jeremy Pate	Development Services Department Director
Lindsley Smith	Communications, Marketing and Volunteer Services Department Director
Greg Tabor	Acting Police Chief

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Financial Section

Independent Accountants' Report on Financial Statements and Supplementary Information

The Honorable Mayor and Members of the City Council
City of Fayetteville, Arkansas
Fayetteville, Arkansas

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 Fayetteville, Arkansas as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Fayetteville Public Library, a component unit included in the financial statements of the aggregate discretely presented component units, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, 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 Fayetteville, Arkansas as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 1* to the financial statements, in 2011 the City changed its method of accounting for fund balances in accordance with the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund-Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund statements and schedules and schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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. The 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. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The accompanying information in the introductory and statistical sections as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

June 25, 2012

City of Fayetteville, Arkansas
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

As management of the City of Fayetteville (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2011. The information contained here should be considered in conjunction with the information contained in the Letter of Transmittal included in the Introductory Section and various historic summaries of activities and financial performance included in the Statistical Section of this report.

Financial Highlights

- The total assets of the primary government exceeded its liabilities at the close of the most recent fiscal year by \$494,329,245 (net assets). Of this amount \$29,571,272 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$12,709,094 in 2011. Net assets of the governmental activities decreased by \$184,834 which was a 0.1% decrease from 2010. Net assets of the business-type activities increased by \$12,893,928 which was a 3.8% increase over 2010.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$56,231,711, a decrease of \$3,904,290 from 2010.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$12,151,014 which is equal to 35.4% of total general fund expenditures and transfers out.
- The City's total debt including bonds and notes decreased by \$14,064,048 or 10.3% during 2011 to a total of \$122,435,427.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements 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 a private-sector business.

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (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 and charges (business-type activities). The governmental activities of the City include general government, finance and internal services, public safety, community planning and engineering, transportation and parking, and parks and recreation. The business-type activities of the City include the airport, town center, solid waste, and water and sewer.

The government-wide financial statements include not only the City itself (known as the primary government), but also two legally separate entities for which the City is financially accountable (known as component units). These two component units are the Advertising & Promotion Commission and the Fayetteville Public Library. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 26 and 27 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources which 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 near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains sixteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, Sales Tax Improvement Bond Fund, Sales Tax Capital Improvement Fund, and the Sales Tax 2006A Construction Fund, all of which are considered to be major funds as defined by generally accepted accounting principles. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for

each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic Governmental Fund financial statements can be found on pages 28 through 31 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, solid waste, airport, and town center operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions for fleet operations. The services provided by the internal service fund predominantly benefit the governmental rather than the business-type functions; therefore, it has been included within governmental activities in the government-wide financial statements.

Proprietary fund financials provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the town center fund, solid waste fund, and water and sewer fund, all of which are considered to be major funds. Data for the airport fund is presented in a single column as the only nonmajor proprietary fund. The shop fund is the only internal service fund.

The basic proprietary fund financial statements can be found on pages 36 through 41 of this report.

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

The basic fiduciary fund financial statements can be found on pages 42 and 43 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 45 through 77 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits and other post employment benefits to its employees. Required supplementary information can be found on pages 79 through 81 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements can be found on pages 84 through 102 of this report.

Government-wide Financial Analysis

Net assets may serve over time as an indicator of a government's financial position. The City's assets exceeded liabilities by \$494,329,245 as of December 31, 2011 as shown in the table below.

	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2010	2011	2010	2011	2010	2011
Current and other assets	\$ 84,742,115	\$ 76,548,005	\$ 38,153,543	\$ 38,365,922	\$122,895,658	\$114,913,927
Capital assets	211,532,094	204,930,208	326,053,925	336,095,528	537,586,019	541,025,736
Total assets	296,274,209	281,478,213	364,207,468	374,461,450	660,481,677	655,939,663
Long-term liabilities						
outstanding	142,161,983	132,348,394	19,124,515	17,450,012	161,286,498	149,798,406
Other liabilities	14,129,651	9,332,078	3,445,377	2,479,934	17,575,028	11,812,012
Total liabilities	156,291,634	141,680,472	22,569,892	19,929,946	178,861,526	161,610,418
Invested in capital assets,						
net of related debt	112,505,303	112,853,575	313,516,845	322,825,384	426,022,148	435,678,959
Restricted	30,908,533	26,522,053	2,269,269	2,556,961	33,177,802	29,079,014
Unrestricted	(3,431,261)	422,113	25,851,462	29,149,159	22,420,201	29,571,272
Total net assets	\$139,982,575	\$139,797,741	\$341,637,576	\$354,531,504	\$481,620,151	\$494,329,245

The largest portion of the City's net assets is its investment in capital assets (e.g., land, buildings, improvements other than buildings, machinery and equipment) less any debt to acquire the asset. Even though these assets are reported net of related debt the liability to repay the debt must be provided from other sources since the capital assets themselves cannot be used to liquidate debt. Invested in capital assets net of related debt increased by \$9,656,811 in 2011. A discussion in the changes in capital assets can be found on page 21. Net assets are also subject to external restrictions on how they may be used. The City has \$29,079,014 of restricted net assets which are limited by state or municipal laws or grant or contractual agreements as to the use of these funds. Unrestricted net assets which may be used to meet ongoing obligations of the City totaled \$29,571,272. In this total, \$422,113 is reported in the governmental activities and \$29,149,159 in the business-type activities of the City. Certain reclassifications have been made to the 2010 financial information to conform to the 2011 presentation.

The government's net assets increased by \$12,709,094 during the current year. The changes in net assets are shown in the following schedule.

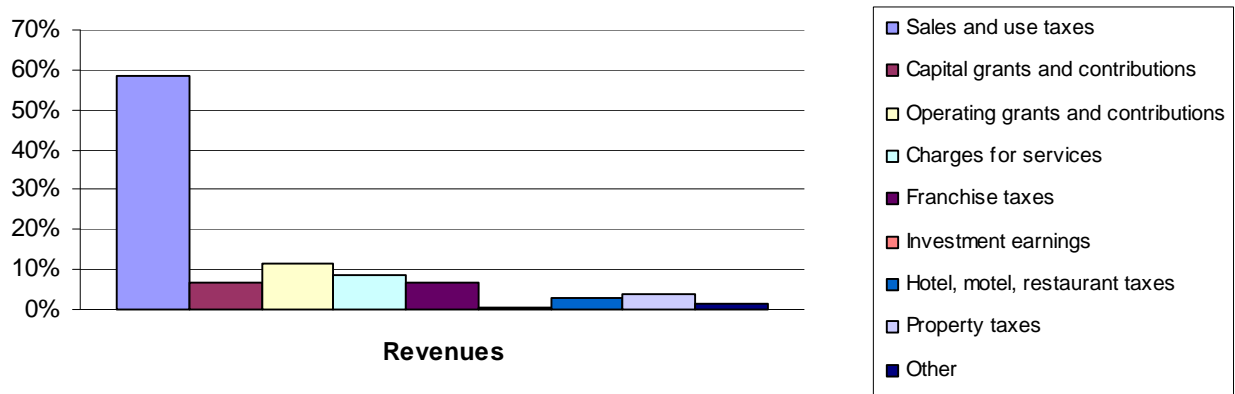
	Changes in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2010	2011	2010	2011	2010	2011
Revenues:						
Program revenues:						
Charges for services	\$ 5,483,854	\$ 6,627,662	\$ 39,280,397	\$ 41,982,672	\$ 44,764,251	\$ 48,610,334
Operating grants and contributions	8,463,046	8,650,761	-	-	8,463,046	8,650,761
Capital grants and contributions	8,054,875	5,095,902	6,149,411	3,495,044	14,204,286	8,590,946
General revenues:						
Sales and use taxes	42,323,680	44,335,082	27,110	29,733	42,350,790	44,364,815
Property taxes	2,643,437	2,816,047	-	-	2,643,437	2,816,047
Franchise taxes	4,904,603	4,961,645	109,275	156,633	5,013,878	5,118,278
Hotel, motel, restaurant taxes	2,181,585	2,298,187	-	-	2,181,585	2,298,187
Impact fees	1,179,649	911,065	-	-	1,179,649	911,065
Investment earnings	900,869	225,848	456,541	123,608	1,357,410	349,456
Other	-	26,329	2,159,603	1,163,562	2,159,603	1,189,891
Total revenues	76,135,598	75,948,528	48,182,337	46,951,252	124,317,935	122,899,780
Expenses:						
General government	6,817,930	7,255,645	-	-	6,817,930	7,255,645
Finance and internal services	3,312,219	3,390,115	-	-	3,312,219	3,390,115
Public safety	26,686,429	26,093,379	-	-	26,686,429	26,093,379
Community planning and engineering	3,130,583	3,722,903	-	-	3,130,583	3,722,903
Transportation and parking	15,577,072	15,656,762	-	-	15,577,072	15,656,762
Parks and recreation	4,211,418	4,124,098	-	-	4,211,418	4,124,098
Interest on long-term debt	5,459,988	4,809,180	-	-	5,459,988	4,809,180
Airport	-	-	2,198,062	2,205,402	2,198,062	2,205,402
Town center	-	-	511,682	495,411	511,682	495,411
Solid waste	-	-	8,838,873	8,545,416	8,838,873	8,545,416
Water and sewer	-	-	33,272,168	33,892,375	33,272,168	33,892,375
Total expenses	65,195,639	65,052,082	44,820,785	45,138,604	110,016,424	110,190,686
Increase (decrease) in net assets before transfers	10,939,959	10,896,446	3,361,552	1,812,648	14,301,511	12,709,094
Transfers	(4,648,772)	(11,081,280)	4,648,772	11,081,280	-	-
Total change in net assets	6,291,187	(184,834)	8,010,324	12,893,928	14,301,511	12,709,094
Net assets -- beginning of year	133,691,388	139,982,575	333,627,252	341,637,576	467,318,640	481,620,151
Net assets -- December 31	\$139,982,575	\$139,797,741	\$341,637,576	\$354,531,504	\$481,620,151	\$494,329,245

Governmental activities. Governmental activities net assets decreased by (\$184,834). Key elements in the decrease are as follows:

- Capital grants and contributions were \$8,054,875 which was a \$2,958,973 decrease from 2010. In this category, there was a \$4,687,245 decrease in infrastructure donations from private developers.
- General purpose sales and use taxes collected increased by \$2,011,402.
- Investment earnings decreased by \$675,021 due to low interest rate returns.
- The General Fund had a positive variance in revenues and expense accounts for year-end of \$4,428,641. See the General Fund Budgetary Highlights section on page 20 for details of this variance.

A chart of revenues by source for governmental activities is presented below.

Revenues by Source - Governmental Activities

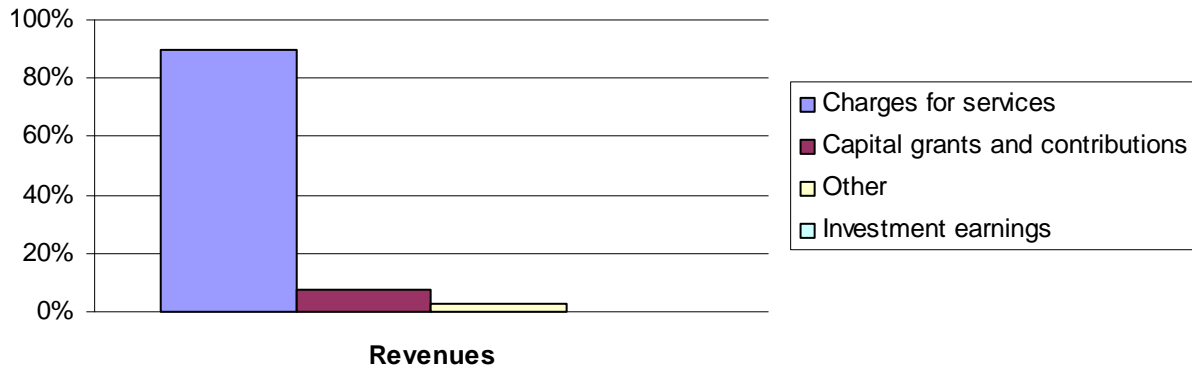


Business-type activities. In the business-type activities, net assets increased by \$12,893,928. Key elements in the overall increase in net assets are as follows:

- The Water and Sewer Fund had an increase in net assets of \$12,507,829. A significant factor in this increase was an internal transfer of capital assets from governmental activities in the amount of \$11,065,423. Operating revenues increased by \$2,372,185 from an increase in water and sewer rates and an increased use of water due to a dry, hot summer.
- The Solid Waste Fund had an increase in net assets of \$825,483.

A chart of revenues by source for business-type activities is presented below.

Revenues by Source - Business-type Activities



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 near-term 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 fiscal year.

During the year ended December 31, 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additional information on fund balance classifications can be found in the notes to financial statements at Note 1(E) beginning on page 49.

As of the end of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$56,231,711, a decrease of \$3,904,290 in comparison with the prior year. Of this total amount \$12,151,014 constitutes unassigned fund balance, which is available for spending. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$12,151,014, while total fund balance reached \$17,649,214. The total fund balance increased by \$5,563,450 from the amount previously reported. A major component of this increase was due to the combining of the Disaster and Recovery Fund with the General Fund in 2011 to comply with GASB Statement 54. The Disaster and Recovery Fund was classified as a capital projects fund in years prior to 2011 and had a total

fund balance of \$3,234,600 at the beginning of 2011. The current year increase to fund balance was \$2,328,850. A major component of this increase was due to an increase in sales tax revenues of \$1,224,025. 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 and transfers out. Unassigned fund balance represents 35.4% of total General Fund expenditures, while total fund balance represents 51.5% of that same amount.

The Sales Tax Improvement Bond Debt Service Fund had total fund balance of \$3,709,620 all of which is restricted for the payment of debt service. The net increase in fund balance during the current year was \$231,369.

The Sales Tax Capital Improvement Fund had a total fund balance of \$8,887,393 which represents a \$1,736,390 increase from 2010. The majority of the increase was due to an increase of \$2,435,457 in capital grants for public safety and street programs. In addition, there was an increase in sales tax revenues of \$338,666.

The Sales Tax 2006A Construction Fund is used to account for the bonds proceeds to fund the financing needs of the ongoing wastewater capital project, a major street program and a trails program. The fund had a total fund balance at year-end of \$11,795,011 which was a \$5,372,303 decrease from 2010. The decrease is due to the use of funds for capital construction projects.

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

Net assets of the Town Center Fund at the end of the year amounted to \$3,245,563, with \$3,210,933 restricted for debt service and invested in capital assets. The Solid Waste Fund had \$11,864,252 in net assets with \$9,386,957 in unrestricted net assets at year-end. This represents an \$825,483 increase in net assets from 2010, largely due to an increase in solid waste operating revenues of \$378,586. Net assets of the Water and Sewer Fund increased by \$12,507,829 to a total of \$324,250,798, with \$18,408,700 in unrestricted net assets at year-end. This increase in net assets is due in large part to an internal transfer of capital assets financed with sales and use tax bonds and an increase in the water and sewer rates.

Budgetary Highlights

General Fund Expenditure Budget Amendments

The original approved budget for the General Fund which includes the Disaster Recovery and Replacement Fund for 2011 was \$33,930,600. This amount was amended to \$37,570,713 during the year. Amendments for the year in expenses and transfers out between the original and the final amended budget were therefore, \$3,640,113. Primary reasons for these amendments to the original budget were as follows:

- Major items that were expected to be received from the prior year and uncompleted projects were re-appropriated by the City Council and resulted in an increase of \$1,077,782.
- FEMA Flood Disaster Assistance resulted in an increase of \$1,000,000. This flood occurred in April, 2011.
- Employee Service Awards resulted in an increase of \$390,000.

- Economic development funds in the total amount of \$299,000 were used for the renewal of a three-year contract with the Fayetteville Chamber of Commerce. (Economic Development amounts are budgeted prior to specific use.)
- Police Department federal grants recognized as revenue and appropriated to expense accounts resulted in an increase of \$670,000.
- Funds in the total amount of \$181,000 were used for the following: Recognize \$71,000 in Donations to the Animal Services Division, \$20,000 for the cost of a special election, and \$90,000 to reimburse the CDBG Fund for the Habitat for Humanity land purchase.

General Fund Variances Budget to Actual

Major variances between budget and actual amounts for revenues and incoming transfers were greater than the amended budget amounts by \$1,138,206.

- Sales tax revenue was greater than budget projections by \$517,208 for County shared sales tax and \$678,566 greater than budget projections for City sales tax.
- Intergovernmental revenue was less than the amended budget by \$655,143. This is mainly due to project revenues associated with projects that were re-appropriated into 2012.
- Franchise fee revenue was greater than the amended budget projections by \$312,545.
- Licenses and Permits revenue was greater than the amended budget projections by \$198,635.
- Interest earnings were less than the amended budget projections by \$102,881.
- Property tax revenue was greater than the amended budget projections by \$101,851.

Actual amounts for expenses and outgoing transfers were less than budgeted by \$3,290,436. Primary reasons for this were as follows:

- \$2,358,125 was caused by delay of project expenses until 2012.
- The citywide personnel service expense category had a remaining budgeted balance of \$422,913 because of open and frozen positions and attrition during the year.
- The materials and supplies expense category had a remaining budgeted balance of \$129,112 which was made of from copies (\$38,064), minor equipment (\$37,584), fuel (\$17,343), and office/other supplies (\$36,121).
- The services and charges expense category had a remaining budgeted balance of \$281,470 which was made of from: contract/professional services (\$76,048), election cost (\$20,000), insurance (\$16,362), special assessments (\$20,388), telephone/utilities (\$50,184), training / publications (\$55,618), uniforms/personal equipment (\$17,942), and other services & charges (\$24,928).
- The maintenance expense category had a remaining budgeted balance of \$69,026 which was made of from: office / building & grounds maintenance (\$40,142), software maintenance (\$12,274), and vehicle/equipment maintenance (\$16,610).

Capital Asset and Debt Administration

Capital assets. As of December 31, 2011, the City's investment in capital assets for its governmental activities and business-type activities amounted to \$541,025,736 (net of

accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment and infrastructure. The City's capital assets increased by \$3,439,717 or 0.6% over 2010, with a 3.1% decrease in governmental activities and a 3.1% increase in business-type activities.

Major capital asset events during the current fiscal year include the following:

- Improvements to the City's Entertainment District Parking Facilities were \$851,280.
- Total infrastructure assets of the general government, such as streets, sidewalks, trails, and storm drains, capitalized in 2011 were \$5,959,383 including \$1,724,391 donated by private developers.
- Total water and sewer fund capital asset additions for 2011 were \$21,096,301 which included \$1,296,986 of water and sewer lines donated by private developers and \$11,065,423 of wastewater capital assets transferred from the general government.

Additional information on the City's capital assets can be found in note 4.B starting on page 55 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$122,435,427. The majority of the City's debt represents bonds secured solely by specified revenue sources (i.e., sales and use tax bonds, revenue bonds). Debt secured by sales and use tax totaled \$106,150,427. The City's total debt decreased by \$14,064,048 during the current fiscal year. No new debt was issued in 2011.

State statutes limit the amount of general obligation debt a governmental entity may issue to 20% of its total assessed valuation for long-term debt and 5% for short-term debt. The City's current debt limit for both is \$311,445,329. The City had \$73,459 in notes payable at year end. The City also had \$3,345,000 in long-term debt payable with a pledge of the incremental property tax increases of the Highway 71 East Square Redevelopment District #1.

Additional information on the City's long-term debt can be found in note 4.G starting on page 62 of this report.

Economic Factors and Next Year's Budgets and Rates

The City experienced revenue increases in 2011 due to improving economic conditions. General Fund Revenue was \$1,138,206 over budget for the year. Sales and use tax collections (which average approximately 60% of fund revenues) accounted for most of this increase. Collections of sales taxes were up 4.38% compared to last year. This was a turnaround from the prior two years as both 2009 and 2010 ended with declines compared to the prior year. City wide revenue collections were down \$1,418,155 compared to 2010 but that was due to a reduction in capital grant programs not operating sources.

Even though the economic environment in Fayetteville seems to be improving, the 2012 budget was formulated based on very conservative assumptions. Total sales and use tax collections were projected to increase 3.5% over 2010 actual receipts. Franchise fees were projected to increase 4.9% over 2011 projections. These estimates were both under the actual percentage increases experienced at the end of the year. Other revenues were generally held to the 2011 budget estimates.

It was necessary to increase the General Fund budget for 2012 by \$253,700 because of increased pension obligations, insurance and maintenance contracts. However, the cost control measures that began in 2009 were continued. A total of 23.1 positions, vacant because of attrition, continue to be held open. The adopted General Fund budget was \$34,139,200 for 2012 and the total City 2012 operating budget adopted by the City Council was \$121,331,000. This represented an increase of 2.3% from 2011. This rise was primarily due to debt service and capital expenditure increases. The original budget did not include salary increases for employees. However, at the end of the first quarter of 2012 the budget was amended to add a compensation package in the amount of \$993,000. This compensation package was recommended by the Mayor and adopted by the City Council based on positive 2011 operating results and continued revenue increases. The City of Fayetteville's Mayor and City Council have a long established a practice of making annual budgetary decisions for the General Fund in the context of a multi-year forecast that considers revenue growth, staffing needs and unrestricted reserve levels, as well as reviewing the performance of the local economy to determine continued economic expansion. This process provided the Mayor and City Council the comfort level needed to address identified public safety issues as the first priority for the 2012 budget. The Mayor identified two additional objectives to be addressed in the formulation of the 2012 budget. These were to protect necessary jobs and to maintain the same level of services to the citizens wherever possible. The Mayor also communicated his intent to bring a compensation package to the Council at the end of the first quarter, if possible, which was subsequently done.

The following economic factors will have a direct impact on economic conditions and City finances in 2012.

- Unemployment for Fayetteville has remained relatively low at 5.3%, as compared to 7.7% for the State of Arkansas and 8.9% nationally (as of December 2011). However, this is still a high unemployment rate for Fayetteville compared to the years prior to 2008.
- The population, as evidenced by the census completed in 2010, showed the City had grown by 15,533 or 26.7% over the period between 2000 and 2010. Although the City believes the population will experience continued growth, it is anticipated to be at a more moderate rate.
- Sales and use tax collections (which are the primary source of funding for the General Fund) increased by 4.3 compared to the prior year. However, this trend needs to continue to accommodate necessary expenditure growth in the future.
- The number of building permits for 2011 was up approximately 9% compared to 2012. However; this is still a 29% decline from 2008. This reflects improvement but a still sluggish housing market.
- Assessed value for total property within the City has been fairly stable.
- Fuel prices in the first quarter of 2012 have increased dramatically.

One of the primary goals of the City is to maintain a minimum unassigned fund balance in the General Fund of 16.4% of operating expenditures. The 2012 General Fund budget adopted is estimated to provide approximately 35% of operating expenditure coverage as year end unassigned fund balance is approximately \$12 million. This should be sufficient to provide funds for unforeseen conditions which could be encountered.

As of the end of the first quarter of fiscal 2012, revenues are exceeding estimates and expenditures are in line with projections. The City will, however, diligently monitor current conditions and adjust to changes if required.

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Accounting Director, City of Fayetteville, 113 West Mountain Street, Fayetteville, Arkansas, 72701.

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City of Fayetteville, Arkansas
Statement of Net Assets
December 31, 2011

			Component Units		
	Governmental Activities	Business-type Activities	Total	Library	Advertising & Promotion
ASSETS					
Cash	\$ 2,960,997	\$ 800,907	\$ 3,761,904	\$ 2,968,433	\$ 936,388
Investments	48,242,626	25,728,164	73,970,790	4,679,339	1,789,888
Accounts receivable	970,640	4,207,062	5,177,702	517,051	18
Accrued interest	78,139	47,534	125,673	29,375	3,307
Internal balances	950,710	(950,710)			
Due from other governments	6,982,679	1,538,607	8,521,286		
Due from component unit	4,065		4,065		
Due from primary government					18,568
Inventories	202,748	1,047,768	1,250,516		
Prepays and other assets	201,716	79,472	281,188	44,573	
Restricted Assets:					
Cash and cash equivalents				181,647	
Investments	14,410,439	5,672,540	20,082,979	3,374,744	
Accrued interest	120		120	14,269	
Due from other governments	117,224		117,224	1,250,102	
Unamortized bond issuance costs	1,425,902	194,578	1,620,480		
Capital assets					
Land	48,718,330	11,853,504	60,571,834		198,621
Buildings	27,628,085	128,049,369	155,677,454	20,976,767	1,340,856
Improvements other than buildings	16,018,361	320,071,724	336,090,085		
Machinery, equipment and vehicles	48,863,770	33,252,218	82,115,988	3,237,883	126,860
Construction in progress	5,246,944	98,022	5,344,966	95,000	
Infrastructure	203,708,254		203,708,254		
Accumulated depreciation	<u>(145,253,536)</u>	<u>(157,229,309)</u>	<u>(302,482,845)</u>	<u>(4,774,914)</u>	<u>(340,228)</u>
Total assets	<u>281,478,213</u>	<u>374,461,450</u>	<u>655,939,663</u>	<u>32,594,269</u>	<u>4,074,278</u>
LIABILITIES					
Accounts payable	2,349,171	1,230,324	3,579,495	73,188	23,077
Accrued expenses	674,536	181,031	855,567	297,003	
Accrued interest	2,421,607	179,451	2,601,058		
Due to fiduciary funds	10,930		10,930		
Due to component unit	18,568		18,568		
Due to primary government					4,065
Due to other governments	10,560		10,560		
Customer deposits		871,598	871,598		
Unearned revenue	3,846,706	17,530	3,864,236	524,483	
Noncurrent liabilities					
Due within one year:					
Bonds payable - current maturities	10,105,657	2,710,000	12,815,657		
Notes payable - current maturities	73,459		73,459		
Compensated absences	2,536,139	492,100	3,028,239		
Due beyond one year:					
Bonds payable	97,095,318	13,526,167	110,621,485		
Compensated absences	4,264,503	782,977	5,047,480		
Net pension obligation	16,815,846		16,815,846		
Other post employment benefits	1,457,472		1,457,472		
Unamortized gain/loss on debt refunding		<u>(61,232)</u>	<u>(61,232)</u>		
Total liabilities	<u>141,680,472</u>	<u>19,929,946</u>	<u>161,610,418</u>	<u>894,674</u>	<u>27,142</u>
NET ASSETS					
Invested in capital assets, net of related debt	112,853,575	322,825,384	435,678,959	19,534,736	1,326,109
Restricted for:					
Debt service	1,553,332	2,556,961	4,110,293		
Transportation and parking	14,129,581		14,129,581		
Public safety	1,116,950		1,116,950		
Parks development	4,709,700		4,709,700		
Water and wastewater	4,855,636		4,855,636		
Other					
Expendable	156,854		156,854	2,517,019	221
Nonexpendable				1,250,000	
Unrestricted	<u>422,113</u>	<u>29,149,159</u>	<u>29,571,272</u>	<u>8,397,840</u>	<u>2,720,806</u>
Total net assets	<u>\$ 139,797,741</u>	<u>\$ 354,531,504</u>	<u>\$ 494,329,245</u>	<u>\$ 31,699,595</u>	<u>\$ 4,047,136</u>

The notes to the financial statements are an integral part of this statement.

City of Fayetteville, Arkansas
Statement of Activities
For the Year Ended December 31, 2011

Primary government: Governmental activities:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Library	Advertising & Promotion
					Governmental Activities	Business-type Activities	Total		
General government	\$ 7,255,645	\$ 1,191,560	\$ 1,336,944	\$ 594,424	\$ (4,132,717)	\$	\$ (4,132,717)	\$	\$
Finance and internal services	3,390,115	311,267			(3,078,848)		(3,078,848)		
Public safety	26,093,379	2,007,417	2,071,605	1,792,724	(20,221,633)		(20,221,633)		
Community planning and engineering	3,722,903	740,172	691,133	(21,135)	(2,312,733)		(2,312,733)		
Transportation and parking	15,656,762	1,727,341	4,536,646	2,678,808	(6,713,967)		(6,713,967)		
Parks and recreation	4,124,098	649,905	14,433	51,081	(3,408,679)		(3,408,679)		
Interest on long-term debt	4,809,180				(4,809,180)		(4,809,180)		
Total governmental activities	\$ 65,052,082	\$ 6,627,662	\$ 8,650,761	\$ 5,095,902	\$ (44,677,757)		\$ (44,677,757)		
Business-type activities:									
Airport	2,205,402	664,696		779,187	(771,519)		(771,519)		
Town center	495,411				(495,411)		(495,411)		
Solid waste	8,545,416	9,194,348		15,551	664,483		664,483		
Water and sewer	33,892,375	32,133,628		2,700,306	941,559		941,559		
Total business-type activities	45,138,604	41,982,672		3,495,044	339,112		339,112		
Total primary government	\$ 110,190,686	\$ 48,610,334	\$ 8,650,761	\$ 8,590,946	\$ (44,677,757)		\$ (44,338,645)		
Component Units:									
Library	\$ 4,174,740	\$ 165,612	\$ 3,335,946	\$			(673,182)		(2,476,113)
Advertising and Promotion	2,956,429	480,316					(673,182)		(2,476,113)
Total component units	\$ 7,131,169	\$ 645,928	\$ 3,335,946	\$					
General revenues:									
Taxes & fees									
General purpose sales and use taxes					44,335,082	29,733	44,364,815		
Property taxes					2,816,047		2,816,047	1,286,767	
Franchise fees					4,961,645	156,633	5,118,278		
Hotel, motel, restaurant taxes					2,298,187		2,298,187		2,298,187
Impact fees					911,065		911,065		
Investment earnings					225,848	123,608	349,456	257,250	12,508
Other					26,329	1,163,562	1,189,891	74,643	50,956
Transfers					(11,081,280)	11,081,280			
Total general revenues and transfers					44,492,923	12,554,816	57,047,739	1,618,660	2,361,651
Change in net assets					(184,834)	12,893,928	12,709,094	945,478	(114,462)
Net assets, beginning of year					139,982,575	341,637,576	481,620,151	30,754,117	4,161,598
Net assets, end of year					\$ 139,797,741	\$ 354,531,504	\$ 494,329,245	\$ 31,699,595	\$ 4,047,136

The notes to the financial statements are an integral part of this statement.

City of Fayetteville, Arkansas
 Balance Sheet
 Governmental Funds
 December 31, 2011

	<u>General</u>	<u>Debt Service Sales Tax Imp Bonds</u>	<u>Capital Projects Sales Tax Capital Improvement</u>
ASSETS			
Cash	\$ 2,683,127	\$	\$
Investments	14,356,862		8,862,279
Accounts receivable	908,633		
Accrued interest	15,533		16,373
Due from other funds	4,062,673		72,642
Due from component	4,065		
Due from other governments	3,527,623	1,368,642	815,151
Prepays	118,462		
Restricted assets:			
Investments		2,353,377	
Accrued interest		20	
Due from other governments			
Total assets	<u>\$ 25,676,978</u>	<u>\$ 3,722,039</u>	<u>\$ 9,766,445</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,962,821	\$	\$ 75,822
Accrued expenditures	534,070	12,419	
Compensated absences	354,466		
Due to other funds	140,651		403,949
Due to component funds	18,568		
Due to fiduciary funds	10,930		
Due to other governments			
Deferred revenue	<u>5,006,258</u>		<u>399,281</u>
Total liabilities	<u>8,027,764</u>	<u>12,419</u>	<u>879,052</u>
Fund balances:			
Nonspendable			
Prepays	118,462		
Long term loans	777,534		
Restricted for:			
Transportation and parking			
Public safety	499,839		
Sustainability			
Community planning and engineering	138,334		
Parks and recreation	27,766		
Water and wastewater			
Debt service		3,709,620	
Committed to:			
Economic development	727,116		
Transportation and parking			
General government	257,003		
Disaster recovery	2,725,094		
Water and wastewater			
Capital projects			8,887,393
Assigned to:			
Transportation and parking			
Public safety	18,142		
Parks and recreation	3,916		
Capital projects	204,994		
Unassigned	<u>12,151,014</u>		
Total fund balances	<u>17,649,214</u>	<u>3,709,620</u>	<u>8,887,393</u>
Total liabilities and fund balances	<u>\$ 25,676,978</u>	<u>\$ 3,722,039</u>	<u>\$ 9,766,445</u>

The notes to the financial statements are an integral part of this statement.

<u>Capital Projects Sales Tax 2006A Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 13	\$ 277,857	\$ 2,960,997
	16,240,645	39,459,786
	61,062	969,695
	30,006	61,912
	160,103	4,295,418
		4,065
	1,271,263	6,982,679
	4,185	122,647
11,903,522	153,540	14,410,439
99	1	120
<u>11,903,634</u>	<u>117,224</u>	<u>117,224</u>
<u>\$ 11,903,634</u>	<u>\$ 18,315,886</u>	<u>\$ 69,384,982</u>
\$ 50,720	\$ 258,478	\$ 2,347,841
	104,426	650,915
	58,513	412,979
57,903	2,293,826	2,896,329
		18,568
		10,930
	10,560	10,560
	<u>1,399,610</u>	<u>6,805,149</u>
<u>108,623</u>	<u>4,125,413</u>	<u>13,153,271</u>
	4,185	122,647
		777,534
11,791,260	2,338,321	14,129,581
	617,111	1,116,950
	13,569	13,569
	4,951	143,285
	4,681,934	4,709,700
3,751	4,851,885	4,855,636
	153,541	3,863,161
		727,116
	1,033	1,033
		257,003
		2,725,094
	1,471,654	1,471,654
		8,887,393
	52,289	52,289
		18,142
		3,916
		204,994
		<u>12,151,014</u>
<u>11,795,011</u>	<u>14,190,473</u>	<u>56,231,711</u>
<u>\$ 11,903,634</u>	<u>\$ 18,315,886</u>	

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	196,754,209
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.	16,616,048
Other long-term assets are not available to pay for current expenditures and are deferred in the funds.	2,958,443
Net pension/other post employment obligations.	(18,273,318)
Long-term liabilities, including bonds payable, are not due and payable in the current periods and therefore are not reported in the funds.	(114,489,352)
Governmental activities net assets	<u>\$ 139,797,741</u>

City of Fayetteville, Arkansas
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	<u>General</u>	<u>Debt Service Sales Tax Imp Bonds</u>	<u>Capital Projects Sales Tax Capital Improvement</u>
Revenues:			
Sales tax	\$ 21,215,025	\$ 16,518,746	\$ 6,601,311
Hotel, motel, restaurant tax			
Property tax	1,602,851		2
Franchise fee	4,961,645		
Impact fee			
Licenses and permits	850,735		
Intergovernmental	2,961,823		2,750,051
Charges for services	1,516,603		270,545
Fines and forfeitures	2,045,491		
Investment earnings	93,554	678	57,600
Net increase(decrease) in the fair value of investments	(20,135)		(22,883)
Contributions	143,657		
Other	237,814		42,195
	<u>35,609,063</u>	<u>16,519,424</u>	<u>9,698,821</u>
Total revenues			
Expenditures:			
Current:			
General government	5,527,930	4,540	390,499
Finance and internal services	2,794,633		447,337
Public safety	20,888,153		118,487
Community planning and engineering	2,948,324		206,262
Transportation, parking, utilities			1,677,388
Parks and recreation	1,641,805		175,857
Debt service		16,283,517	
Capital outlay	199,625		3,783,204
	<u>34,000,470</u>	<u>16,288,057</u>	<u>6,799,034</u>
Total expenditures			
Excess (deficiency) of revenues over (under) expenditures	<u>1,608,593</u>	<u>231,367</u>	<u>2,899,787</u>
Other financing sources (uses):			
Transfers in	1,000,065	2	
Transfers out	(279,808)		(1,163,397)
	<u>720,257</u>	<u>2</u>	<u>(1,163,397)</u>
Total other financing sources (uses)			
Net change in fund balances	2,328,850	231,369	1,736,390
Fund balances, beginning of year*	<u>15,320,364</u>	<u>3,478,251</u>	<u>7,151,003</u>
Fund balances, end of year	<u>\$ 17,649,214</u>	<u>\$ 3,709,620</u>	<u>\$ 8,887,393</u>

* As adjusted see Note 1D.

The notes to the financial statements are an integral part of this statement.

<u>Capital Projects Sales Tax 2006A Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$	\$	\$
	2,298,187	44,335,082
	1,145,449	2,298,187
		2,748,302
	911,065	4,961,645
		911,065
	6,307,149	850,735
	1,422,533	12,019,023
	269,687	3,209,681
1,974	136,987	2,315,178
		290,793
	(63,581)	(106,599)
	40,525	184,182
	44,814	324,823
<u>1,974</u>	<u>12,512,815</u>	<u>74,342,097</u>
	391,996	6,314,965
		3,241,970
	1,962,043	22,968,683
	451,038	3,605,624
	5,374,193	7,051,581
	1,681,086	3,498,748
	618,826	16,902,343
<u>5,374,275</u>	<u>5,010,710</u>	<u>14,367,814</u>
<u>5,374,275</u>	<u>15,489,892</u>	<u>77,951,728</u>
<u>(5,372,301)</u>	<u>(2,977,077)</u>	<u>(3,609,631)</u>
	386,914	1,386,981
<u>(2)</u>	<u>(238,433)</u>	<u>(1,681,640)</u>
<u>(2)</u>	<u>148,481</u>	<u>(294,659)</u>
<u>(5,372,303)</u>	<u>(2,828,596)</u>	<u>(3,904,290)</u>
<u>17,167,314</u>	<u>17,019,069</u>	<u>60,136,001</u>
<u>\$ 11,795,011</u>	<u>\$ 14,190,473</u>	<u>\$ 56,231,711</u>

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City of Fayetteville, Arkansas
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances -
Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2011

Net change in fund balances - total governmental funds \$ (3,904,290)

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

Governmental funds report capital outlays as expenditures. In the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 3,248,806

The net effect of various miscellaneous transactions involving capital assets, such as sales, donations, and transfers is to increase (decrease) net assets. (9,259,760)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (240,886)

The issuance of long-term debt such as bonds and capital leases provides current financial resources to the governmental funds, while the repayment consumes current financial resources. Neither transaction has any effect on net assets. Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is issued; however, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 12,093,163

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. 59,135

Increase in expenses in the statement of activities for net pension obligation and other postemployment benefits. (2,590,479)

Internal service funds are used by management to charge the costs of the fleet (Shop Fund) to the individual funds. The net revenue of certain activities of the Shop Fund is reported with governmental activities. 409,477

Change in net assets of governmental activities \$ (184,834)

The notes to the financial statements are an integral part of this statement.

City of Fayetteville, Arkansas
General Fund
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Sales tax	\$ 19,991,000	\$ 19,991,000	\$ 21,215,025	\$ 1,224,025
Property tax	1,501,000	1,501,000	1,602,851	101,851
Franchise tax	4,649,100	4,649,100	4,961,645	312,545
Licenses and permits	652,100	652,100	850,735	198,635
Intergovernmental	2,120,000	2,741,966	2,680,643	(61,323)
Charges for services	1,356,600	1,357,350	1,484,072	126,722
Fines and forfeitures	1,679,700	2,037,427	2,045,491	8,064
Investment earnings	120,000	120,000	59,759	(60,241)
Net increase in the fair value of investments	-	-	(12,688)	(12,688)
Contributions	161,700	227,709	143,657	(84,052)
Other	205,300	217,470	236,914	19,444
Total revenues	32,436,500	33,495,122	35,268,104	1,772,982
Expenditures				
General Government				
Mayor	246,621	249,681	240,560	9,121
City Council	78,384	78,384	77,535	849
City Attorney	285,431	288,382	281,112	7,270
City Prosecutor	553,473	561,926	548,351	13,575
District Judge	177,214	183,389	178,431	4,958
Chief of Staff	71,365	74,270	70,672	3,598
Public Information	210,517	214,576	213,889	687
Cable Administration	184,317	193,333	185,348	7,985
Internal Consulting	83,291	57,155	47,368	9,787
Internal Audit	87,543	89,647	89,532	115
City Clerk	347,867	343,495	314,763	28,732
District Court Criminal	309,531	320,054	313,928	6,126
District Court Probations	57,916	40,871	21,971	18,900
District Court Small Claims	151,771	157,523	153,772	3,751
Library	1,610,759	1,610,759	1,607,835	2,924
Utilities Management	419,614	421,731	393,451	28,280
Miscellaneous	957,796	1,580,749	1,217,867	362,882
Cost allocation	(469,978)	(469,978)	(469,978)	-
Total General Government	5,363,432	5,995,947	5,486,407	509,540
Finance and Internal Services				
Finance Director	138,667	142,869	142,673	196
Human Resources	374,256	403,770	401,211	2,559
Employee Development	777,165	777,765	590,976	186,789
Accounting and Audit	713,055	714,864	697,714	17,150
Budget and Research	256,262	260,344	258,994	1,350
General Maintenance	454,266	387,280	368,046	19,234
Janitorial	201,423	210,084	195,696	14,388
Purchasing	234,862	239,980	239,479	501
Information Technology	1,260,000	1,244,378	1,199,494	44,884
Cost allocation	(1,299,650)	(1,299,650)	(1,299,650)	-
Total Finance and Internal Services	3,110,306	3,081,684	2,794,633	287,051
Public Safety				
Central Dispatch	1,281,730	1,297,609	1,284,718	12,891
Police Support Services	2,776,450	2,827,012	2,779,200	47,812
Police Projects	-	794,545	410,619	383,926
Police Patrol/Warrant	7,878,527	7,693,160	7,621,767	71,393
Fire Prevention	388,379	439,997	433,491	6,506
Fire Operations	7,927,722	8,436,936	8,195,465	241,471
Fire Training	206,705	191,704	190,971	733
Cost allocation	(28,078)	(28,078)	(28,078)	-
Total Public Safety	20,431,435	21,652,885	20,888,153	764,732

The notes to the financial statements are an integral part of this statement.

City of Fayetteville, Arkansas
General Fund
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual cont'd
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Community Planning and Engineering				
Planning Development Manager	\$ 156,521	\$ 150,173	\$ 139,403	\$ 10,770
Engineering Design	162,505	169,038	163,386	5,652
Engineering Operations and Administration	498,765	499,903	492,010	7,893
Right of Way Acquisition	95,764	108,086	101,115	6,971
Public Construction	323,900	315,256	303,855	11,401
Current Planning	369,279	368,825	343,019	25,806
Long Range Planning	202,891	205,937	201,449	4,488
Building Safety	488,358	492,215	480,516	11,699
Community Code Enforcement	348,117	329,422	305,881	23,541
Animal Patrol	313,280	326,900	324,554	2,346
Animal Shelter	349,857	335,159	333,089	2,070
Animal Services Projects	-	100,472	71,007	29,465
Veterinarian Management	192,166	195,876	195,336	540
Cost allocation	(506,296)	(506,296)	(506,296)	-
Total Community Planning and Engineering	<u>2,995,107</u>	<u>3,090,966</u>	<u>2,948,324</u>	<u>142,642</u>
Parks and Recreation				
Swimming Pool	144,335	135,187	133,380	1,807
Administration/Recreation Programs	663,629	658,824	637,765	21,059
Yvonne Richardson Community Center	182,015	162,036	132,304	29,732
Lake Recreation	85,461	78,579	75,978	2,601
Park Maintenance	663,680	685,154	662,378	22,776
Total Parks and Recreation	<u>1,739,120</u>	<u>1,719,780</u>	<u>1,641,805</u>	<u>77,975</u>
Capital Outlay	<u>13,100</u>	<u>612,582</u>	<u>180,142</u>	<u>432,440</u>
Total General Fund expenditures	<u>33,652,500</u>	<u>36,153,844</u>	<u>33,939,464</u>	<u>2,214,380</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,216,000)</u>	<u>(2,658,722)</u>	<u>1,328,640</u>	<u>3,987,362</u>
Other financing sources (uses)				
Transfers in	1,000,000	1,000,000	1,000,065	65
Transfers out	(233,000)	(234,972)	(215,461)	19,511
Total other financing sources (uses)	<u>767,000</u>	<u>765,028</u>	<u>784,604</u>	<u>19,576</u>
Net change in General Fund balances before Disaster Recovery and Replacement	<u>(449,000)</u>	<u>(1,893,694)</u>	<u>2,113,244</u>	<u>4,006,938</u>
Revenues Disaster Recovery and Replacement				
Intergovernmental		875,000	281,180	(593,820)
Charges for services	44,500	44,500	32,531	(11,969)
Investment earnings	56,300	56,300	33,795	(22,505)
Net decrease in the fair value of investments	-	-	(7,447)	(7,447)
Other	-	-	900	900
Total revenues	<u>100,800</u>	<u>975,800</u>	<u>340,959</u>	<u>(634,841)</u>
Expenditures Disaster Recovery and Replacement				
General Government	600	980,997	41,523	939,474
Total General Government	<u>600</u>	<u>980,997</u>	<u>41,523</u>	<u>939,474</u>
Capital Outlay	44,500	136,553	19,483	117,070
Total Disaster Recovery and Replacement expenditures	<u>45,100</u>	<u>1,117,550</u>	<u>61,006</u>	<u>1,056,544</u>
Excess (deficiency) of revenues over (under) expenditures	<u>55,700</u>	<u>(141,750)</u>	<u>279,953</u>	<u>421,703</u>
Other financing uses Disaster Recovery and Replacement				
Transfers out	-	(64,347)	(64,347)	-
Total other financing uses	<u>-</u>	<u>(64,347)</u>	<u>(64,347)</u>	<u>-</u>
Net change in Disaster Recovery and Replacement	<u>55,700</u>	<u>(206,097)</u>	<u>215,606</u>	<u>421,703</u>
Net change in General Fund and Disaster Recovery and Replacement combined	<u>(393,300)</u>	<u>(2,099,791)</u>	<u>2,328,850</u>	<u>4,428,641</u>
General Fund balances, beginning of year	<u>15,320,364</u>	<u>15,320,364</u>	<u>15,320,364</u>	<u>-</u>
General Fund balances, end of year	<u>\$ 14,927,064</u>	<u>\$ 13,220,573</u>	<u>\$ 17,649,214</u>	<u>\$ 4,428,641</u>

City of Fayetteville, Arkansas
Statement of Fund Net Assets
Proprietary Funds
December 31, 2011

	<u>Town Center</u>	<u>Solid Waste</u>	<u>Water and Sewer</u>
ASSETS			
Current assets:			
Cash	\$	\$ 350	\$ 800,557
Investments		9,282,557	15,730,605
Restricted investments	20,915		875,559
Accounts receivable		1,140,130	3,040,463
Accrued interest		17,150	29,063
Due from other funds		226,947	104,134
Due from other governments			1,416,074
Inventory		33,585	1,010,322
Prepaid expenses and other assets		1,472	68,338
Total current assets	<u>20,915</u>	<u>10,702,191</u>	<u>23,075,115</u>
Noncurrent assets:			
Restricted assets:			
Investments	147,532		4,628,534
Unamortized bond issue cost	34,630		159,948
Total restricted assets	<u>182,162</u>		<u>4,788,482</u>
Capital assets:			
Land	151,158	96,682	7,855,531
Buildings	9,193,995	2,722,484	99,875,644
Improvements other than buildings		397,812	302,752,741
Machinery, equipment and vehicles		1,201,990	31,178,469
Construction in progress		98,022	
Less accumulated depreciation	(3,861,478)	(2,039,695)	(127,379,846)
Total capital assets, net	<u>5,483,675</u>	<u>2,477,295</u>	<u>314,282,539</u>
Total noncurrent assets	<u>5,665,837</u>	<u>2,477,295</u>	<u>319,071,021</u>
Total assets	<u>5,686,752</u>	<u>13,179,486</u>	<u>342,146,136</u>
LIABILITIES			
Current liabilities:			
Accounts payable		4,545	1,211,982
Accrued expenses	20,912	58,638	95,347
Compensated absences		162,545	304,932
Due to other funds		696,397	1,127,157
Customer deposits		47,377	824,221
Unearned revenue			
Accrued interest			179,451
Bonds payable - current maturity	590,000		2,120,000
Total current liabilities	<u>610,912</u>	<u>969,502</u>	<u>5,863,090</u>
Noncurrent liabilities:			
Compensated absences		345,732	397,590
Bonds payable	1,885,000		11,690,000
Unamortized gain on debt refunding	(35,202)		(26,030)
Unamortized bond premiums (discounts)	(19,521)		(29,312)
Total noncurrent liabilities	<u>1,830,277</u>	<u>345,732</u>	<u>12,032,248</u>
Total liabilities	<u>2,441,189</u>	<u>1,315,234</u>	<u>17,895,338</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,063,398	2,477,295	303,432,672
Restricted for debt service	147,535		2,409,426
Unrestricted	<u>34,630</u>	<u>9,386,957</u>	<u>18,408,700</u>
Total net assets	<u>\$ 3,245,563</u>	<u>\$ 11,864,252</u>	<u>\$ 324,250,798</u>

The notes to the financial statements are an integral part of this statement.

<u>Airport Fund Nonmajor Enterprise Fund</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Fund</u>
\$	\$	\$
715,002	800,907	8,782,840
	25,728,164	
	896,474	
26,469	4,207,062	945
1,321	47,534	16,227
	331,081	471,499
122,533	1,538,607	
3,861	1,047,768	202,748
9,662	79,472	79,069
<u>878,848</u>	<u>34,677,069</u>	<u>9,553,328</u>
	4,776,066	
	194,578	
	<u>4,970,644</u>	
3,750,133	11,853,504	16,256
16,257,246	128,049,369	870,602
16,921,171	320,071,724	
871,759	33,252,218	25,435,898
	98,022	
(23,948,290)	(157,229,309)	(18,146,757)
<u>13,852,019</u>	<u>336,095,528</u>	<u>8,175,999</u>
<u>13,852,019</u>	<u>341,066,172</u>	<u>8,175,999</u>
14,730,867	375,743,241	17,729,327
13,797	1,230,324	1,330
6,134	181,031	23,621
24,623	492,100	58,266
314,859	2,138,413	63,256
	871,598	
17,530	17,530	
	179,451	
	2,710,000	
<u>376,943</u>	<u>7,820,447</u>	<u>146,473</u>
39,655	782,977	110,184
	13,575,000	
	(61,232)	
	(48,833)	
<u>39,655</u>	<u>14,247,912</u>	<u>110,184</u>
416,598	22,068,359	256,657
13,852,019	322,825,384	8,175,999
	2,556,961	
<u>462,250</u>	<u>28,292,537</u>	<u>9,296,671</u>
<u>\$ 14,314,269</u>	<u>353,674,882</u>	<u>\$ 17,472,670</u>
Adjustment to reflect internal service fund activities related to enterprise funds	856,622	
Net Assets	<u>\$ 354,531,504</u>	

City of Fayetteville, Arkansas
Proprietary Funds
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
For the Year Ended December 31, 2011

	<u>Town Center</u>	<u>Solid Waste</u>	<u>Water and Sewer</u>
Operating revenues:			
Solid waste fees	\$	\$ 9,194,348	\$
Water services			15,359,868
Sewer services			15,645,479
Airport services			
Shop charges			
Other			1,128,281
Total operating revenues		<u>9,194,348</u>	<u>32,133,628</u>
Operating expenses:			
Personnel services		3,043,399	4,499,221
Materials and supplies		618,390	1,297,651
Contract services and charges	2,523	4,695,894	17,189,607
Maintenance		23,277	117,941
Depreciation	367,760	227,562	10,275,854
Total operating expenses	<u>370,283</u>	<u>8,608,522</u>	<u>33,380,274</u>
Operating income (loss)	<u>(370,283)</u>	<u>585,826</u>	<u>(1,246,646)</u>
Nonoperating revenues (expenses):			
Taxes and franchise fees		156,633	
Interest expense and fees	(125,128)		(543,763)
Interest income	29	73,777	119,887
Net increase (decrease) in fair value of investments		(28,681)	(46,502)
Other revenues (expenses)	682,161	22,377	459,124
Total nonoperating income	<u>557,062</u>	<u>224,106</u>	<u>(11,254)</u>
Income (loss) before contributions and transfers	186,779	809,932	(1,257,900)
Capital donations			1,296,986
Capital internal transfers			11,065,423
Capital grants		15,551	1,403,320
Transfers in			
Change in net assets	186,779	825,483	12,507,829
Total net assets, beginning of year	<u>3,058,784</u>	<u>11,038,769</u>	<u>311,742,969</u>
Total net assets, end of year	<u>\$ 3,245,563</u>	<u>\$ 11,864,252</u>	<u>\$ 324,250,798</u>

The notes to the financial statements are an integral part of this statement.

<u>Airport Fund Nonmajor Enterprise Fund</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Fund</u>
\$	\$ 9,194,348	\$
	15,359,868	
642,827	15,645,479	
	642,827	6,399,790
<u>11,869</u>	<u>1,140,150</u>	
<u>654,696</u>	<u>41,982,672</u>	<u>6,399,790</u>
331,465	7,874,085	1,033,515
94,574	2,010,615	2,220,364
287,266	22,175,290	750,383
47,625	188,843	49,825
<u>1,425,592</u>	<u>12,296,768</u>	<u>2,421,700</u>
<u>2,186,522</u>	<u>44,545,601</u>	<u>6,475,787</u>
<u>(1,531,826)</u>	<u>(2,562,929)</u>	<u>(75,997)</u>
29,733	186,366	
(20,007)	(688,898)	
7,776	201,469	65,125
(2,678)	(77,861)	(23,471)
<u>(100)</u>	<u>1,163,562</u>	<u>260,913</u>
<u>14,724</u>	<u>784,638</u>	<u>302,567</u>
(1,517,102)	(1,778,291)	226,570
	1,296,986	
	11,065,423	
779,187	2,198,058	
<u>15,857</u>	<u>15,857</u>	<u>278,802</u>
(722,058)	12,798,033	505,372
<u>15,036,327</u>		<u>16,967,298</u>
\$ <u>14,314,269</u>		\$ <u>17,472,670</u>

Adjustment to reflect internal service
fund activities related to enterprise funds 95,895
Change in net assets \$ 12,893,928

City of Fayetteville, Arkansas
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	<u>Town Center</u>	<u>Solid Waste</u>	<u>Water and Sewer</u>
Cash flows from operating activities:			
Cash received from customers	\$	\$ 9,029,016	\$ 31,032,700
Cash paid to suppliers	(2,523)	(5,356,994)	(18,736,215)
Cash paid to employees		(2,953,432)	(4,456,146)
Net cash provided by (used for) operating activities	<u>(2,523)</u>	<u>718,590</u>	<u>7,840,339</u>
Cash flows from noncapital financing activities:			
Taxes/Franchise fees		156,633	
Transfers in			
Cash transferred from component units	682,161		
Net cash provided by (used for) noncapital financing activities	<u>682,161</u>	<u>156,633</u>	
Cash flows from capital and related financing activities:			
Capital grants		15,551	1,403,320
Payment of bonds	(575,000)		(1,270,000)
Interest paid on bonds/interfund loans	(105,685)		(577,768)
Acquisition and construction of capital assets		(647,674)	(8,642,042)
Proceeds from sale of capital assets			41,039
Net cash provided by (used for) capital and related financing activities	<u>(680,685)</u>	<u>(632,123)</u>	<u>(9,045,451)</u>
Cash flows from investing activities:			
Purchase of investment securities		(320,855)	
Proceeds from sale of investment securities	1,017		1,338,312
Interest and dividends on investments	30	77,755	125,823
Net cash provided by (used for) investing activities	<u>1,047</u>	<u>(243,100)</u>	<u>1,464,135</u>
Net increase in cash			259,023
Cash, beginning of year		350	541,534
Cash, end of year	<u>\$</u>	<u>\$ 350</u>	<u>\$ 800,557</u>
Reconciliation of operating income to cash flows from operating activities			
Operating income (loss)	(370,283)	585,826	(1,246,646)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	367,760	227,562	10,275,854
(Increase) decrease in customer accounts receivable		(88,930)	(100,795)
(Increase) decrease in due from other funds		(101,093)	(2,588)
(Increase) decrease in due from other governments		2,315	(1,416,074)
(Increase) decrease in inventory		17,528	(39,557)
(Increase) decrease in prepaid expenses		197	(3,367)
Increase (decrease) in accounts payable		(94,898)	(455,676)
Increase (decrease) in other accrued expenses		89,968	43,075
Increase (decrease) in due to other funds		40,749	401,101
Increase (decrease) in due to other governments			(64,987)
Increase (decrease) in deferred revenue and deposits		16,989	31,470
Other revenue		22,377	418,529
Net cash provided by (used for) operating activities	<u>\$ (2,523)</u>	<u>\$ 718,590</u>	<u>\$ 7,840,339</u>
Noncash investing, capital, and financing activities:			
Contributions of capital assets	\$	\$	\$ 12,362,409
Net increase (decrease) in fair value of investments		(28,681)	(46,502)

The notes to the financial statements are an integral part of this statement.

Airport Fund Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Fund
\$ 1,133,495	\$ 41,195,211	\$ 6,397,647
(1,081,909)	(25,177,641)	(3,140,812)
<u>(327,056)</u>	<u>(7,736,634)</u>	<u>(1,042,260)</u>
<u>(275,470)</u>	<u>8,280,936</u>	<u>2,214,575</u>
29,733	186,366	
15,857	15,857	278,802
	<u>682,161</u>	
<u>45,590</u>	<u>884,384</u>	<u>278,802</u>
779,187	2,198,058	
	(1,845,000)	
(20,007)	(703,460)	
(594,839)	(9,884,555)	(1,885,347)
	41,039	269,508
<u>164,341</u>	<u>(10,193,918)</u>	<u>(1,615,839)</u>
	(320,855)	(944,911)
57,263	1,396,592	
8,276	211,884	67,373
<u>65,539</u>	<u>1,287,621</u>	<u>(877,538)</u>
	259,023	
	<u>541,884</u>	
<u>\$</u>	<u>\$ 800,907</u>	<u>\$</u>
(1,531,826)	(2,562,929)	(75,997)
1,425,592	12,296,768	2,421,700
14,936	(174,789)	(945)
133,102	29,421	(47,183)
330,760	(1,082,999)	
384	(21,645)	21,135
1	(3,169)	(6,918)
(404,080)	(954,654)	(20,721)
4,409	137,452	(8,744)
(247,901)	193,949	(98,969)
	(64,987)	
(747)	47,712	(14,767)
<u>(100)</u>	<u>440,806</u>	<u>45,984</u>
<u>\$ (275,470)</u>	<u>\$ 8,280,936</u>	<u>\$ 2,214,575</u>
\$	\$ 12,362,409	\$
(2,678)	(77,861)	(23,471)

City of Fayetteville, Arkansas
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2011

	Pension Trust Funds
	<u> </u>
Assets	
Cash	\$ 162,922
Investments, at fair value:	
Money Market	365,653
U. S. Government securities	2,125,988
Corporate bonds	2,231,948
Corporate stock	8,328,732
Receivables:	
Accrued interest	27,525
Due from primary government	<u>10,930</u>
Total assets	<u>13,253,698</u>
Liabilities	
Accounts payable	95
Deferred revenue	<u>12,900</u>
Total liabilities	<u>12,995</u>
Net Assets	
Assets held in trust for pension benefits	<u>\$ 13,240,703</u>

The notes to the financial statements are an integral part of this statement.

City of Fayetteville, Arkansas
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2011

	Pension Trust Funds
Additions	
Contributions:	
City contributions	\$ 126,045
Property taxes contributed from police and fire pension revenue fund	996,762
State insurance taxes contributed from police and fire pension revenue fund	<u>430,900</u>
Total contributions	<u>1,553,707</u>
Investment earnings:	
Interest	302,628
Net decrease in fair value of investments	(7,386)
Gain on sale of investments	353,724
Other	<u>5,165</u>
Net investment gain	<u>654,131</u>
Total additions	<u>2,207,838</u>
Deductions	
Contractual services	7,623
Benefit payments	<u>3,089,318</u>
Total deductions	<u>3,096,941</u>
Change in net assets	(889,103)
Net assets, beginning of year	<u>14,129,806</u>
Net assets, end of year	<u>\$ <u>13,240,703</u></u>

The notes to the financial statements are an integral part of this statement.

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City of Fayetteville, Arkansas
Notes to the Financial Statements
December 31, 2011

1. Nature of Operations and Summary of Significant Accounting Policies

The City of Fayetteville, Arkansas (the "City") is a municipal corporation operating under the authority of Arkansas state statute. The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the standard-setting body accepted in the United States for establishing governmental accounting and financial reporting principles. Enterprise funds and similar component units also apply Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989 that do not conflict with or contradict a GASB pronouncement. A description of the more significant accounting and financial reporting policies and practices of the City follows.

A. Reporting Entity

The City is a municipality governed by an elected mayor and an eight-member council. As required by accounting principles generally accepted in the United States (GAAP), these financial statements present the City (the primary government) and its component units. The component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. Those entities in which the nature and significance of their relationship with the City is such that exclusion from the City's financial reporting entity would render the City's financial statements incomplete or misleading are included as part of the City's reporting entity.

Those commissions and boards which have been included within the City's financial statements are as follows:

Discretely presented component units

Advertising and Promotion Commission - The Commission is governed by seven members appointed by the City Council. The Mayor and one City Alderman serve as two of the seven members of the Commission. The City levies and collects taxes to fund the Commission. The Commission's purpose is to promote and develop tourism for the City of Fayetteville. The Commission is discretely presented as a separate column in the City's government-wide financial statements. The Advertising and Promotion Commission does not prepare separate audited financial statements.

Fayetteville Public Library (Library) - The Mayor of the City appoints all five members of the Library's Board of Trustees and the City controls a major portion of the Library's budget. The Library serves the residents of the City and Washington County. The Fayetteville Public Library Foundation (Foundation) provides fundraising for the Library and is governed by a board comprised of members appointed by the Board of Trustees of the Library. The Foundation is a blended component unit of the Library and is reported with the Library's general fund.

The Library is discretely presented as a separate column in the City's government-wide financial statements. Financial statements of the Fayetteville Public Library can be obtained from the administrative offices located at 401 W. Mountain, Fayetteville, Arkansas 72701.

B. Government-wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements. The statements have been segregated into two categories, governmental activities and business-type activities of the City. Governmental activities are generally supported through taxes and intergovernmental revenues. Business-type activities are financed in whole or part by user fees and charges to external parties. The primary government is reported separately from

City of Fayetteville, Arkansas
Notes to the Financial Statements
December 31, 2011

component units of the City. The statement of activities demonstrates the degree to which the direct expenses of a given function or program is offset by revenues generated by the program. Direct expenses are those that can be clearly associated with a specific function. Program revenues include 1) charges to customers or applicants who use or directly benefit from goods, services, or privileges provided by a given function or program and 2) grants and contributions for operational or capital requirements of a particular function or program. The effect of interfund activity has been eliminated from the government-wide statements. However, interfund services provided and used are not eliminated in the consolidation process. Taxes and other items not identifiable with a program are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The fiduciary funds are excluded from the government-wide financial statements. Major governmental funds and major enterprise funds are reported in separate columns in the fund financial statements. All other governmental and enterprise funds are aggregated and reported as nonmajor funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized as soon as they are both measurable and available. The City considers revenues available if they are collectible within sixty days after year-end. Major revenue sources susceptible to accrual are sales taxes, franchise fees, intergovernmental revenue and interest earnings. Expenditures are recorded when a related fund liability is incurred with the exception of principal and interest on long-term debt, compensated absences and claims and judgments which are recorded when the payments are due. The government reports the following major governmental funds:

General Fund - The General Fund is the principal operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds.

Sales Tax Improvement Bond Fund - This debt service fund is used to account for the accumulation of resources for and the payment of principal and interest associated with the bond issues for wastewater improvements, streets and trails.

Sales Tax Capital Improvement Fund – This capital projects fund accounts for the City sales and use tax used to acquire, construct, and equip capital additions and improvements in the City’s five-year capital improvement plan.

Sales Tax 2006A Construction Fund – This capital projects fund accounts for the bond proceeds for three separate projects. These projects include a sewer project for construction of a new wastewater treatment plant, for additional sewer lines, force mains, pumping stations and improvements to the existing treatment plant, a street project for the acquisition, construction and repair of certain City streets and a trails project for acquisition, construction and improvements to the City’s trail system.

City of Fayetteville, Arkansas
Notes to the Financial Statements
December 31, 2011

The government reports the following major enterprise funds:

Town Center Fund – This fund accounts for the Town Center building and the associated special obligation debt.

Solid Waste Fund – This fund accounts for the operation of the City's solid waste collection system.

Water and Sewer Fund – This fund accounts for the operation and maintenance of the City's water and sewer system.

Additionally, the City reports the following fund types:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department to other departments of the City, on a cost reimbursement basis. The Shop Fund is the only internal service fund of the City and is responsible for the management of the City's fleet.

Pension Trust Funds – Pension trust funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations or other governments. The City has two pension trust funds: the Policemen's Pension and Relief Fund and the Firemen's Pension and Relief Fund.

Amounts reported as program revenues include 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally generated resources are reported as general revenues. All taxes are included in general revenues. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or delivering goods in connection with a fund's ongoing operations. The primary source of operating revenues to the City's major enterprise funds is charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the costs of sales and services, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets and Liabilities

Investments - Certificates of deposit and money market investments that mature within one year of the date of acquisition are recorded at amortized cost, which approximates fair value. All other investments are recorded at fair value with the resulting gains and losses recognized in the current period.

Receivables - Customer Accounts - An allowance has been made for doubtful accounts in funds with significant balances that are older than 180 days using an average amount of 2% of receivables. The receivables are shown net of the allowance.

Due to/from Other Governments - Due from other governments consists primarily of December sales and use taxes, state turnback, cost sharing, and grant reimbursement requests receivable at year-end. Due to other governments consists primarily of grant subrecipient expense reimbursements, cost sharing, and fourth quarter parking revenue distributions.

Inventories - Inventories in the governmental and proprietary funds are stated at cost. Inventory cost is determined by the weighted average cost method. The cost is recorded as an expenditure/expense upon consumption.

City of Fayetteville, Arkansas
Notes to the Financial Statements
December 31, 2011

Prepays - Payments made to vendors for services that will benefit periods beyond December 31, 2011, are recorded as prepaid expenditures in governmental funds and prepaid expenses in proprietary funds.

Restricted Assets – Certain resources are classified as restricted on the statement of net assets because their use is subject to external restrictions. The City had restricted net assets of \$29,079,014 at December 31, 2011.

Capital Assets and Depreciation - Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are assets which individually cost \$5,000 or more and have a useful life of more than one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend their lives are not capitalized.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	10-50
Improvements other than buildings	10-50
Machinery, equipment, and vehicles	3-10
Infrastructure	20-50

Property Taxes - The City levies property taxes applicable to the following year during the month of October. Property taxes assessed during the previous year are due and payable after February 1. Taxes are delinquent after the first week in October. Property taxes attach as a lien on property as of February 1. Delinquent property taxes as of December 31, 2011, were not significant.

The assessed value of taxable property upon which property taxes are levied is determined by the County Assessor. The Assessor estimates full market value of the property and applies a statutory rate of 20% to arrive at an assessed value. Washington County is the collecting agent for the levy and remits the collections to the City, net of a collection fee. Each unit of government receives its proportionate share of tax receipts from the County Assessor, based on its individual mill levy, in the month following the collection.

The amount of property taxes the City may levy for general government operations is subject to a statutory limitation of 5 mills established by the State of Arkansas. This operating tax levy limitation may not be increased except by amendment to the State Constitution. In 2011 the City Council approved a levy of 1.3 mills for general government operations. In addition the City has .4 mills each for the Policemen's and Firemen's Pension Funds and 1 mill for the Fayetteville Public Library. The mills for the Library and the Pension funds are apart from the statutory limitation of 5 mills for operations.

Bond Issuance Costs, Premiums and Discounts and Refunding Gains and Losses –The government-wide financial statements and proprietary funds (fund financial statements) report long-term debt and other long-term obligations as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the related debt. Gains and losses on debt refunding are deferred and amortized to interest expense using the interest method over the shorter of the remaining life of the old debt or the life of the new debt.

City of Fayetteville, Arkansas
Notes to the Financial Statements
December 31, 2011

In the governmental funds, bond premiums and discounts as well as bond issuance costs, are recorded in the current period. The face amount of the debt issued is reported as other financing sources. Premiums and discounts on debt are reported as the other financing sources and uses. Issuance costs are reported as expenditures of the current period.

Rebatable Arbitrage - Rebatable arbitrage is treated as an expense when due.

Compensated Absences – City employees earn sick and vacation leave benefits based on length of service time. Employees are compensated (historically from the fund which the employee is assigned) for unused sick and vacation time upon leaving the City’s employment. Sick and vacation leave is accrued when earned in the proprietary fund financial statements. In the governmental funds the liability is recorded to the extent that they have matured at year-end.

Unearned Revenue – In the governmental and proprietary funds, unearned revenue represent amounts reported in accordance with the City’s revenue recognition criteria. In the Governmental funds, revenues are not recognized until they are available to liquidate liabilities of the current period. Therefore, revenues which have not been received within sixty days of year-end are classified as unearned revenues in the governmental funds. In the proprietary funds the revenues are recognized when they are earned.

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

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

Adoption of GASB Statements – The City implemented Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance and Reporting, and Governmental Fund Type Definitions during 2011. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The objective of the Statement is to provide clearer fund balance classifications that can be more consistently applied. With the implementation of the Statement, there is no effect on beginning fund balance for total governmental funds. Amounts previously reported as reserved are now reported as either nonspendable or restricted and amounts previously reported as unreserved are now reported as committed, assigned or unassigned. As a result of the implementation of the standard, the Disaster and Recovery Fund, which was classified as a nonmajor capital project fund prior to 2011, was combined with the General Fund in 2011 and beginning fund balances for the individual funds were reclassified to reflect this change. At the beginning of 2011 the Disaster and Recovery Fund had a fund balance of \$3,234,600 and the General Fund had a fund balance of \$12,085,764 which combined to a total beginning fund balance for the General Fund of \$15,320,364. Beginning fund balances for nonmajor governmental funds were reduced by the same amount.

E. Fund Balance – Governmental Funds

The fund balances for the City’s governmental funds are displayed in five components:

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

City of Fayetteville, Arkansas
Notes to the Financial Statements
December 31, 2011

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.

Committed – Committed fund balances may be used only for the specific purposes determined by resolution of the City Council. Commitments may be changed or lifted only by issuance of a resolution by the City Council.

Assigned – Assigned fund balances are intended to be used by the City for specific purposes as determined by management. In governmental funds other than the General Fund, assigned fund balances represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

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

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

F. Disaster Recovery and Minimum Fund Balance Policy

In 2002 the City Council committed by ordinance, \$3,000,000 in disaster recovery funds. The funds are not to be dispersed until and unless the City Council determines by Resolution that a disaster requiring use of these funds has occurred. The funds are required to be restored to \$3,000,000 as soon as feasible after any disbursements of funds. These funds are shown as committed in the General Fund.

The City Council has also established a minimum reserve of sixty days of annual regular operating expenditures for the General Fund. The minimum reserves cannot be reduced without specific City Council Resolution. These funds are shown as unassigned in the General Fund. Additionally, the Council has required a minimum reserve of at least 10% of current year operating expenditures in the Street Fund. The City will use funds in the reserve only in times of emergency or fiscal and economic hardship. These funds are shown as restricted in the Street Fund.

2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance in total governmental funds and net assets in governmental activities as reported in the government-wide statement of net assets. A major element of the reconciliation explains the long-term liabilities including bonds payable which are not due and payable in the current period and are therefore not reported in the governmental fund statements. The difference of \$114,489,352 is detailed as follows:

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Bonds and installment notes payable	\$106,150,427
Deferred issuance costs to be amortized over the life of the bonds	(1,425,902)
Deferred bond premium to be amortized over the life of the bonds	1,124,007
Accrued interest payable	2,421,607
Compensated absences	<u>6,219,213</u>
Net adjustment to reduce fund balance in governmental fund statement to statement of net assets governmental activities	<u>\$114,489,352</u>

B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances in total governmental funds and changes in net assets of governmental activities as shown in the government-wide statement of activities. A major element of the reconciliation explains that governmental funds report capital outlays as expenditures. In the statement of activities the costs of capital assets are allocated over the estimated useful life and reported as depreciation expense. The difference of \$3,248,806 is shown below:

Capital outlays	\$ 14,367,814
Depreciation expense	<u>(11,119,008)</u>
 Net adjustment to increase net changes of total governmental funds to arrive at changes in net assets of governmental activities	 <u>\$ 3,248,806</u>

Another element of that reconciliation states that “The issuance of long-term debt such as bonds and capital leases provides current financial resources to governmental funds, while the repayment consumes current financial resources. Neither transaction has any effect on net assets. Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is issued: however, these amounts are deferred and amortized in the statement of activities.” The details of this \$12,093,163 difference are as follows:

Amortization on issue costs, premiums and discounts	\$ (14,107)
Payment of debt principal	12,219,048
Accrued interest expense	<u>(111,778)</u>
 Net adjustments to decrease net changes of total governmental funds to arrive at changes in net assets of governmental activities	 <u>\$ 12,093,163</u>

3. Stewardship, Compliance, and Accountability

A. Budgets and Budgetary Accounting

The City is required by State statute to prepare and submit an annual budget to the City Council on or before December 1 of each year for the period January 1 to December 31 of the forthcoming year. Prior to February 1 of each year, the budget must be legally adopted through passage of a City resolution by the City Council.

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Budgets are prepared for the General fund, special revenue funds, debt service funds and capital project funds. These budgets are prepared on the modified accrual basis for revenues and expenditures. Budgets are also prepared for enterprise funds based on an accrual basis of accounting, with the exception of depreciation.

Appropriation for budgeted funds cannot exceed the estimated revenues and existing fund balances and it is unlawful for the City to create or authorize creation of a deficit fund balance or net asset in any fund. Budgetary control is maintained at the program (operating unit within a division, e.g. administration, maintenance, construction, etc. within the Street Division) level. The Finance Director is authorized to make budget adjustments within a division of a fund, between departments for personnel services within a fund, and adjustments within categories within an approved project in a fund. However, budget amendments (which increase the budget total of a given fund) must be approved by the City Council, with the exception of powers specifically delegated to a Bond Trustee in a Bond Trust agreement for administration of a bond issue.

For control purposes an encumbrance accounting system is employed. Under this system, purchase orders, contracts, and other commitments for expenditures of funds are recorded as encumbrances in order to reserve a portion of the applicable appropriation. At the end of the year, encumbrances for which goods and/or services have not been received are reviewed and rebudgeted or canceled. Encumbrances which lapsed at December 31, 2011, and were reinstated as of January 1, 2012 for the General fund, special revenue funds, and capital project funds, totaled \$263,683, \$479,254, and \$5,062,760 respectively.

Since all unexpended appropriations lapse at the end of the fiscal year, it is the City's policy to rebudget purchase commitments, uncommitted projects and unspent capital project budget amounts rather than include them in the original budget. Therefore, amended budgets are traditionally large in comparison to the original budget for the capital projects funds.

4. Detailed Notes on All Funds

A. Deposits, Investments and Investment Income

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 collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Arkansas. Collateral for deposits is held by an agent in the City's name. At December 31, 2011, none of the City's bank balances were exposed to custodial credit risk.

The Advertising and Promotion Commission and the Fayetteville Public Library are component units of the City. At December 31, 2011, none of the component units bank balances were exposed to custodial credit risk.

Investments

The City's investment policies are to comply with the provisions of State statutes. Permissible investments include direct obligations of the U.S. Government, obligations of agencies of the U.S. Government, collateralized certificates of deposit, obligations issued by the Arkansas State Board of Education, prerefunded municipal bonds, certificates of deposits with banks authorized by State law to receive deposits of public funds, repurchase agreements, money market funds and corporate debt

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obligations. The Policemen Pension and Relief Fund assets held in trust may also invest in corporate equity securities. The Firemen Pension and Relief Fund reached a portfolio level in 2011 where they are no longer permitted by State statutes to invest in equities. The fund can hold the equities currently in the portfolio.

At December 31, 2011, the City had the following investments and maturities:

Type	Fair Value	Maturities in Years			
		Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
U.S. Treasury obligations	\$ 5,189,551	\$ -	\$ 4,217,920	\$ 971,631	\$ -
U.S. agencies obligations	56,447,073	15,443,241	41,033,832	-	-
Corporate bonds	4,242,799	1,530,591	2,010,851	147,798	553,559
Cash and cash equivalents	32,867,935	<u>32,867,935</u>	<u>-</u>	<u>-</u>	<u>-</u>
		\$ <u>49,841,767</u>	\$ <u>47,262,603</u>	\$ <u>1,119,429</u>	\$ <u>553,559</u>
Corporate stocks	<u>8,328,732</u>				
	\$ <u>107,076,090</u>				

Interest Rate Risk – As a means of limiting its exposure to fair value losses from rising interest rates, the City’s investment policy is to attempt to match investment maturities with cash flow requirements. Money market mutual funds are used to meet the short term cash flow needs of the City. Other investments are allowed within a range of maturities of ninety days to five years and over. Some of the City’s investments have maturities over five years to maximize interest earnings.

The pension trust investment policies address interest rate risk by managing asset allocation. The Policemen’s Pension and Relief Fund allows for 0% to 25% in cash and cash equivalents, 25% to 65% maximum in fixed income, 35% to 50% maximum in equities and 0% to 10% in other investments. The Firemen’s Pension fund allows 5% to 25% in cash and cash equivalents, 15% to 75% in fixed income, 25% to 50% in equities, and 0% to 10% in other investments. The Firemen’s Pension and Relief Fund has reached a portfolio level that prohibits new investment in equities by State statute.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the City’s policy to invest no more than 20% in corporate debt and securities of a management type investment company or investment trust. The corporate bonds must be rated as Single A minus or better by both Moody’s Investor Service and Standard and Poor’s at the time of purchase. Investment in commercial paper will be rated A-1/P-1. Investment in management type investment companies or investment trusts is limited to companies with portfolios who are limited to

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U.S. Government obligations and repurchase agreements with approved collateralization. The City's investments in corporate bonds ranged between A+ and BBB and the government agencies were ranked AA+ by Standard & Poor's at December 31, 2011. The City held \$2,010,851 in bonds at year-end with \$508,338 rated A+, \$739,580 rated A, \$762,933 rated BBB.

The pension trust corporate bonds at year-end had an S & P ranking between AA and BBB+. The pension funds held \$2,231,948 in bonds at year-end with \$632,798 rated AA, \$68,559 rated A+, \$51,711 rated A and \$1,478,880 rated BBB+.

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 doesn't 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 U.S. Treasury Money Market Funds. The majority of the City's funds are invested by an asset manager and are held by Pershing, LLC in the City's name. All funds held by Pershing, LLC are insured. In addition, the City's investment policy requires that security broker/dealers will meet or exceed the capital adequacy standards set by the Federal Reserve Bank of New York.

Concentration of Credit Risk – The City's investment policy limits investment in any one issuer to 5% of the cost basis of the City's portfolio and limits concentration in any one business sector to 15% of the cost basis of the City's portfolio excluding U.S. Treasury securities and collateralized certificates of deposits. The City had no concentration risk as of December 31, 2011.

The Policemen's and Firemen's Pension and Relief Fund's investment policies don't limit concentration in issuers or business sectors. The Policemen's fund had concentration of over 5% in Ishares IBOXX \$ Investment Grade Corporate Bond Fund, Ishares Barclays 20+ Year Treasury Fund, and Guggenheim Multi-Asset Income Fund. The Firemen's fund had concentration of over 5% in Ishares IBOXX \$ Investment Grade Corporate Bond Fund, Guggenheim Multi-Asset Income Fund, and Northern Stock Index Fund.

Foreign Currency Risk – This risk relates to adverse affects on the fair value of an investment from changes in exchange rates. The City's investment policy doesn't directly address foreign currency risk. The City's investment manager only buys U.S. dollar pay securities. The City had no investments that were denominated in foreign currency at December 31, 2011.

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B. Capital Assets

Primary Government

Capital asset activity in the governmental activities for the year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases and Transfers in</u>	<u>Decreases and Transfers out</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not depreciated:				
Land	\$ 48,214,501	\$ 512,274	\$ (8,445)	\$ 48,718,330
Construction in progress	<u>12,785,172</u>	<u>7,854,880</u>	<u>(15,393,108)</u>	<u>5,246,944</u>
Total	<u>60,999,673</u>	<u>8,367,154</u>	<u>(15,401,553)</u>	<u>53,965,274</u>
Capital assets, being depreciated:				
Buildings	27,544,196	83,889	-	27,628,085
Improvements other than buildings	15,227,204	791,157	-	16,018,361
Machinery, equipment, and vehicles	43,599,122	7,237,054	(1,972,406)	48,863,770
Infrastructure	<u>197,748,871</u>	<u>5,959,383</u>	<u>-</u>	<u>203,708,254</u>
Total	<u>284,119,393</u>	<u>14,071,483</u>	<u>(1,972,406)</u>	<u>296,218,470</u>
Less accumulated depreciation for:				
Buildings	(13,196,342)	(1,024,207)	-	(14,220,549)
Improvements other than buildings	(11,580,354)	(645,580)	-	(12,225,934)
Machinery, equipment, and vehicles	(30,001,565)	(3,491,788)	1,874,144	(31,619,209)
Infrastructure	<u>(78,808,711)</u>	<u>(8,379,133)</u>	<u>-</u>	<u>(87,187,844)</u>
Total	<u>(133,586,972)</u>	<u>(13,540,708)</u>	<u>1,874,144</u>	<u>(145,253,536)</u>
Total depreciable assets, net	<u>150,532,421</u>	<u>530,775</u>	<u>(98,262)</u>	<u>150,964,934</u>
Governmental capital assets, net	<u>\$ 211,532,094</u>	<u>\$ 8,897,929</u>	<u>\$ (15,499,815)</u>	<u>\$ 204,930,208</u>

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Capital asset activity in the business-type activities for the year ended December 31, 2011 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increases/transfers</u>	<u>Decreases/transfers</u>	<u>Ending</u> <u>Balance</u>
Business-type activities				
Capital assets not depreciated:				
Land	\$ 11,711,914	\$ 142,034	\$ (444)	\$ 11,853,504
Construction in progress	<u>3,664,932</u>	<u>1,495,342</u>	<u>(5,062,252)</u>	<u>98,022</u>
Total	<u>15,376,846</u>	<u>1,637,376</u>	<u>(5,062,696)</u>	<u>11,951,526</u>
Capital assets, being depreciated:				
Buildings	127,721,151	328,218	-	128,049,369
Improvements other than buildings	296,362,563	23,709,161	-	320,071,724
Machinery, equipment, and vehicles	<u>31,555,584</u>	<u>1,726,312</u>	<u>(29,678)</u>	<u>33,252,218</u>
Total	<u>455,639,298</u>	<u>25,763,691</u>	<u>(29,678)</u>	<u>481,373,311</u>
Less accumulated depreciation for:				
Buildings	(34,547,796)	(4,333,627)	-	(38,881,423)
Improvements other than buildings	(90,121,646)	(6,061,445)	-	(96,183,091)
Machinery, equipment, and vehicles	<u>(20,292,778)</u>	<u>(1,901,695)</u>	<u>29,678</u>	<u>(22,164,795)</u>
Total	<u>(144,962,220)</u>	<u>(12,296,767)</u>	<u>29,678</u>	<u>(157,229,309)</u>
Total depreciable capital assets	<u>310,677,078</u>	<u>13,466,924</u>	-	<u>324,144,002</u>
Business-type capital assets, net	<u>\$ 326,053,924</u>	<u>\$ 15,104,300</u>	<u>\$ (5,062,696)</u>	<u>\$ 336,095,528</u>

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

Governmental activities	
General Government	\$ 696,340
Finance and Internal Services	173,065
Public Safety	926,177
Community Planning and Engineering	46,181
Transportation and Parking	8,644,267
Parks and Recreation	632,978
Capital assets held by the governments internal service fund charged to various functions	<u>2,421,700</u>

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Total Depreciation expense – governmental activities \$ 13,540,708

Business-type activities

Airport \$ 1,425,592

Town Center 367,760

Solid Waste 227,562

Water and Sewer 10,275,853

Total depreciation expense - business type activities \$ 12,296,767

Discretely Presented Component Units

Activity for the component units for the year ended December 31, 2011, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated:				
Land	\$ 198,621	\$	\$	198,621
Art work	150,000			150,000
Construction in progress	<u>-</u>	<u>95,000</u>	<u>-</u>	<u>95,000</u>
Total	<u>348,621</u>	<u>95,000</u>	<u>-</u>	<u>443,621</u>
Capital assets, being depreciated:				
Buildings and improvements	22,069,676	286,270	(38,323)	22,317,623
Machinery, equipment and vehicles	<u>2,519,864</u>	<u>805,409</u>	<u>(110,530)</u>	<u>3,214,743</u>
Total	<u>24,589,540</u>	<u>1,091,679</u>	<u>(148,853)</u>	<u>25,532,366</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,472,790)	(497,274)	9,827	(2,960,237)
Machinery, equipment and vehicles	<u>(1,774,934)</u>	<u>(516,584)</u>	<u>136,614</u>	<u>(2,154,905)</u>
Total	<u>(4,247,724)</u>	<u>(1,013,859)</u>	<u>146,441</u>	<u>(5,115,142)</u>
Total depreciable capital assets, net	<u>20,341,816</u>	<u>77,820</u>	<u>(2,412)</u>	<u>20,417,224</u>
Component capital assets, net	<u>\$ 20,690,437</u>	<u>\$ 172,820</u>	<u>\$ (2,412)</u>	<u>\$ 20,860,845</u>

City of Fayetteville, Arkansas
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C. Construction Commitments

Outstanding commitments at December 31, 2011 under authorized contracts for capital projects of governmental and proprietary funds are presented in the following table:

	Expenditures Incurred to December 31, 2011	Remaining Commitments at December 31, 2011
Primary Government		
Governmental activities		
Parks Development		
Park improvements	\$ 476,524	\$ 161,195
Capital Projects		
Wastewater treatment plants, sewer lines	3,575,812	420,982
Energy Block Grant	366,452	86,710
Streets and trails	1,531,290	3,358,365
Radio System	5,724,289	371,182
Other capital construction	330,555	313,749
Total commitments for governmental activities	\$ 12,004,922	\$ 4,712,183
Business-type activities		
Water and sewer		
Water and sewer line repair/replacement	\$ 14,632,840	\$ 7,926,594
Airport		
Improvements	523,585	83,205
Solid Waste		
Operations facility drainage	98,022	6,978
Total commitments for business-type activities	\$ 15,254,447	\$ 8,016,777

Parks development projects are funded with hotel, motel, and restaurant taxes. The wastewater treatment plant and line project is being funded with a .75% sales and use tax and an additional .25% sales and use tax approved by voters in September 2006. In addition, the .25% sales and use tax is used to fund the streets and trails projects. Other water and sewer line repairs and replacement are being funded with revenues from the water and sewer fund, state grants and revenue bonds. The City's radio project is being funded with a combination of general sales and use tax revenues, revenues from the City's enterprise funds and state and federal grants. The airport projects are funded primarily with state and federal grants. In management's opinion, the funding sources identified above are adequate to meet all estimated future commitments.

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D. Interfund Receivables, Payables, Transfers

Transfers are used to move revenues from the fund with collection authorization to debt service and pension funds and to move unrestricted revenues to finance various programs that the government must account for in other funds. Transfers recorded in the Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 1,000,065	\$ (279,808)
Sales Tax Capital Imp	-	(1,163,397)
Sales Tax Imp Bonds	2	-
Sales Tax 2006A Construction	-	(2)
Nonmajor Governmental Funds	<u>386,914</u>	<u>(238,433)</u>
Total	<u>\$ 1,386,981</u>	<u>\$ (1,681,640)</u>

Transfers recorded in the Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Airport Fund	\$ 15,857	\$ -
Internal Service	<u>278,802</u>	<u>-</u>
Total	<u>\$ 294,659</u>	<u>\$ -</u>

A reconciliation of transfers of governmental - type funds and business - type funds follows:

	<u>Governmental – type Funds</u>	<u>Business - type Funds</u>	<u>Total</u>
Transfers in	\$ 1,386,981	\$ 294,659	\$ 1,681,640
Transfers out	(1,681,640)	-	(1,681,640)

Transfers between funds totaled \$1,681,640. The City Council approved a transfer from the Sales Tax Capital Project Fund to General Fund of \$1,000,000 to cover a budget shortfall. Other significant transfers were \$163,397 from the Sales Tax Capital Improvement Fund to fund the debt service payment for a bond issue for construction of fire stations and \$238,368 from the Wastewater Improvement Construction Fund to the Internal Service Fund for the purchase of vehicles.

The Water and Sewer Fund received a capital transfer of \$11,065,423 from governmental activities for improvements to the wastewater treatment system. In the fund financial statements this is shown as a capital contribution to the Water and Sewer Fund. In the government-wide statements the transaction has been reclassified as a transfer between the governmental and business-type activities.

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Interfund receivables and payables result from transactions between various funds within the City. Outstanding balances are mainly a result of clearing of liabilities from pooled investments, time lag between the dates interfund goods and services are provided and reimbursed, and when transactions are recorded in the accounting system. The Airport Fund has an interfund of \$217,416 and Off Street Parking has an interfund loan of \$520,118 from the General - Disaster Recovery and Replacement fund included in their respective balances.

The interfund balances by fund at December 31, 2011 are shown below.

<u>Due to/from other funds:</u>	<u>Receivables</u>	<u>Payables</u>
General fund:	\$ 4,062,673	\$ 140,651
Special revenue funds:		
Street	115,195	430,084
Off street parking	2,652	536,191
Community development	761	664
Drug law enforcement	-	1,278
Parks development	8,209	208,175
Impact fee	33,286	1,115,445
Capital projects fund:		
Sales tax capital improvements	72,642	403,949
Wastewater imp construction	-	1,989
Sales tax 2006A construction	-	57,903
Enterprise funds:		
Airport	-	314,859
Solid waste	226,947	696,397
Water and sewer	104,134	1,127,157
Internal service fund:		
Shop	<u>471,499</u>	<u>63,256</u>
Total	<u>\$ 5,097,998</u>	<u>\$ 5,097,998</u>

Due to/from primary government/component units:

Primary government		
General fund	\$ 4,065	\$ 18,568
Component units		
Advertising & promotion	<u>18,568</u>	<u>4,065</u>
Total	<u>\$ 22,633</u>	<u>\$ 22,633</u>

City of Fayetteville, Arkansas
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E. Leasing Activities

Operating Leases – Primary Government

The following lease arrangements as of December 31, 2011, were executed by the City for the lease of specific capital assets. The leases are accounted for as operating leases and are described as follows:

Off street parking leases:

Nextstar Broadcasting leases thirteen parking spaces in the Fayetteville Municipal Parking Lot. Each space leases for \$50 per month. The lease expires on July 31, 2015.

Southwind Hospitality leases eighty-nine spaces on the first level of the Fayetteville Municipal Parking Deck. The monthly lease fee for the parking spaces is \$4,450. The lease expires on July 15, 2015.

The cost of the leased assets capitalized on the December 31, 2011 Statement of Net Assets in the governmental activities is as follows:

Buildings	\$1,033,480
Land	404,135
Accumulated depreciation	<u>(863,865)</u>
Total	<u>\$ 573,750</u>

Fayetteville Executive Airport leases portions of capital facilities to individuals and businesses. The leases consist primarily of buildings, grounds, hangars and storage facilities. All leases are operating leases with various terms and are cancelable. The cost of property leased or held for leasing and the amount of accumulated depreciation, as of December 31, 2011, are reported on the Statement of Net Assets in the business-type column as follows:

Buildings	\$12,044,270
Accumulated depreciation	<u>(8,594,075)</u>
Total	<u>\$ 3,450,195</u>

F. Short-term Debt

SHORT-TERM BONDS AND NOTES PAYABLE – In 2001, the State of Arkansas passed Amendment No. 78 allowing cities to obtain short-term financing agreements for the purpose of acquiring, constructing, installing or renting real property or tangible personal property having an expected useful life of more than one year. The agreements are not to exceed five years. The City is limited in the amount of short-term financing available in any given year to 5% of the assessed valuation of property within the City. The City's general obligation total debt limit for 2011 was \$311,518,788 with \$15,575,939 in short term debt limit. The total short-term debt outstanding at December 31, 2011 was \$73,459.

Below is a brief description of the outstanding short-term notes and bonds for governmental activities.

The City entered into a five year promissory note with Forrest F. Brooks Revocable Trust for the purchase of 13.75 acres of land for \$328,000 in June 2007. The note is to be paid in five installments at 6% interest on the unpaid balance. The balance outstanding at year end was \$73,459. The property is to be used for a City park and nature preserve.

In July 2006, the City issued \$3,570,000 General Obligation Bonds Series 2006A for the acquisition, construction and equipping of two fire stations. The bonds are five year general obligations of the City

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payable from the general revenues of the City and constitute an indebtedness for which the full faith and credit of the City are pledged. The bonds were retired in 2011.

G. Long-term Debt

GENERAL OBLIGATION BONDS - Issuance of long-term general obligation bonds by the City is governed by Arkansas Statutes. The Statutes require voter approval for issuance of general obligation bonds. General obligation bonds pledge the full faith and credit of the government. The City currently has no authorized but unissued general obligation bonds.

SALES AND USE TAX CAPITAL IMPROVEMENT BONDS – Issuance of sales and use tax capital improvement bonds is governed by Arkansas Statutes. The Statutes require voter approval for the issuance of the bonds. The bonds are special obligations of the City secured by and payable solely from receipts of the sales and use tax. The City currently has no authorized but unissued sales and use tax capital improvement bonds.

Below is a brief description of the outstanding long-term governmental activity debt.

City of Fayetteville Tax Increment Interest Accretion Bonds (Highway 71 East Square Redevelopment District No. 1 Project), Series 2005 for \$3,725,000 were issued in April, 2005. The bonds are special obligations of the City secured by and payable solely by a pledge of the incremental ad valorem tax receipts derived with respect to the real property within the City's Highway 71 East Square Redevelopment District No. 1. The bond proceeds were used for the acquisition of real property located within the district, the demolition of the majority of existing structures thereon and for site improvements for subsequent development. The land was subsequently sold to private developers for construction of a hotel, condominium, and parking facility on the site. The recent economic downturn has impacted the development of the \$25,000,000 project and currently there is no projected start date.

The original 2005 millage dedicated to the project of 3.16 mills had increased to 8.25 mills by the end of 2011. The City received \$148,688 in property taxes in 2011 and \$75,000 of bonds were redeemed. The real property value of the District has increased from \$6,634,725 in 2006 to \$17,883,243 in 2011. The total principal amount of outstanding bonds at December 31, 2011 was \$3,345,000 with an accreted value of \$5,108,716, payable through August 1, 2029, unless redeemed earlier.

The City of Fayetteville, Arkansas Sales and Use Tax Refunding and Capital Improvement Bonds, Series 2005A for \$27,000,000 and the Sales and Use Tax Capital Improvement Bonds, Series 2005B for \$45,000,000 were issued in December 2005. The bonds were issued for the purpose of refunding the outstanding Sales and Use Tax Capital Improvement Bonds, Series 2004, and for financing a portion of the costs of improvements to the City's wastewater treatment plants, sewerage and related facilities. The 2005 bonds are special obligations of the City secured by and payable solely from receipts of the .75% city-wide sales and use tax approved by voters to support the project. This refunding reduced total debt service payments over the next four years by \$6,641,313 and the economic loss on the refunding was \$37,341. The Series 2005A bonds were retired in 2009.

The City of Fayetteville issued Not to Exceed \$20,000,000 Sales and Use Tax Bond Series 2006 through the Arkansas Natural Resources Commission bond program commonly referred to as the Revolving Loan Fund (RLF). The bonds were issued for financing a portion of the costs of improvements to the City's wastewater treatment plants, sewerage and related facilities. The 2006 bonds are special obligations of the City secured by and payable solely from receipts of the .75% city-wide sales and use tax approved by the voters to support the project.

City of Fayetteville, Arkansas
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The City issued \$50,000,000 Sales and Use Tax Capital Improvement Bonds Series 2006A which are secured by a .25% city-wide sales and use tax approved by the voters in September 2006 and the .75% city-wide sales and use tax approved in 2002. The proceeds from the bond issue are dedicated to the existing wastewater project, for acquisition, construction, improvements and repair of certain City streets and for acquisition, construction and improvements to the City's trail system.

The City issued \$14,340,000 Sales and Use Tax Capital Improvement Bonds Series 2007 which are secured by a .25% city-wide sales and use tax approved by the voters in September 2006 and the .75% sales and use tax approved by the voters in 2002. The proceeds from the bond issue are dedicated to the existing wastewater project.

The City issued \$11,250,000 Sales and Use Tax Capital Improvement Bonds Series 2009 which are secured by a .25% city-wide sales and use tax approved by the voters in September 2006 and the .75% sales and use tax approved by the voters in 2002. The proceeds from the bond issue are dedicated to acquisition, construction, improvements and repair of certain City streets and for acquisition, construction and improvements to the City's trail system.

Annual debt service requirements to maturity for bonds and notes payable of governmental activities are as follows:

Fiscal Years	Amount	
	Principal	Interest
2012	\$ 10,179,116	\$ 4,163,953
2013	10,493,255	3,773,947
2014	2,752,595	3,373,407
2015	10,648,727	3,283,075
2016	11,106,708	2,830,242
2017- 2021	52,460,026	7,044,102
2022- 2026	5,165,000	576,540
2027- 2029	3,345,000	12,469,103
Total	\$ 106,150,427	\$ 37,514,369

City of Fayetteville, Arkansas
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A summary of bonds and notes outstanding for governmental activities as of December 31, 2011 is as follows:

	Outstanding			Principal Amount
	Issue year	Due Dates	Interest Rates	
Tax Increment Interest Accretion Bonds	2005	2029	6.5%	\$ 3,345,000
Sales and use tax capital improvements Series B	2005	2011-2014	4.0%	17,460,000
Note payable	2007	2011-2012	6.0%	73,459
Sales and use tax capital improvements RLF	2005-2008	2011-2018	3.00%	14,611,968
Sales and use tax capital improvements Series A	2006	2011-2021	3.0%-5.0%	47,225,000
Sales and use tax capital improvements	2007	2011-2026	4.0%-5.0%	12,605,000
Sales and use tax capital improvements	2009	2011-2021	3.0%-4.0%	<u>10,830,000</u>
Total				<u>\$ 106,150,427</u>

REVENUE BONDS - Revenue bonds outstanding consist of debt issued by enterprise funds of the City. These business-type bonds are not general obligations of the City or payable from proceeds of an ad valorem tax, but are payable from the net revenues of the respective enterprise funds. Below is a brief description of outstanding revenue bonds at December 31, 2011.

The Hotel and Restaurant Gross Receipts Tax Bonds, Series 2003 are secured by a lien on pledged revenues consisting of collections from a 1% gross receipts tax on hotels, motels, and restaurants; and revenues derived from the operation of the Town Center. The Series 2003 Bonds were issued for the purpose of refunding the Hotel and Restaurant Gross Receipts Tax Bonds, Series 1998. The 1998 bonds were issued to provide funds to construct and equip the Town Center, a multi-purpose civic center, and related parking facilities. The economic gain on refunding the 1998 bonds was \$425,908.

Water and Sewer System Refunding Revenue Bonds, Series 2002A and 2002B, in the amount of \$9,270,000 were issued in May 2002. The bonds are secured by a pledge of the net revenues of the City's water and sewer system. The bond ordinance requires that the City maintain net revenues of the water and sewer system of at least an amount equal to (1) 125% of the average annual debt service on all indebtedness, (2) fund debt service reserve deficiencies on all series 1999 bonds and subordinate obligations, and (3) fund required deposits to the renewal and replacement fund. The Series 2002 Bonds were issued for the purpose of refunding the City's \$3,215,000 outstanding principal amount of the Water and Sewer System Revenue Bonds, Series 1994 and refunding the City's \$10,000,000 outstanding principal amount of the Water and Sewer System Subordinate Revenue, Series 2000.

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The \$6,090,000 Water and Sewer System Refunding Revenue Bonds, Series 2004, refunded the Water and Sewer System Refunding Revenue Bonds, Series 1999 and are secured by a pledge of the net revenues of the City's water and sewer system. The 1999 bonds were refunded to ensure parity with the Water and Sewer Refunding Revenue Bonds, Series 2002. The bond ordinance requires that the City maintain net revenues of the water and sewer system of at least an amount equal to (1) 125% of the average annual debt service on all indebtedness, (2) fund debt service reserve deficiencies on all series 1999 bonds and subordinate obligations, and (3) fund required deposits to the renewal and replacement fund. The refunding of the 1999 bond issue resulted in an increase in cash flows of \$618,191 and an economic gain of \$132,327.

Water and Sewer System Revenue Bonds, Series 2009, in the amount of \$8,210,000 were issued in August 2009. The bonds are secured by a pledge of the net revenue of the City's water and sewer system. The bond ordinance requires that the City maintain net revenues of the water and sewer system of at least an amount equal to (1) 125% of the average annual debt service on all indebtedness, (2) fund debt service reserves on all outstanding bonds and (3) fund required deposits for renewal and replacement. Proceeds from the bonds are dedicated to relocating, installing and upgrading certain water distribution and sewer collection lines in conjunction with road construction projects including the widening of State Highway 265.

Principal and interest payments of the revenue bonds of business-type activities for subsequent fiscal years are as follows:

Fiscal years:	Amount	
	Principal	Interest
2012	\$ 2,710,000	\$ 589,985
2013	2,065,000	482,979
2014	2,125,000	416,099
2015	2,205,000	342,608
2016	1,610,000	262,174
2017 – 2020	5,570,000	424,997
Total	\$ 16,285,000	\$ 2,518,842

A summary of revenue bonds outstanding for business-type activities as of December 31, 2011 is as follows:

	Outstanding			
	Bond Issue	Due Dates	Interest Rates	Amount
Hotel and restaurant	2003	2011-2015	3.2%-3.55%	\$ 2,475,000
Water and sewer	2002B	2011-2017	4.55%-4.95%	4,085,000
Water and sewer	2004	2011-2012	4.00%	1,515,000
Water and sewer	2009	2011-2020	2.1%-3.70%	8,210,000
Total				\$ 16,285,000

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable	\$ 118,226,716	-	\$ (12,149,748)	\$ 106,076,968	\$ 10,105,657
Add unamortized premiums(discounts)	1,251,958	-	(127,951)	1,124,007	-
Notes payable	142,759	-	(69,300)	73,459	73,459
Arbitrage rebate payable	34,125	-	(34,125)	-	-
Net pension and OPEB obligation	15,682,839	2,590,479	-	18,273,318	-
Compensated absences	<u>6,823,586</u>	<u>6,800,642</u>	<u>(6,823,586)</u>	<u>6,800,642</u>	<u>2,536,139</u>
Governmental activities					
Long-term liabilities	<u>\$ 142,161,983</u>	<u>\$ 9,391,121</u>	<u>\$ (19,204,710)</u>	<u>\$ 132,348,394</u>	<u>\$ 12,715,255</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Bonds payable	\$ 18,130,000	-	\$ (1,845,000)	\$ 16,285,000	\$ 2,710,000
Add unamortized premiums(discounts)	(59,930)	-	11,097	(48,833)	-
Add unamortized gain/loss on debt refunding	(112,266)	-	51,034	(61,232)	-
Compensated absences	<u>1,166,711</u>	<u>1,275,077</u>	<u>(1,166,711)</u>	<u>1,275,077</u>	<u>492,100</u>
Business-type activities					
Long-term liabilities	<u>\$ 19,124,515</u>	<u>\$ 1,275,077</u>	<u>\$ (2,949,580)</u>	<u>\$ 17,450,012</u>	<u>\$ 3,202,100</u>

The long-term liabilities of the City's internal service fund are included in the above totals for governmental activities. The pension obligation will be liquidated over time with property taxes, investment earnings and state turnback funds. Compensated absences are liquidated in the fund in which they were accrued. The other post employment benefit (OPEB) obligation is funded on a pay-as-you-go basis.

H. Applicability of Federal Arbitrage Regulations

Debt issuances of the City issued after the Tax Reform Act of 1986 are subject to the federal arbitrage regulations. The arbitrage regulations require that all earnings from the investment of gross proceeds of a bond issue in excess of the amount that could have been earned had the yield on the investment been equal to the yield on the bonds be remitted to the federal government. These rules carry strict penalties for noncompliance including taxability of interest retroactive to the date of issue. City management believes the City is in compliance with these rules and regulations. The City has no rebatable arbitrage accrued at December 31, 2011.

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I. Conduit Debt Obligations

From time to time, the City has issued revenue bonds to finance residential housing, health care and related facilities to persons of low or moderate income or for the elderly. 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 the repayment of the bonds.

The City's current conduit debt consist of the Fayetteville Arkansas Public Facilities Board Refunding Revenue Bonds in the amount of \$19,000,000 issued in 2010, having a current outstanding balance of \$17,200,000.

5. Other Information

A. Retirement Plans

Each eligible employee is included in one of six defined benefit retirement plans, a defined contribution plan and/or a deferred compensation plan which the City of Fayetteville sponsors or has adopted. These are the Policemen's Pension and Relief Fund, the Firemen's Pension and Relief Fund, the Arkansas District Judges Retirement System, the Arkansas Public Retirement System, the Arkansas Local Police Retirement System, the Arkansas Local Fire Retirement System, the General Employee Retirement Savings Plan, and the General Employee Non-Qualified Deferred Compensation Plan (the "Deferred Compensation Plan"). Two of the plans are included in the City's reporting entity. The Policemen's Pension and Relief Fund and the Firemen's Pension and Relief Fund are funded and administered through the Fayetteville Policemen's Relief Association and the Fayetteville Firemen's Relief Association. The other defined benefit plans and the General Employee Retirement Savings Plan and Deferred Compensation Plan are not administered by the City and are not included as a part of the City's reporting entity. The Arkansas Local Police and Fire Retirement Systems and the Arkansas District Judges Retirement System are administered by the State of Arkansas. The General Employee Retirement Savings Plan and the Deferred Compensation Plan assets are held in custody by a bank trustee.

Six-year historical trend information for each of the City's single employer defined benefit plans and for each of the City's agent multiple-employer defined benefit plans is included as required supplemental information after the notes to the basic financial statements. A summary of significant data for each of the retirement plans follows.

GENERAL EMPLOYEE RETIREMENT SAVINGS PLAN

Plan Description – The General Employee Retirement Plan is a defined contribution plan qualified under section 401(a) of the Internal Revenue Code. The Bank of Oklahoma Financial Services administers the Plan for the City. The initial eligibility for participation in this Plan is the first day of the month following the employee's one-year anniversary of employment. Participation in the Plan is voluntary and available to all regular full-time general employees of the City who are at least 20 years of age and who worked at least 1,000 hours in the first 12 months of employment. The Plan requires participating employees to contribute at least 3% of their base wages to the Retirement Savings Plan or the Deferred Compensation Plan. The City contribution to the Retirement Savings Plan is 12% of base wages of contributors to either the Retirement Savings Plan or the Deferred Compensation Plan. There is 100% immediate vesting in amounts contributed by the City.

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For the year ended December 31, 2011, total covered payroll for the General Employee Retirement Savings Plan amounted to \$16,502,463. Contributions to the Employee Retirement Savings Plan were as follows:

Covered Payroll	Employer		Employee			
	Required and Contributed		Minimum Required		Actual Contributed	
	%	Amount	%	Amount	%	Amount
\$ 16,502,463	12%	\$ 1,980,296	3%	\$ 495,074	5.3%	\$ 871,035

DISTRICT JUDGES AND COURT CLERK RETIREMENT PLAN

Plan Description – In accordance with Act 1374 of 2003, the Arkansas District Judges Retirement System (ADJRS) was established in 2004 and the City’s local plan was abolished. The Act also moved the district court clerk retirement to the Arkansas Public Retirement System (APERS). Act 177 of the 86th General Assembly abolished the ADJRS and transferred all powers, duties and plan liabilities to APERS effective July 1, 2007. The APERS and ADJRS plans are multiple-employer public retirement systems. All current members in the former ADJRS system maintain the same benefit package. A financial report for the Plan may be obtained from the Arkansas Public Employees Retirement System, 124 West Capitol Ave., Little Rock, Arkansas, 72201.

The City’s required contribution rate for the district judge to ADJRS/APERS for 2011 was 23.35% through June and 24.72% from July through December 2011, and the employee’s contribution rate was 5%. The City’s required contribution rate for the court clerk to APERS was 12.46% through June and 13.47% from July through December 2011. The City contributed \$36,311 in 2011, \$30,624 in 2010 and \$26,249 in 2009 to ADJRS/APERS system. Total covered payroll for Plan participants in 2011 amounted to \$181,627.

POLICEMEN'S AND FIREMEN'S PENSION AND RELIEF FUNDS

Plan Description - The Policemen's Pension and Relief Fund (“PPRF”) and the Firemen's Pension and Relief Fund (“FPRF”) are single employer defined benefit pension plans for the police and fire personnel employed by the City prior to January 1, 1983. These Plans do not prepare separate financial statements. Both Plans became closed, by State law, to new employees effective January 1, 1983.

Minimum benefits are determined by State statute. Annual voluntary retirement benefits for police and fire equal 90% of the member’s highest year’s pay. Members are eligible for these benefits after 20 years of service. Employees retiring after January 1, 1987, are entitled to additional compensation of \$240 annually for each year worked in excess of 20 years, up to a maximum additional annual compensation of \$1,200. Benefits for participants over age 59 are increased by 1.25% of final salary for each year worked in excess of 25 years up to a maximum benefit of 100% of final salary.

Method Used to Value Investments - Investments are stated at fair value in the accompanying statements of net assets available for benefits. The fair value of marketable investments, including U.S. Government securities and corporate bonds and stocks, is determined by the latest bid price or by the closing exchange price at the balance sheet date (fair value).

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation in fair value of investments reflected in the summary statements of changes in net assets available for benefits represents gains or losses realized during the year plus or minus the change in the net unrealized gains

City of Fayetteville, Arkansas
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or losses on investments. Net unrealized gains or losses on investments represent the change in the difference between the cost and market value of the investments at the beginning versus the end of the year.

Contributions – Contributions to the FPRF and PPRF are set forth in Arkansas statute. The City's contributions to the funds are partially funded by a .8 mill property tax levy which amounted to \$498,381 for each fund. In addition, the Plans are funded by a portion of a statewide 2 ½ % tax on insurance premiums of out-of-state insurance companies. On behalf payments from the State Insurance Commissioner of \$205,695 for the Policemen's Fund and \$131,537 for the Firemen's Fund were received by the City from the Arkansas Local Police and Fire Retirement System, a state agency. These funds were recognized as revenues and expended for benefits in 2011.

In addition, Act 1452 of 1999 and Act 1373 of 2003 authorized the distribution of supplement funds to local police and fire plans. Distributions to the Policemen's and Firemen's Pension and Relief Funds for the year ended December 31, 2011 were \$64,050 and \$29,618 respectively. The PPRF also receives an allocation of 10% of all fines and forfeitures collected by the City for violations of ordinances or state laws.

The Plans require active members to contribute 6% of their eligible gross salary. The Plans have no active members employed and contributing.

Listed below are the City's projected annual pension cost and the net pension obligation for 2011.

	<u>Police</u>	<u>Fire</u>
Actuarially required contribution	\$ 2,986,576	\$ 3,367,968
Interest on net pension obligation	308,085	415,142
Adjustment to actuarially required contribution	<u>(1,389,310)</u>	<u>(1,872,086)</u>
Annual pension cost	1,905,351	1,911,024
Actual contribution made	<u>835,147</u>	<u>629,918</u>
Increase in net pension obligation	1,070,204	1,281,106
Net pension obligation, beginning of year	<u>6,161,694</u>	<u>8,302,842</u>
Net pension obligation, end of year	<u>\$ 7,231,898</u>	<u>\$ 9,583,948</u>

As of December 31, 2010, the most recent actuarial valuation date, the FPRF was 27.2% funded. The actuarial accrued liability for benefits was \$20,511,098 and the actuarial value of assets was \$5,573,909 resulting in an unfunded actuarial accrued liability (UAAL) of \$14,937,189.

As of December 31, 2010, the most recent actuarial valuation date, the PPRF was 39.2% funded. The actuarial accrued liability for benefits was \$21,801,583, and the actuarial value of assets was \$8,555,897 resulting in an unfunded actuarial accrued liability (UAAL) of \$13,245,686.

The net pension obligations for both Plans have been recognized in the City's statement of net assets on page 26 to comply with GASB standards. However, based on an interpretation of state law by the City's legal counsel, management of the City believes that if these Plans were to become insolvent, whereby remaining Plan assets were not adequate to pay current benefits, the City may not be legally obligated to fund any deficiency.

Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information about

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whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The State of Arkansas Fire and Police Pension Review Board is responsible for the coordination of the actuarial valuations performed on the Policemen's and Firemen's Pension and Relief Funds. Actuarial evaluations are performed biennially and the last evaluation was December 31, 2010. Actuarial assumptions used in evaluating the fund include entry age cost method, five year smoothed market for valuing assets, level percent open amortization method, an amortization period of 5 years for active participants and 5 years for retirees, 5% investment rate of return, 4.2% to 8% salary increases, and 4% inflation rate. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at December 31, 2010, was thirty years.

Three Year Trend Information for Firemen's Pension and Relief Fund

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2009	\$ 1,728,715	35.34%	\$ 6,716,594
12/31/2010	\$ 2,217,405	28.46%	\$ 8,302,841
12/31/2011	\$ 1,911,294	32.96%	\$ 9,583,948

Three Year Trend Information for Policemen's Pension and Relief Fund

Year ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2009	\$ 1,862,038	44.74%	\$ 4,650,797
12/31/2010	\$ 2,368,658	36.21%	\$ 6,161,694
12/31/2011	\$ 1,905,351	43.83%	\$ 7,231,898

Membership Information – As of December 31, 2011, there are 46 police and 59 fire retirees and beneficiaries receiving benefits. There are no active employees in the Plans.

Summary of Significant Accounting Policies and Plan Asset Matters - The Policemen's and Firemen's Pension and Relief Funds financial statements are prepared on the accrual basis of accounting. Both employer and employee contributions are recognized as revenue in the period in which employees provided services. Benefits payable to retirees are recognized in the period they are due. Certificates of deposit and money market investments that mature within one year from the date of acquisition are carried at cost. All other investments are carried at fair value on the Statement of Fiduciary Net Assets with the resulting unrealized gains and losses recognized in the current period. There are no loans to or

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leases with related parties to the pension plans. Administrative costs are funded by investment earnings in the funds. Separate financial reports are not issued on either plan.

The following is the condensed financial information as of December 31, 2011 of the Policemen's and Firemen's Pension and Relief Funds.

	Policemen's Pension and Relief	Firemen's Pension and Relief	Total
Assets			
Cash	\$ 19,643	\$ 143,279	\$ 162,922
Investments	8,193,968	4,858,353	13,052,321
Accrued interest	13,643	13,882	27,525
Due from primary government	10,930	-	10,930
Total assets	8,238,184	5,015,514	13,253,698
Liabilities			
Accounts payable	-	95	95
Unearned revenue	12,900	-	12,900
Total liabilities	12,900	95	12,995
Net Assets			
Assets held in trust	\$ 8,225,284	\$ 5,015,419	\$ 13,240,703
Additions			
City contributions	\$ 126,045	\$ -	\$ 126,045
Property taxes contributed	498,381	498,381	996,762
State insurance taxes contributed	269,745	161,155	430,900
Investment earnings	405,914	248,217	654,131
Total additions	1,300,085	907,753	2,207,838
Deductions			
Contractual services	3,671	3,952	7,623
Benefit payments	1,627,027	1,462,291	3,089,318
Total deductions	1,630,698	1,466,243	3,096,941
Change in net assets			
Net assets beginning of year	(330,613)	(558,490)	(889,103)
	8,555,897	5,573,909	14,129,806
Net assets end of year	\$ 8,225,284	\$ 5,015,419	\$ 13,240,703

ARKANSAS LOCAL POLICE AND FIRE RETIREMENT SYSTEM

Plan Description - City police and fire personnel employed after December 31, 1982, are covered by the Arkansas Local Police and Fire Retirement System. A financial report for the Plan may be obtained from the Arkansas Local Police and Fire Retirement System, PO Drawer 34164, Little Rock, Arkansas, 72203 or from their website www.Lopfi-prb.com. Participation is a condition of employment. This Plan, which is an agent multiple-employer public employee retirement system, is a defined benefit plan providing death, disability, and retirement benefits for its members. Normal retirement age under this plan is age 55 with 20 years of credited service or age 60 with 5 years of credited service. A member may retire at any age with 28 years or more of credited service.

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Membership Information – The State of Arkansas is responsible for the coordination of the actuarial valuations performed on the Arkansas Local Police and Fire Retirement System (LOPFI). As of December 31, 2011, the most recent information available from the State, City of Fayetteville employee membership data related to the Plans was as follows:

	Police	Fire
Retirees and beneficiaries currently receiving benefits	<u>22</u>	<u>18</u>
Active plan participants:		
Fully vested	86	81
Nonvested	<u>29</u>	<u>23</u>
Total active plan participants	<u>115</u>	<u>104</u>

Employees terminating from the Plan before normal retirement age with 5, but less than 20 years of credited service, may receive future benefits provided the employee does not withdraw his/her accumulated contributions and lives to his/her annuity starting date.

Contributions – Contribution requirements are set forth in Arkansas statute. The Plan requires employees to contribute 8.5% of their eligible salary. Employer contributions are established by the Arkansas Local Police and Fire Retirement System, and are determined based on level-rate principles. The City's contribution rate during 2011 for the Police Plan was 16.84%. The required contribution rate for the Fire Plan was 22.74%

Under the State law governing LOPFI, the actuary annually determines the City's contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the Plan's 30 year amortization period. The projected unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly.

Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2010 valuation is effective for rates beginning January 2012). Total contributions to the Pension Plans for the year ended December 31, 2011, were \$3,225,263 of which \$2,254,298 was contributed by the City and \$970,965 was contributed by employees. The City's contribution was actuarially determined as described above and was based on an actuarial valuation as of December 31, 2009. On behalf payments from a state insurance tax of \$594,229 for Policemen and \$335,394 for Firemen were received by the City from the Arkansas Local Police and Fire Retirement System. These funds were recognized as revenues and expended for salaries and benefits in 2011.

Actuarial Assumptions – For 2010, the City's annual pension cost of \$943,897 for the police's plan was equal to the required and actual contributions. In addition, the City's annual pension cost of \$1,166,438 for the firemen's plan was equal to the required and actual contributions. The Plan does not have a net pension obligation (NPO). The required contributions were determined as part of actuarial valuations on December 31, 2008 using the entry age actuarial method.

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Actuarial assumptions used were the entry age cost method, level percent amortization method, 30 year amortization period for active participants, five year smoothed market valuation method, 8% investment rate of return, 4 to 10% salary increases, 3 % post-retirement annual increases, and 4% rate of inflation. The actuarial value of assets was determined using techniques that smoothed the effect of short-term volatility in the market value of investments over a five year-period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at December 31, 2008, was 30 years.

Three Year Trend Information for Arkansas Local Police and Fire Retirement System.

Year ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Police			
12/31/08	\$ 928,011	100%	\$0
12/31/09	\$ 1,042,534	100%	\$0
12/31/10	\$ 943,897	100%	\$0
Year ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Fire			
12/31/08	\$ 1,108,405	100%	\$0
12/31/09	\$ 1,227,092	100%	\$0
12/31/10	\$ 1,166,438	100%	\$0

As of December 31, 2010, the most recent actuarial valuation date, the Police Plan was 57% funded. The actuarial accrued liability for benefits was \$26,335,315 and the actuarial value of assets was \$15,014,223 resulting in an unfunded actuarial accrued liability (UAAL) of \$11,341,092. The covered payroll (annual payroll of active employees covered by the Plan) was \$5,851,011 and the ratio of the UAAL to the covered payroll was 194%.

As of December 31, 2010, the most recent actuarial valuation date, the Fire Plan was 49% funded. The actuarial accrued liability for benefits was \$32,714,328 and the actuarial value of assets was \$16,063,797 resulting in an unfunded actuarial accrued liability (UAAL) of \$16,650,531. The covered payroll (annual payroll of active employees covered by the Plan) was \$5,365,752 and the ratio of the UAAL to the covered payroll was 310%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

B. Other Post Employment Benefits

Plan Description - The City of Fayetteville sponsors and administers an informal single-employer defined benefit healthcare plan. Arkansas statute provides that any municipal City official or employee vested in one of the City's retirement plans with 20 years of service and who attains 55 years of age or at any age after 28 years of service may continue to participate in the City's healthcare plan after retirement. The State of Arkansas has the authority to establish and amend the requirements of this statute. The City does not issue stand alone financial statements of the Plan but, all required information is presented in this report.

City of Fayetteville, Arkansas
Notes to the Financial Statements
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Funding Policy – The contribution requirements of plan members are established by the City and may be amended as needed. Plan members pay the entire cost of monthly insurance premiums at the same rate charged to active employees and receive a benefit from the blended premium rate from all of the employees participating in the City’s health insurance plan. The City is not required to make contributions to the Plan on behalf of the retirees and funds the Plan on a projected pay-as-you-go financing method. The Plan has 16 active participants who pay monthly premiums between \$218 for single coverage and \$658 for family coverage.

Annual OPEB Cost and Net OPEB Obligation – The City’s annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation:

Annual required contribution	\$ 292,907
Interest on net OPEB obligation	54,824
Prior year NOO amortization	<u>(74,793)</u>
Annual OPEB cost	272,938
Total annual employer contribution	<u>(33,768)</u>
Change in NOO	239,170
Net OPEB obligation (NOO), beginning of year	<u>1,218,302</u>
Net OPEB obligation (NOO), end of year	<u><u>\$ 1,457,472</u></u>

The components of the annual required contribution (ARC) calculation reflecting a 30 year amortization period of the unfunded actuarial accrued liability (UAAL) is as follows:

Normal cost	\$ 116,549
Amortization of the UAAL for 30 years	<u>163,745</u>
Total normal cost and amortization payment	<u>280,294</u>
Adjustment for timing	<u>12,613</u>
Annual Required Contribution (ARC) end of year	<u><u>\$ 292,907</u></u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the past three years is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2009	\$ 369,769	10.6%	\$ 928,141
12/31/2010	\$ 329,812	12.0%	\$ 1,218,302
12/31/2011	\$ 272,938	12.4%	\$ 1,457,472

Funding Status and Funding Progress – As of December 31, 2011, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was \$2,787,252, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,787,252. The covered payroll (annual payroll of active employees covered by the Plan) was \$28,579,888, and the ratio of the UAAL to the covered payroll was 9.8%.

City of Fayetteville, Arkansas
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Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the December 31, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return based on the City's rate of return on investments for 2005, a 3.7% annual salary increase projection, and a healthcare inflation rate of 1% for 2012, increasing to 8.5% for 2013 and then reduced by decrements to an ultimate rate of 5.0% after nine years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The amortization period at December 31, 2011, was thirty years.

C. Litigation

In the course of business, the City, its agencies, and its employees are defendants in legal proceedings including but not limited to claims against the City for property damage, personal injury, personnel and contract matters, and alleged violations of state and federal laws. It is the opinion of management that the disposition or resolution of such claims and lawsuits will not have a material adverse effect on the financial position, changes in the financial position or cash flows of the City.

D. Contingent Liabilities

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

The City is subject to various administrative orders issued by the Environmental Protection Agency (EPA) in regards to the City's sanitary sewer system. A recent proposed order requires a reduction of phosphorous levels by 90% for all wastewater treatment plants which flow into the Illinois River, which includes the City's West Side Wastewater Treatment Facility. The Arkansas Department of Environmental Quality has questioned the proposed regulation. The requirements of any final order, if one is issued, and the costs of complying with any such order cannot be determined at this time.

E. Risk Management

The City's comprehensive risk management program is administered with the assistance of a professional risk management broker. The City is exposed to the risk of various losses such as theft of, damage to, and destruction of assets; errors and omissions; and personal injury; natural disasters and employee health and accident benefits. The City limits losses and manages risk through the purchase of insurance

City of Fayetteville, Arkansas
Notes to the Financial Statements
December 31, 2011

policies with several different carriers. In addition, the City instituted various safety programs to reduce losses. The budgeting process includes provisions for accumulating funds to cover deductibles and any minor items which would not be covered by commercially purchased policies. There have been no significant reductions in insurance coverage from coverage in the prior year, and there were no settlements that exceeded insurance coverage in the past three fiscal years.

F. Subsequent Events

In the first quarter of 2012, the City initiated the process for the sale of Water and Sewer System Refunding Revenue Bonds, Series 2012 in an amount not to exceed \$3,800,000. The proceeds from the bonds will be used to refund the City's \$4,085,000 outstanding principal amount of the City's Water and Sewer System Refunding Bonds, Series 2002B and paying the costs of issuing the Series 2012 Bonds. The expected savings from the refunding is approximately \$265,000 spread over the five years.

G. New Applicable GASB Standards

The GASB recently issued the following statements not yet required to be adopted by the City:

GASB Statement Number 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, issued December 2009 was effective immediately except for paragraph 8 related to the frequency and timing of measurements which are effective for the City for actuarial valuations first used to report funded status information in agent employer's other postemployment benefit plan financial statements for the year ending December 31, 2012.

GASB Statement Number 60, *Accounting and Financial Reporting for Service Concession Arrangement*, issued November 2010 will be effective for the City for the year ending December 31, 2012. The Statement addresses accounting and financial reporting issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership.

GASB Statement Number 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements Number 14 and Number 34*, issued November 2010 will be effective for the City for the year ending December 31, 2013. The Statement modifies certain requirements for inclusion of component units in the financial reporting entity, amends criteria for reporting component units as if they were part of the primary government (i.e. blending) in certain circumstances and clarifies the reporting of equity interests in legally separate organizations.

GASB Statement Number 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued December 2010 will be effective for the City for the year ending December 31, 2012. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for the enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is effective for periods beginning after December 15, 2011. It provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). This statement requires that deferred outflows of resources and deferred inflows of resources be reported

City of Fayetteville, Arkansas
Notes to the Financial Statements
December 31, 2011

separately from assets and liabilities. GASB 63 also amends certain provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, is effective for periods beginning after June 15, 2011. It clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (a) the collectibility of swap payments is considered to be probable, (b) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in this Statement, and (c) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied.

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

GASB Statement No. 66, *Technical Corrections – 2012*, enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. GASB 66 amends both GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 31, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 66 are effective for periods beginning after December 15, 2012 and would be applied on a prospective basis.

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**Required Supplemental Information
Schedule of Funding Progress - Multiple Employer Pension Plans**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)- Entry Age</u>	<u>Unfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
Arkansas Local Police Retirement System:						
12/31/2010	\$ 15,014,223	\$ 26,355,315	\$ 11,341,092	57%	\$ 5,851,011	194%
12/31/2009	13,681,305	26,260,371	12,579,066	52%	6,631,501	190%
12/31/2008	15,347,538	22,399,859	7,052,321	69%	6,427,316	110%
12/31/2007	14,531,499	19,680,593	5,149,094	74%	6,247,804	82%
12/31/2006	11,905,726	16,303,183	4,397,457	73%	5,694,484	77%
12/31/2005	11,520,467	14,445,027	2,924,560	80%	5,589,442	52%

Arkansas Local Fire Retirement System:

12/31/2010	\$ 16,063,797	\$ 32,714,328	\$ 16,650,531	49%	\$ 5,365,752	310%
12/31/2009	13,503,781	31,018,228	17,514,447	44%	5,508,981	318%
12/31/2008	13,683,561	27,056,811	13,373,250	51%	5,434,641	246%
12/31/2007	11,688,625	17,591,234	5,902,609	66%	5,032,730	117%
12/31/2006	9,667,124	14,093,177	4,426,053	69%	4,446,069	100%
12/31/2005	7,482,830	11,911,579	4,428,749	63%	4,159,136	106%

Schedule of Employer Contributions

<u>Year Ended December 31</u>	<u>Arkansas Local Police Retirement System Employer Contributions</u>		<u>Arkansas Local Fire Retirement System Employer Contributions</u>	
	<u>Required Contribution</u>	<u>Percentage Contributed</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2010	\$ 943,897	100%	\$ 1,166,438	100%
2009	1,042,534	100%	1,227,092	100%
2008	928,011	100%	1,108,405	100%
2007	848,486	100%	983,084	100%
2006	737,671	100%	834,077	100%
2005	485,748	100%	568,261	100%

For 2010, the Fayetteville Police annual pension cost of \$943,897 and the Fire annual pension cost of \$1,166,438 were equal to the required and actual contributions. The required contribution was determined as part of the December 31, 2007 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on present and future assets of 8.0% per year, compounded annually, (b) projected salary increase of 4.0% per year, compounded annually, attributable to wage inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, attributable to seniority/merit, (d) pre- and post-retirement mortality based on the RP-2000 Combined Project to 2007 Table, set forward two years for men, and (e) annual compounded post-retirement increase of 3.0% per year. The actuarial value of assets was determined using techniques that smooth the short-term volatility in the market value over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period as of December 31, 2008 was 30 years.

Required Supplemental Information
Schedule of Funding Progress - Single Employer Pension Plans

<u>Actuarial Valuation Date</u>	<u>Market Value of Assets</u>	<u>Actuarial Liability (AAL)- Entry Age</u>	<u>Unfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
Policemen's Pension and Relief Fund						
12/31/2010	\$ 8,555,897	\$ 21,801,583	\$ 13,245,686	39.2%	\$ -	N/A
12/31/2009**	8,360,804	\$ 22,485,442	14,124,638	37.2%	-	N/A
12/31/2008	8,046,356	19,015,138	10,968,782	42.3%	-	N/A
12/31/2007*	10,819,789	18,707,210	7,887,421	57.8%	-	N/A
12/31/2005	10,562,465	20,132,980	9,570,515	52.5%	70,279	13617.9%
12/31/2003	10,937,721	18,596,975	7,659,254	58.8%	219,008	3497.3%
Firemen's Pension and Relief Fund						
12/31/2010	\$ 5,573,909	\$ 20,511,098	\$ 14,937,189	27.2%	\$ -	N/A
12/31/2009**	5,787,509	\$ 20,849,028	15,061,519	27.8%	-	N/A
12/31/2008	5,823,185	17,521,460	11,698,275	33.2%	-	N/A
12/31/2007*	8,725,231	18,566,993	9,841,762	47.0%	-	N/A
12/31/2005	9,636,034	20,119,597	10,483,563	47.9%	-	N/A
12/31/2003	10,625,689	19,833,848	9,208,159	53.6%	52,016	17702.7%

Schedule of Employer Contributions

<u>Year Ended December 31</u>	<u>Policemen's Pension and Relief Fund Employer Contributions</u>		<u>Firemen's Pension and Relief Fund Employer Contributions</u>	
	<u>Required Contribution</u>	<u>Percentage Contributed</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2010	\$ 2,368,658	36.2%	\$ 2,217,405	28.5%
2009	1,862,038	44.7%	1,728,715	35.3%
2008	1,260,911	60.8%	1,393,694	42.3%
2007	1,752,712	39.7%	1,679,296	32.9%
2005	1,722,529	48.2%	1,823,937	33.5%
2003	1,301,783	62.8%	1,406,836	53.4%

**Beginning with 12/31/2009 valuation the assumptions were changed from a 7% to 5% discount rate.

*Beginning with 12/31/2007 valuation the assumptions were changed from a 6% to 7% discount rate and 83GAM mortality.

The required contribution was determined using the entry age normal cost method. Actuarial assumptions used in the evaluations included (a) an assumed investment return of 7.0%, (b) projected salary growth of 4.0% attributable to wage inflation and 0.2% to 4.0% attributable to merit, (c) pre- and post-retirement mortality rates based on the 1983 Group Annuity Table set back five years for females. The actuarial value of assets was determined using a five-year smoothed market. The amortization period for the unfunded accrued liability was 30 years.

**Required Supplemental Information
Other Postemployment Benefits Plan*
Schedule of Funding Progress**

Actuarial Valuation Date	Market Value of Assets	Actuarial Accrued Liability (AAL)- Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2011	\$0	\$2,787,252	\$2,787,252	0.0%	\$28,579,888	9.8%
1/1/2010	\$0	\$2,949,767	\$2,949,767	0.0%	\$28,311,868	10.4%
1/1/2009	\$0	\$3,012,551	\$3,012,551	0.0%	\$34,615,802	8.7%

*Health Insurance Plan

The required contribution was determined as part of the December 31, 2009 actuarial evaluation using the entry age cost method. The actuarial assumptions used included (a) 4.5% rate of return on investments, (b) projected health care inflation rates of 1.0% to 8.5% over the next nine years, (c) mortality rates based on the RP-2000 Combined Mortality Table, and (d) salary increases of 3.7%. The unfunded actuarial accrued liability is being amortized using level dollar amount over thirty years based on an open group.

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Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds account for resources which are designated by law or contractual agreement for particular funds or activities and are legally required to be accounted for in separate funds. Such resources are derived from specific taxes and federal grant and entitlement monies.

STREET - This fund accounts for State and County taxes which are to be spent on street construction and repair.

OFF STREET PARKING - This fund accounts for funds received from meter revenues and parking lot rentals. These monies are expended for maintenance of parking lots.

COMMUNITY DEVELOPMENT - This fund accounts for the community development grant funds received from the Federal Department of Housing and Urban Development.

SPECIAL STATE GRANTS - This fund accounts for a special project grant from the Arkansas Economic Development Commission. The funds are to be used for energy efficiency and green technology training at the Northwest Arkansas Community College.

ENERGY BLOCK GRANT - This fund accounts for a grant from the American Recovery and Reinvestment Act of 2009, distributed by the Department of Energy. The funds are to be used for energy efficiency projects for the municipality and establishes a revolving loan fund for non-profit organizations for energy efficiency improvements.

IMPACT FEE - This fund accounts for the fees paid by new developments to be used to construct water and wastewater facilities that serve such developments and for Police and Fire fees used for capital acquisitions.

DRUG LAW ENFORCEMENT - This fund accounts for drug law enforcement grant funds received from the U.S. Department of Justice, passed through the State of Arkansas, in association with Washington County; the University of Arkansas; the Cities of Springdale, Prairie Grove, Lincoln, Elm Springs, Goshen, Farmington, Greenland, Johnson, Elkins, and West Fork and the Fourth Judicial Prosecuting Attorney.

PARKS DEVELOPMENT - This fund accounts for funds designated to be used for the acquisition and development of City parks. Revenue is received from a hotel/motel/restaurant tax.

POLICE AND FIRE PENSION REVENUE - This fund accounts for the property taxes and state contributions made to the Police and Fire Relief and Pension Funds.

Debt Service Funds

The debt service funds are used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

FIRE BOND FUND - This fund accounts for the accumulation of resources for the payment of the bond debt for new fire stations.

TAX INCREMENT FINANCING (TIF) BOND FUND - This fund accounts for the accumulation of resources for the payment of bonded debt for the economic development of the Highway 71 East Square Redevelopment District No. 1 Project.

Capital Projects Funds

Capital projects funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds and trust funds.

WASTEWATER IMPROVEMENT CONSTRUCTION FUND - This fund accounts for funding and expenditures for construction of a new sewer plant and other sewer line improvements.

City of Fayetteville, Arkansas
 Combining Balance Sheet
 Nonmajor Governmental Funds
 December 31, 2011

	Special Revenue Funds					
	Street	Off Street Parking	Community Development	Special State Grants	Energy Block Grant	Impact Fee
ASSETS						
Cash	\$	\$ 78,496	\$ 9,971	\$	\$ 61	\$
Investments	2,542,234	552,863				6,327,258
Accounts receivable	8,963	8,328			13,569	
Accrued interest	4,697	1,022				11,690
Due from other funds	115,195	2,652	761			33,286
Due from other governments	277,018		10,284		18,556	
Prepaid expenditures and other assets	1,623	2,002				
Restricted Assets:						
Investments						
Accrued interest						
Due from other governments						
Total assets	\$ 2,949,730	\$ 645,363	\$ 21,016	\$	\$ 32,186	\$ 6,372,234
LIABILITIES						
Accounts payable	\$ 75,209	\$ 1,963	\$ 4,115	\$	\$ 18,617	\$
Accrued expenditures	68,051	5,811	3,257			
Compensated absences	36,442	2,336	3,029			
Due to other funds	430,084	536,191	664			1,115,445
Due to other governments		10,560				
Deferred revenue		33,178	5,000			
Total liabilities	609,786	590,039	16,065		18,617	1,115,445
FUND BALANCES						
Nonspendable						
Prepays	1,623	2,002				
Restricted for:						
Transportation and parking	2,338,321					
Public safety						404,904
Sustainability					13,569	
Parks and recreation						
Community planning and engineering			4,951			
Water and wastewater						4,851,885
Debt service						
Committed to:						
Transportation and parking		1,033				
Water and wastewater						
Assigned to:						
Transportation and parking		52,289				
Total fund balances	2,339,944	55,324	4,951		13,569	5,256,789
Total liabilities and fund balances	\$ 2,949,730	\$ 645,363	\$ 21,016	\$	\$ 32,186	\$ 6,372,234

Special Revenue Funds			Debt Service Funds		Fund	Nonmajor
Drug Law Enforcement	Parks Development	Police & Fire Pension Rev	Fire Bond	TIF Bond	Wastewater Imp Construction	Governmental Funds
\$ 187,224	\$ 2,073	\$	\$	\$	\$ 32	\$ 277,857
30,202	5,211,846				1,606,444	16,240,645
	9,629				2,968	61,062
31,979	8,209	933,426				30,006
560						160,103
						1,271,263
						4,185
				153,540		153,540
				1		1
				117,224		117,224
<u>\$ 249,965</u>	<u>\$ 5,231,757</u>	<u>\$ 933,426</u>	<u>\$</u>	<u>\$ 270,765</u>	<u>1,609,444</u>	<u>\$ 18,315,886</u>
\$ 14,977	\$ 7,796	\$	\$	\$	\$ 135,801	\$ 258,478
4,673	22,634					104,426
2,026	14,680					58,513
1,278	208,175				1,989	2,293,826
14,244	296,538	933,426		117,224		10,560
<u>37,198</u>	<u>549,823</u>	<u>933,426</u>	<u></u>	<u>117,224</u>	<u>137,790</u>	<u>4,125,413</u>
560						4,185
212,207						2,338,321
	4,681,934					617,111
						13,569
						4,681,934
						4,951
						4,851,885
				153,541		153,541
						1,033
					1,471,654	1,471,654
						52,289
<u>212,767</u>	<u>4,681,934</u>	<u></u>	<u></u>	<u>153,541</u>	<u>1,471,654</u>	<u>14,190,473</u>
<u>\$ 249,965</u>	<u>\$ 5,231,757</u>	<u>\$ 933,426</u>	<u>\$</u>	<u>\$ 270,765</u>	<u>\$ 1,609,444</u>	<u>\$ 18,315,886</u>

City of Fayetteville, Arkansas
 Combining Statement of Revenues,
 Expenditures, and Changes in Fund Balance
 Nonmajor Governmental Funds
 For the Year Ended December 31, 2011

	Special Revenue Funds					
	Street	Off Street Parking	Community Development	Special State Grants	Energy Block Grant	Impact Fee
Revenues:						
Hotel, motel, restaurant tax	\$	\$	\$	\$	\$	\$
Property tax						
Impact Fees						911,065
Intergovernmental	4,645,332		448,964	52,668	419,458	
Charges for services	138,525	1,158,115				
Fines and forfeitures		221,213				
Investment earnings	17,448	3,914				53,906
Net decrease in the fair value of investments	(7,320)	(555)				(23,274)
Contributions			7,025			
Other	40,015	411				
Total revenues	4,834,000	1,383,098	455,989	52,668	419,458	941,697
Expenditures:						
General government				55,334	299,935	
Public safety						56,496
Community planning and engineering			451,038			
Transportation and parking	4,469,251	904,942				
Parks and recreation						
Debt service		11,873				
Capital outlay	380,378	73,191			105,954	2,205,176
Total expenditures	4,849,629	990,006	451,038	55,334	405,889	2,261,672
Excess (deficiency) of revenues over (under) expenditures	(15,629)	393,092	4,951	(2,666)	13,569	(1,319,975)
Other financing sources (uses):						
Transfers in	11,056					
Transfers out				(65)		
Total other financing sources (uses)	11,056			(65)		
Net change in fund balances	(4,573)	393,092	4,951	(2,731)	13,569	(1,319,975)
Fund balances, beginning of year	2,344,517	(337,768)		2,731		6,576,764
Fund balances, end of year	\$ 2,339,944	\$ 55,324	\$ 4,951	\$	\$ 13,569	\$ 5,256,789

Special Revenue Funds			Debt Service Funds		Capital Projects Funds	Total Nonmajor Governmental Funds
Drug Law Enforcement	Parks Development	Police & Fire Pension Rev	Fire Bond	TIF Bond	Wastewater Imp Construction	
\$	\$ 2,298,187	\$ 996,761	\$	\$ 148,688	\$	\$ 2,298,187
						1,145,449
						911,065
309,827		430,900				6,307,149
2,075	123,818					1,422,533
48,474						269,687
	39,182		905	7	21,625	136,987
	(17,861)				(14,571)	(63,581)
	33,500					40,525
	4,183					44,814
205						
<u>360,581</u>	<u>2,481,009</u>	<u>1,427,661</u>	<u>905</u>	<u>148,695</u>	<u>7,054</u>	<u>12,512,815</u>
			34,376	2,270	81	391,996
477,886		1,427,661				1,962,043
						451,038
	1,681,086					5,374,193
	77,866		417,000	112,087		1,681,086
	828,200				1,417,811	618,826
						5,010,710
<u>477,886</u>	<u>2,587,152</u>	<u>1,427,661</u>	<u>451,376</u>	<u>114,357</u>	<u>1,417,892</u>	<u>15,489,892</u>
<u>(117,305)</u>	<u>(106,143)</u>		<u>(450,471)</u>	<u>34,338</u>	<u>(1,410,838)</u>	<u>(2,977,077)</u>
212,461			163,397			386,914
					(238,368)	(238,433)
<u>212,461</u>			<u>163,397</u>		<u>(238,368)</u>	<u>148,481</u>
95,156	(106,143)		(287,074)	34,338	(1,649,206)	(2,828,596)
<u>117,611</u>	<u>4,788,077</u>		<u>287,074</u>	<u>119,203</u>	<u>3,120,860</u>	<u>17,019,069</u>
<u>\$ 212,767</u>	<u>\$ 4,681,934</u>	<u>\$</u>	<u>\$</u>	<u>\$ 153,541</u>	<u>\$ 1,471,654</u>	<u>\$ 14,190,473</u>

City of Fayetteville, Arkansas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
Street Special Revenue Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 4,299,400	\$ 4,686,900	\$ 4,645,332	\$ (41,568)
Charges for services	51,600	51,600	138,525	86,925
Investment earnings	30,000	30,000	17,448	(12,552)
Net increase in the fair value of investments			(7,320)	(7,320)
Other	9,000	9,000	40,015	31,015
Total revenues	<u>4,390,000</u>	<u>4,777,500</u>	<u>4,834,000</u>	<u>56,500</u>
Expenditures:				
Transportation and Parking	4,390,000	4,880,771	4,469,251	411,520
Capital		<u>465,678</u>	<u>380,378</u>	<u>85,300</u>
Total expenditures	<u>4,390,000</u>	<u>5,346,449</u>	<u>4,849,629</u>	<u>496,820</u>
Excess (deficiency) of revenues over (under) expenditures		<u>(568,949)</u>	<u>(15,629)</u>	<u>553,320</u>
Other financing sources:				
Transfer in		<u>11,056</u>	<u>11,056</u>	
Total other financing sources		<u>11,056</u>	<u>11,056</u>	
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)		<u>(557,893)</u>	<u>(4,573)</u>	<u>553,320</u>
Fund balances, beginning of year	<u>2,344,517</u>	<u>2,344,517</u>	<u>2,344,517</u>	
Fund balances, end of year	<u>\$ 2,344,517</u>	<u>\$ 1,786,624</u>	<u>\$ 2,339,944</u>	<u>\$ 553,320</u>

City of Fayetteville, Arkansas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
Off Street Parking Special Revenue Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for services	\$ 1,015,250	\$ 1,015,250	\$ 1,158,115	\$ 142,865
Fines and forfeitures	260,000	260,000	221,213	(38,787)
Investment earnings	20,425	20,425	3,914	(16,511)
Net decrease in the fair value of investments			(555)	(555)
Other	225	225	411	186
	<u>1,295,900</u>	<u>1,295,900</u>	<u>1,383,098</u>	<u>87,198</u>
Total revenues				
Expenditures:				
Off Street Parking	879,765	908,202	904,942	3,260
Debt Service	147,235	147,233	11,873	135,360
Capital	38,000	74,777	73,191	1,586
	<u>1,065,000</u>	<u>1,130,212</u>	<u>990,006</u>	<u>140,206</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>230,900</u>	<u>165,688</u>	<u>393,092</u>	<u>227,404</u>
Fund balances, beginning of year	<u>(337,768)</u>	<u>(337,768)</u>	<u>(337,768)</u>	
Fund balances, end of year	<u>\$ (106,868)</u>	<u>\$ (172,080)</u>	<u>\$ 55,324</u>	<u>\$ 227,404</u>

City of Fayetteville, Arkansas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
Community Development Special Revenue Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 695,800	\$ 1,216,788	\$ 448,964	\$ (767,824)
Contributions		2,097	7,025	4,928
Total revenues	<u>695,800</u>	<u>1,218,885</u>	<u>455,989</u>	<u>(762,896)</u>
Expenditures:				
Community Development	<u>695,800</u>	<u>1,218,885</u>	<u>451,038</u>	<u>767,847</u>
Total expenditures	<u>695,800</u>	<u>1,218,885</u>	<u>451,038</u>	<u>767,847</u>
Excess (deficiency) of revenues over (under) expenditures			<u>4,951</u>	<u>4,951</u>
Fund balances, beginning of year				
Fund balances, end of year	<u>\$</u>	<u>\$</u>	<u>\$ 4,951</u>	<u>\$ 4,951</u>

City of Fayetteville, Arkansas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
Special State Grants Special Revenue Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ _____	\$ _____	\$ 52,668	\$ 52,668
Total revenues	_____	_____	52,668	52,668
Expenditures:				
Special State Grant expenditures	_____	55,334	55,334	_____
Total expenditures	_____	55,334	55,334	_____
Excess of revenues over expenditures	_____	(55,334)	(2,666)	52,668
Other financing sources:				
Transfer out	_____	(65)	(65)	_____
Total other financing sources	_____	(65)	(65)	_____
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	_____	(55,399)	(2,731)	52,668
Fund balances, beginning of year	2,731	2,731	2,731	_____
Fund balances, end of year	\$ <u>2,731</u>	\$ <u>(52,668)</u>	\$ _____	\$ <u>52,668</u>

City of Fayetteville, Arkansas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
Energy Block Grant Special Revenue Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ _____	\$ 460,713	\$ 419,458	\$ (41,255)
Total revenues	_____	460,713	419,458	(41,255)
Expenditures:				
Energy Block Grant expenditures		354,759	299,935	54,824
Capital		105,954	105,954	
Total expenditures	_____	460,713	405,889	54,824
Excess of revenues over expenditures	_____	_____	13,569	13,569
Fund balances, beginning of year	_____	_____	_____	_____
Fund balances, end of year	\$ _____	\$ _____	\$ 13,569	\$ 13,569

City of Fayetteville, Arkansas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
Impact Fee Special Revenue Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Impact fees	\$ 1,168,800	\$ 1,168,800	\$ 911,065	\$ (257,735)
Investment earnings	91,200	91,200	53,906	(37,294)
Net decrease in the fair value of investments			(23,274)	(23,274)
Total revenues	<u>1,260,000</u>	<u>1,260,000</u>	<u>941,697</u>	<u>(318,303)</u>
Expenditures:				
Public safety		56,496	56,496	
Capital outlay	<u>1,260,000</u>	<u>6,092,911</u>	<u>2,205,176</u>	<u>3,887,735</u>
Total expenditures	<u>1,260,000</u>	<u>6,149,407</u>	<u>2,261,672</u>	<u>3,887,735</u>
Excess (deficiency) of revenues over (under) expenditures		<u>(4,889,407)</u>	<u>(1,319,975)</u>	<u>3,569,432</u>
Other financing sources:				
Transfer out		<u>(1,522,249)</u>		<u>1,522,249</u>
Total other financing sources		<u>(1,522,249)</u>		<u>1,522,249</u>
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)		<u>(6,411,656)</u>	<u>(1,319,975)</u>	<u>5,091,681</u>
Fund balances, beginning of year	<u>6,576,764</u>	<u>6,576,764</u>	<u>6,576,764</u>	
Fund balances, end of year	<u>\$ 6,576,764</u>	<u>\$ 165,108</u>	<u>\$ 5,256,789</u>	<u>\$ 5,091,681</u>

City of Fayetteville, Arkansas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
Drug Law Enforcement Special Revenue Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 246,400	\$ 263,518	\$ 309,827	\$ 46,309
Charges for services	1,800	1,800	2,075	275
Fines and forfeitures	12,800	12,800	48,474	35,674
Investment earnings				0
Other			205	205
Total revenues	261,000	278,118	360,581	82,463
Expenditures:				
Public safety	494,000	525,650	477,886	47,764
Total expenditures	494,000	525,650	477,886	47,764
Deficiency of revenues under expenditures	(233,000)	(247,532)	(117,305)	130,227
Other financing sources:				
Transfer in	233,000	219,000	212,461	(6,539)
Total other financing sources	233,000	219,000	212,461	(6,539)
Deficiency of revenues under expenditures and other financing sources		(28,532)	95,156	123,688
Fund balances, beginning of year	117,611	117,611	117,611	
Fund balances, end of year	\$ 117,611	\$ 89,079	\$ 212,767	\$ 123,688

City of Fayetteville, Arkansas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
Parks Development Special Revenue Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
HMR tax	\$ 2,139,600	\$ 2,139,600	\$ 2,298,187	\$ 158,587
Charges for services	176,000	180,896	123,818	(57,078)
Investment earnings	89,000	89,000	39,182	(49,818)
Net decrease in the fair value of investments			(17,861)	(17,861)
Contributions	20,000	53,600	33,500	(20,100)
Other		1,189	4,183	2,994
	<u>2,424,600</u>	<u>2,464,285</u>	<u>2,481,009</u>	<u>16,724</u>
Total revenues				
Expenditures:				
Parks development	1,670,600	1,974,638	1,681,086	293,552
Debt service	78,000	78,000	77,866	134
Capital outlay	676,000	4,771,710	828,200	3,943,510
	<u>2,424,600</u>	<u>6,824,348</u>	<u>2,587,152</u>	<u>4,237,196</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures		<u>(4,360,063)</u>	<u>(106,143)</u>	<u>4,253,920</u>
Fund balances, beginning of year	<u>4,788,077</u>	<u>4,788,077</u>	<u>4,788,077</u>	
Fund balances, end of year	<u>\$ 4,788,077</u>	<u>\$ 428,014</u>	<u>\$ 4,681,934</u>	<u>\$ 4,253,920</u>

City of Fayetteville, Arkansas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
Police and Fire Pension Special Revenue Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property tax	\$	\$	\$ 996,761	\$ 996,761
Intergovernmental			430,900	430,900
Total revenues			1,427,661	1,427,661
Expenditures:				
Public safety			1,427,661	(1,427,661)
Total expenditures			1,427,661	(1,427,661)
Excess of revenues over expenditures				
Fund balances, beginning of year				
Fund balances, end of year	\$	\$	\$	\$

City of Fayetteville, Arkansas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
Wastewater Improvement Sales Tax Bond Debt Service Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales tax	\$ 15,372,400	\$ 15,372,400	\$ 16,518,746	\$ 1,146,346
Investment earnings	1,300	1,300	678	(622)
Total revenues	<u>15,373,700</u>	<u>15,373,700</u>	<u>16,519,424</u>	<u>1,145,724</u>
Expenditures:				
General Government		4,540	4,540	
Debt Service	<u>15,373,700</u>	<u>16,283,517</u>	<u>16,283,517</u>	
Total expenditures	<u>15,373,700</u>	<u>16,288,057</u>	<u>16,288,057</u>	
Excess (deficiency) of revenues over (under) expenditures		<u>(914,357)</u>	<u>231,367</u>	<u>1,145,724</u>
Other financing sources:				
Transfers in			<u>2</u>	<u>2</u>
Total other financing sources			<u>2</u>	<u>2</u>
Excess (deficiency) of revenues over (under) expenditures and other financing sources		<u>(914,357)</u>	<u>231,369</u>	<u>1,145,726</u>
Fund balances, beginning of year	<u>3,478,251</u>	<u>3,478,251</u>	<u>3,478,251</u>	
Fund balances, end of year	<u>\$ 3,478,251</u>	<u>\$ 2,563,894</u>	<u>\$ 3,709,620</u>	<u>\$ 1,145,726</u>

City of Fayetteville, Arkansas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
Fire Bond Debt Service Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment earnings	\$ _____	\$ _____	\$ _____ 905	\$ _____ 905
Total revenues	_____	_____	_____ 905	_____ 905
Expenditures:				
General Government		34,377	34,376	1
Debt Service	424,800	417,001	417,000	1
Total expenditures	424,800	451,378	451,376	2
Deficiency of revenues under expenditures	(424,800)	(451,378)	(450,471)	907
Other financing sources:				
Transfer in	_____	26,578	163,397	136,819
Total other financing sources	0	26,578	163,397	136,819
Excess (deficiency) of revenues over (under) expenditures and other financing sources	(424,800)	(424,800)	(287,074)	137,726
Fund balances, beginning of year	287,074	287,074	287,074	
Fund balances, end of year	\$ <u>(137,726)</u>	\$ <u>(137,726)</u>	\$ _____	\$ <u>137,726</u>

City of Fayetteville, Arkansas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
TIF Bond Debt Service Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property tax	\$ 55,000	\$ 55,000	\$ 148,688	\$ 93,688
Investment earnings			7	7
Total revenues	<u>55,000</u>	<u>55,000</u>	<u>148,695</u>	<u>93,695</u>
Expenditures:				
Contract services	2,300	2,300	2,270	30
Debt service	<u>61,400</u>	<u>112,087</u>	<u>112,087</u>	
Total expenditures	<u>63,700</u>	<u>114,387</u>	<u>114,357</u>	<u>30</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,700)</u>	<u>(59,387)</u>	<u>34,338</u>	<u>93,725</u>
Fund balances, beginning of year	<u>119,203</u>	<u>119,203</u>	<u>119,203</u>	
Fund balances, end of year	<u>\$ 110,503</u>	<u>\$ 59,816</u>	<u>\$ 153,541</u>	<u>\$ 93,725</u>

City of Fayetteville, Arkansas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
Sales Tax Improvement Capital Projects Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales tax	\$ 6,149,000	\$ 6,149,000	\$ 6,601,311	\$ 452,311
Property tax			2	2
Intergovernmental		5,787,050	2,750,051	(3,036,999)
Charges for services	113,000	793,165	270,545	(522,620)
Investment earnings	128,000	128,000	57,600	(70,400)
Net decrease in the fair value of investments			(22,883)	(22,883)
Other		50,879	42,195	(8,684)
Total revenues	<u>6,390,000</u>	<u>12,908,094</u>	<u>9,698,821</u>	<u>(3,209,273)</u>
Expenditures:				
Capital Outlay	<u>5,390,000</u>	<u>17,708,772</u>	<u>6,799,034</u>	<u>10,909,738</u>
Total expenditures	<u>5,390,000</u>	<u>17,708,772</u>	<u>6,799,034</u>	<u>10,909,738</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,000,000</u>	<u>(4,800,678)</u>	<u>2,899,787</u>	<u>7,700,465</u>
Other financing sources (uses):				
Transfers out	<u>(1,000,000)</u>	<u>(1,303,643)</u>	<u>(1,163,397)</u>	<u>140,246</u>
Total other financing sources (uses)	<u>(1,000,000)</u>	<u>(1,303,643)</u>	<u>(1,163,397)</u>	<u>140,246</u>
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	<u></u>	<u>(6,104,321)</u>	<u>1,736,390</u>	<u>7,840,711</u>
Fund balances, beginning of year	<u>7,151,003</u>	<u>7,151,003</u>	<u>7,151,003</u>	<u></u>
Fund balances, end of year	<u>\$ 7,151,003</u>	<u>\$ 1,046,682</u>	<u>\$ 8,887,393</u>	<u>\$ 7,840,711</u>

City of Fayetteville, Arkansas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
Sales Tax 2006A Construction Capital Projects Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment earnings	\$ 6,000	\$ 6,000	\$ 1,974	\$ (4,026)
Total revenues	<u>6,000</u>	<u>6,000</u>	<u>1,974</u>	<u>(4,026)</u>
Expenditures:				
Capital Outlay	<u>6,000</u>	<u>15,474,631</u>	<u>5,374,275</u>	<u>10,100,356</u>
Total expenditures	<u>6,000</u>	<u>15,474,631</u>	<u>5,374,275</u>	<u>10,100,356</u>
Excess (deficiency) of revenues over (under) expenditures		<u>(15,468,631)</u>	<u>(5,372,301)</u>	<u>10,096,330</u>
Other financing sources (uses):				
Transfer out		<u>(19,251)</u>	<u>(2)</u>	<u>19,249</u>
Total other financing sources (uses)		<u>(19,251)</u>	<u>(2)</u>	<u>19,249</u>
Deficiency of revenues under expenditures and other financing sources (uses)	<u>0</u>	<u>(15,487,882)</u>	<u>(5,372,303)</u>	<u>10,115,579</u>
Fund balances, beginning of year	<u>17,167,314</u>	<u>17,167,314</u>	<u>17,167,314</u>	
Fund balances, end of year	<u>\$ 17,167,314</u>	<u>\$ 1,679,432</u>	<u>\$ 11,795,011</u>	<u>\$ 10,115,579</u>

City of Fayetteville, Arkansas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
Wastewater Improvement Construction Capital Projects Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Investment earnings	\$	\$	\$ 21,625	\$ 21,625
Net decrease in the fair value of investments			(14,571)	(14,571)
Total revenues			7,054	7,054
Expenditures:				
General Government		81	81	
Capital Outlay		1,710,422	1,417,811	292,611
Total expenditures		1,710,503	1,417,892	292,611
Excess (deficiency) of revenues over (under) expenditures		(1,710,503)	(1,410,838)	299,665
Other financing sources (uses):				
Transfers out		(1,335,719)	(238,368)	1,097,351
Total other financing sources (uses)		(1,335,719)	(238,368)	1,097,351
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)		(3,046,222)	(1,649,206)	1,397,016
Fund balances, beginning of year		3,120,860	3,120,860	
Fund balances, end of year	\$	3,120,860	\$ 1,471,654	\$ 1,397,016

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held in a trustee or agency capacity for others, and therefore cannot be used to support the government's own programs.

POLICEMEN'S PENSION AND RELIEF FUND - This fund is used to account for the accumulation of resources for the pension benefit payments to qualified police personnel.

FIREMEN'S PENSION AND RELIEF FUND - This fund is used to account for the accumulation of resources for the pension benefit payments to qualified fire personnel.

City of Fayetteville, Arkansas
Combining Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2011

	<u>Pension Trust Funds</u>		
	<u>Policemen's Pension and Relief</u>	<u>Firemen's Pension and Relief</u>	<u>Total Pension Trust</u>
Assets			
Cash	\$ 19,643	\$ 143,279	\$ 162,922
Investments at fair value:			
Money Market	109,154	256,499	365,653
U. S. Government securities	1,454,894	671,094	2,125,988
Corporate bonds	1,395,080	836,868	2,231,948
Corporate stock	5,234,840	3,093,892	8,328,732
Receivables:			
Accrued interest	13,643	13,882	27,525
Due from primary government	10,930		10,930
	<u>8,238,184</u>	<u>5,015,514</u>	<u>13,253,698</u>
Total assets			
Liabilities			
Accounts payable		95	95
Deferred revenue	12,900		12,900
	<u>12,900</u>	<u>95</u>	<u>12,995</u>
Total liabilities			
Net Assets			
Assets held in trust for pension benefits	<u>\$ 8,225,284</u>	<u>\$ 5,015,419</u>	<u>\$ 13,240,703</u>

City of Fayetteville, Arkansas
Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2011

	Pension Trust Funds		
	Policemen's Pension and Relief	Firemen's Pension and Relief	Total Pension Trust
Additions			
Contributions:			
City contributions	\$ 126,045	\$	\$ 126,045
Property taxes contributed from police and fire pension revenue fund	498,381	498,381	996,762
State insurance taxes contributed from police and fire pension revenue fund	<u>269,745</u>	<u>161,155</u>	<u>430,900</u>
Total contributions	894,171	659,536	1,553,707
Investment earnings:			
Interest	192,470	110,158	302,628
Net decrease in fair value of investments	(688)	(6,698)	(7,386)
Gain on sale of investments	209,001	144,723	353,724
Other	<u>5,131</u>	<u>34</u>	<u>5,165</u>
Net investment gain	<u>405,914</u>	<u>248,217</u>	<u>654,131</u>
Total additions	<u>1,300,085</u>	<u>907,753</u>	<u>2,207,838</u>
Deductions			
Contractual services	3,671	3,952	7,623
Benefit payments	<u>1,627,027</u>	<u>1,462,291</u>	<u>3,089,318</u>
Total deductions	<u>1,630,698</u>	<u>1,466,243</u>	<u>3,096,941</u>
Change in net assets	(330,613)	(558,490)	(889,103)
Net assets, beginning of year	<u>8,555,897</u>	<u>5,573,909</u>	<u>14,129,806</u>
Net assets, end of year	<u>\$ 8,225,284</u>	<u>\$ 5,015,419</u>	<u>\$ 13,240,703</u>

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Statistical Section

STATISTICAL SECTION

This part of the City of Fayetteville's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the government's overall financial health.

Contents	Page
Financial Trends	109
These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.	
Revenue Capacity	114
These schedules contain information to help the reader assess the government's most significant local revenue sources, sales taxes and property taxes.	
Debt Capacity	119
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	
Demographic and Economic Information	123
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	
Operating Information	125
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	

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City of Fayetteville, Arkansas
Net Assets by Component
Last Eight Fiscal Years
(accrual basis of accounting)

	2011	2010	2009	2008	2007	2006	2005	2004
Governmental activities								
Invested in capital assets, net of related debt	\$ 112,853,575	\$ 113,255,205	\$ 102,695,938	\$ 94,347,834	\$ 211,286,106	\$ 208,494,734	\$ 82,171,940	\$ 66,837,396
Restricted	26,522,053	30,158,631	35,318,120	37,068,625	32,961,586	30,343,614	46,945,251	36,117,933
Unrestricted	422,113	(3,431,261)	(4,322,670)	350,782	1,129,834	3,955,462	11,695,924	17,062,075
Total governmental activities net assets	\$ 139,797,741	\$ 139,982,575	\$ 133,691,388	\$ 131,767,241	\$ 245,377,526	\$ 242,793,810	\$ 140,813,115	\$ 120,017,404
Business-type activities								
Invested in capital assets, net of related debt	\$ 322,825,384	\$ 313,516,845	\$ 304,853,810	\$ 308,819,009	\$ 176,708,067	\$ 151,119,132	\$ 139,142,428	\$ 130,762,157
Restricted	2,556,961	2,269,269	8,544,497	1,879,851	1,749,348	1,734,362	475,805	466,451
Unrestricted	29,149,159	25,851,462	20,228,945	18,074,457	17,614,374	18,246,778	27,338,400	28,221,969
Total business-type activities net assets	\$ 354,531,504	\$ 341,637,576	\$ 333,627,252	\$ 328,773,317	\$ 196,071,789	\$ 171,100,272	\$ 166,956,633	\$ 159,450,577
Primary government								
Invested in capital assets, net of related debt	\$ 435,678,959	\$ 426,772,050	\$ 407,549,748	\$ 403,166,843	\$ 387,994,173	\$ 359,613,866	\$ 221,314,368	\$ 197,599,553
Restricted	29,079,014	32,427,900	43,862,617	38,948,476	34,710,934	32,077,976	47,421,056	36,584,384
Unrestricted	29,571,272	22,420,201	15,906,275	18,425,239	18,744,208	22,202,240	39,034,324	45,284,044
Total primary government net assets	\$ 494,329,245	\$ 481,620,151	\$ 467,318,640	\$ 460,540,558	\$ 441,449,315	\$ 413,894,082	\$ 307,769,748	\$ 279,467,981

City of Fayetteville, Arkansas
Changes in Net Assets
Last Eight Fiscal Years
(accrual basis of accounting)

	2011	2010	2009	2008	2007	2006	2005	2004
Expenses								
Governmental activities								
General government	\$ 7,255,645	\$ 6,817,930	\$ 11,099,194	\$ 6,861,791	\$ 6,762,097	\$ 6,847,753	\$ 6,507,895	\$ 7,283,629
Finance and internal services	3,390,115	3,312,219	3,512,992	4,929,662	3,762,278	3,374,365	3,570,329	3,162,116
Public safety	26,093,379	15,579,702	15,896,019	15,090,050	15,571,238	14,964,418	12,649,309	12,466,633
Police		11,106,727	11,186,082	10,046,485	10,477,184	9,309,154	7,376,790	8,734,638
Fire	3,722,903	3,130,583	3,331,553	3,415,607	3,441,827	3,792,144	3,038,810	2,418,847
Community planning and engineering	15,656,762	15,577,072	14,381,760	13,559,779	13,840,356	11,835,241	7,789,913	6,226,820
Transportation and parking	4,124,098	4,211,418	4,260,621	4,141,381	4,271,363	3,886,346	3,895,041	3,586,486
Parks and recreation								2,600
Water and wastewater	4,809,180	5,459,988	5,279,526	5,850,391	7,221,386	4,406,203	948,174	380,559
Interest on long-term debt	65,052,082	65,195,639	68,947,747	63,895,146	65,347,729	58,415,624	45,776,261	44,262,328
Total governmental activities expenses	2,205,402	2,198,062	2,322,892	2,298,392	2,304,279	2,472,438	2,827,891	2,836,322
Business-type activities								
Airport	495,411	511,682	525,865	538,416	550,561	51,275	304,876	156,864
Continuing education center	8,545,416	8,838,873	8,248,798	8,423,818	7,626,840	7,249,481	568,101	376,389
Town center	33,892,375	33,272,168	33,683,250	31,455,978	27,579,750	25,413,817	24,372,652	6,362,727
Solid waste	45,139,604	44,820,785	44,780,805	42,716,604	38,061,430	35,746,202	34,898,232	22,527,295
Water and sewer	110,190,686	110,016,424	113,728,552	106,611,750	103,409,159	94,161,826	80,674,493	76,521,925
Total business-type activities expenses	\$ 110,190,686	\$ 110,016,424	\$ 113,728,552	\$ 106,611,750	\$ 103,409,159	\$ 94,161,826	\$ 80,674,493	\$ 76,521,925
Total primary government expenses	\$ 1,191,560	\$ 1,090,177	\$ 1,072,595	\$ 1,293,461	\$ 1,250,590	\$ 963,219	\$ 878,917	\$ 878,370
Program revenues	311,267	287,386	264,954	250,284	244,207	317,219	306,971	298,810
Governmental activities:	2,007,417	1,642,907	1,491,635	1,325,179	1,303,908	1,359,295	1,183,882	1,175,923
General government		19,785	16,312	33,158	15,684	23,982	22,795	15,908
Finance and internal services	740,172	549,835	582,990	1,301,080	1,391,343	1,377,333	1,544,752	1,434,213
Public safety	1,727,341	953,956	1,146,705	621,297	2,449,840	757,545	837,567	598,072
Police	649,905	939,808	878,455	1,176,621	821,336	915,694	493,693	685,722
Fire					8,559,306		1,120,701	1,856,223
Community planning and engineering	8,650,761	8,463,046	13,206,928	7,588,001	8,177,694	6,717,346	6,646,584	6,644,827
Transportation and parking	5,095,902	8,054,875	4,093,931	8,557,094		12,662,617	8,116,646	3,673,232
Parks and recreation	20,374,325	22,001,775	22,754,505	22,126,175	24,213,908	25,094,250	21,152,508	17,261,300
Water and wastewater	654,696	703,192	692,369	719,914	656,704	711,722	1,218,948	1,210,752
Operating grants and contributions	9,194,348	8,815,762	8,557,416	9,387,724	8,726,964	8,208,819	7,767,957	6,907,624
Capital grants and contributions	32,133,628	29,761,443	27,531,109	24,728,050	25,477,259	26,511,807	25,086,080	22,626,926
Total business-type activities	3,495,044	6,149,411	4,410,045	7,445,570	7,791,930	9,792,794	5,681,581	5,184,411
Total primary government program revenues	65,852,041	67,431,583	63,945,444	64,407,433	66,866,765	70,319,392	61,316,965	53,342,492
Net (expenses)/ revenues	\$ (44,677,757)	\$ (43,193,864)	\$ (46,193,242)	\$ (41,768,971)	\$ (41,133,821)	\$ (33,321,374)	\$ (24,623,753)	\$ (27,001,028)
Business-type activities	339,112	609,023	(3,589,866)	(435,346)	4,591,427	9,478,940	5,266,225	3,821,595
Total primary government net expense	\$ (44,338,645)	\$ (42,584,841)	\$ (49,783,108)	\$ (42,204,317)	\$ (36,542,394)	\$ (23,842,434)	\$ (19,357,528)	\$ (23,179,433)

City of Fayetteville, Arkansas
Changes in Net Assets
Last Eight Years
(accrual basis of accounting)

	2011	2010	2009	2008	2007	2006	2005	2004
General revenues and other changes in net assets								
Governmental activities:								
Taxes:								
Sales and use taxes	\$ 44,335,082	\$ 42,323,680	\$ 42,475,350	\$ 44,480,482	\$ 42,212,067	\$ 39,493,881	\$ 38,457,554	\$ 35,234,574
Franchise taxes	4,961,645	4,904,603	4,603,450	4,834,761	4,621,999	4,602,572	4,208,306	3,726,037
Hotel, motel, restaurant taxes	2,298,187	2,181,585	2,165,809	2,171,452	2,030,913	2,063,875	1,944,250	1,756,319
Impact fees	911,065	1,179,649	1,789,891	1,617,669	2,355,445	1,740,150		
Property taxes	2,816,047	2,643,437	2,733,043	2,656,827	2,204,879	2,855,246	1,139,677	
Investment earnings	225,848	900,869	839,114	2,988,457	8,076,840	6,335,903	2,733,061	2,235,538
Gain on sale of assets					245,943	1,061,263	(3,108,449)	1,186,494
Other	26,329	(21,214)	(21,214)	260,139				3,991
Transfers	(11,081,280)	(4,648,772)	(6,468,054)	(130,851,101)	(18,030,549)	5,852,021	45,065	(82,134)
Capital contributions								(21,497,768)
Total governmental activities	44,492,923	49,485,051	48,117,389	(71,841,314)	43,717,537	64,004,911	45,419,464	22,563,051
Business-type activities:								
Sales and use taxes	29,733	27,110			186,903	123,814	140,456	50,874
Franchise fees	156,633	109,275	77,892	105,724	1,063,825	1,128,091	817,298	474,214
Investment earnings	123,608	456,541	318,732	733,501		(1,745,995)	225,251	9,530
Gain/(loss) on sale of assets								
Other	1,163,562	2,159,603	1,579,123	1,446,548	1,098,813	1,010,810	1,101,891	839,261
Transfers	11,081,280	4,648,772	6,468,054	130,851,101	18,030,549	(5,852,021)	(45,065)	545,051
Total business-type activities	12,554,816	7,401,301	8,443,801	133,136,874	20,380,090	(5,335,301)	2,239,831	1,918,930
Total primary government	\$ 57,047,739	\$ 56,886,352	\$ 56,561,190	\$ 61,295,560	\$ 64,097,627	\$ 58,669,610	\$ 47,659,295	\$ 24,481,981
Change in net assets								
Governmental activities	\$ (184,834)	\$ 6,291,187	\$ 1,924,147	\$ (113,610,285)	\$ 2,583,716	\$ 30,683,537	\$ 20,795,711	\$ (4,437,977)
Business-type activities	12,893,928	8,010,324	4,853,935	132,701,528	24,971,517	4,143,639	7,506,056	5,740,525
Total primary government change in net assets	\$ 12,709,094	\$ 14,301,511	\$ 6,778,082	\$ 19,091,243	\$ 27,555,233	\$ 34,827,176	\$ 28,301,767	\$ 1,302,548

2011 Police and Fire are combined into Public safety

City of Fayetteville, Arkansas
Fund Balance, Governmental Funds
Last Ten Fiscal Years

(modified accrual basis of accounting)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
General fund										
Nonspendable										
Prepays	\$ 118,462									
Long term loans	777,534									
Restricted for:										
Public safety	424,289									
Community planning and engineering	83									
Committed to:										
Economic development	727,116									
Public safety	213,801									
General government	257,003									
Park and recreation	27,766									
Disaster recovery	2,725,094									
Assigned to:										
Public safety	18,142									
Park and recreation	3,916									
Capital projects	204,994									
Unassigned	12,151,014									
Reserved		\$ 1,240,447	\$ 1,308,996	\$ 1,451,923	\$ 1,486,492	\$ 911,207	\$ 720,946	\$ 682,938	\$ 311,861	\$ 218,765
Unreserved, designated		764,491	787,291	1,072,790	1,224,326	1,264,327	2,704,327	4,387,115		
Unreserved		10,080,826	8,780,748	9,019,659	8,303,330	9,858,672	11,433,775	9,680,661	13,690,758	8,475,726
Total general fund	\$ 17,649,214	\$ 12,085,764	\$ 10,877,035	\$ 11,544,372	\$ 11,014,148	\$ 12,034,206	\$ 14,859,048	\$ 14,750,714	\$ 14,002,619	\$ 8,694,491
All other governmental funds										
Nonspendable										
Prepays	\$ 4,185									
Restricted for:										
Transportation and parking	14,129,581									
Public safety	617,111									
Sustainability	13,569									
Community planning and engineering	4,951									
Park and recreation	4,681,934									
Water and wastewater	4,855,636									
Debt service	3,863,161									
Committed to:										
Transportation and parking	1,033									
Water and wastewater	1,471,654									
Capital projects	8,887,393									
Assigned to:										
Transportation and parking	52,289									
Reserved		\$ 4,543,999	\$ 4,002,638	\$ 5,763,117	\$ 4,082,879	\$ 2,869,477	\$ 2,286,042	\$ 7,735,146	\$ 6,805,435	\$ 6,828,032
Unreserved, designated										
Unreserved reported in:										
Special revenue		13,487,939	15,574,102	13,690,279	11,298,462	7,674,731	8,178,263	6,437,050	4,361,813	4,255,428
Capital projects		30,018,299	44,197,666	58,028,535	84,773,809	132,713,348	104,630,999	65,008,793	48,829,336	61,932,437
Total all other governmental funds	38,582,497	48,050,237	63,774,406	77,481,931	102,192,947	143,257,556	115,095,304	79,180,989	59,996,584	73,015,897
Total governmental funds	\$ 56,231,711	\$ 60,136,001	\$ 74,651,441	\$ 89,026,303	\$ 113,207,095	\$ 155,291,762	\$ 129,954,352	\$ 93,931,703	\$ 73,999,203	\$ 81,710,388

The 2002 through 2010 fund balances are not comparable to 2011 due to the adoption of GASB 54, therefore, additional years will be presented in the classifications prescribed by GASB 54 in the future for comparison purposes

City of Fayetteville, Arkansas
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues										
Sales tax	\$ 44,335,082	\$ 42,323,680	\$ 42,475,350	\$ 44,480,482	\$ 42,212,067	\$ 39,493,881	\$ 38,457,555	\$ 35,234,574	\$ 32,132,317	\$ 31,773,981
Hotel, motel, restaurant tax	2,298,187	2,181,585	2,165,809	2,171,452	2,030,913	2,063,875	1,944,250	1,756,319	1,556,511	1,489,011
Property tax	2,748,302	2,758,871	2,576,384	2,289,530	2,034,069	2,064,523	1,944,250	1,756,319	1,556,511	1,489,011
Franchise tax	4,961,645	4,904,603	4,603,450	4,834,761	4,621,999	4,602,572	4,208,306	3,726,037	3,523,725	3,057,981
Impact fee	911,065	1,179,649	1,789,891	1,617,669	2,355,445	4,602,572	4,208,306	3,726,037	3,523,725	3,057,981
Licenses and permits	850,735	699,207	663,165	1,344,053	1,335,140	1,252,486	1,386,488	1,223,875	1,224,559	842,906
Intergovernmental	12,019,023	9,392,130	13,865,369	8,209,268	8,849,176	7,869,962	7,620,219	6,705,038	7,769,918	7,022,604
Charges for services	3,209,681	2,633,543	2,675,169	2,497,024	4,012,571	4,367,907	3,282,554	4,028,129	2,504,729	2,195,372
Fines and forfeitures	2,315,178	1,809,758	1,682,014	1,669,077	1,655,606	1,553,672	1,490,428	1,373,380	1,307,137	1,253,452
Investment earnings	290,793	652,391	946,671	2,445,179	7,647,555	6,030,936	2,563,461	1,981,609	1,655,455	2,702,445
Net increase(decrease) in the fair value of investments	(106,599)	97,698	(226,417)	263,917						
Contributions	184,182	124,979	144,765	91,490						
Other	324,823	334,641	433,296	837,985	943,518	1,497,517	515,923	1,348,416	536,190	2,279,659
Total revenues	74,342,097	69,092,735	73,794,956	72,761,887	77,698,059	70,787,331	61,469,184	57,377,377	52,216,024	52,687,002
Expenditures										
General government	6,314,965	5,761,065	12,035,966	6,484,234	5,824,683	6,225,119	5,835,926	6,647,079	3,700,692	2,748,128
Finance and internal services	3,241,970	3,195,193	3,337,101	4,808,207	3,530,491	3,151,681	3,300,815	2,769,638	1,950,678	1,915,097
Public safety	22,968,663	13,752,634	14,903,285	14,103,152	14,057,637	13,356,653	11,817,208	10,528,825	9,330,977	8,357,783
Police		8,834,335	9,278,757	8,547,600	8,549,523	7,708,408	6,698,621	6,163,199	5,233,388	4,979,362
Fire										
Community planning and engineering	3,605,624	3,089,013	3,322,880	3,405,513	3,380,222	3,781,191	2,877,603	2,375,126	2,146,413	1,912,910
Transportation, parking and utilities	7,051,581	7,371,310	6,958,326	6,802,698	7,647,081	6,385,885	6,807,258	5,533,078	4,459,822	4,479,759
Parks and recreation	3,498,748	3,495,265	3,691,036	3,649,268	3,888,607	3,424,532	3,287,162	3,075,954	3,844,134	3,654,913
Water and wastewater								2,600		
Debt service	4,683,294	5,074,240	5,485,597	5,468,559	5,507,735	3,831,557	1,891,221	526,941	10,266,474	1,374,012
Interest and trustee fees	12,219,049	11,510,858	12,849,481	11,070,536	13,441,158	9,567,754	40,600,997	11,924,799		
Principal	14,367,814	18,699,709	27,398,486	36,212,235	77,382,382	55,531,394	17,752,750	25,142,631	26,641,447	12,694,188
Capital outlay										
Total expenditures	77,951,728	80,783,642	99,260,915	100,552,002	143,209,519	112,964,174	100,969,561	74,689,870	67,617,307	42,253,235
Excess of revenues over (under) expenditures	(3,609,631)	(11,690,907)	(25,465,959)	(27,790,115)	(65,511,460)	(42,176,843)	(39,500,377)	(17,312,493)	(15,401,283)	10,433,767
Other financing sources (uses)										
Transfers in	1,386,981	835,746	2,474,822	1,867,961	5,300,068	13,665,126	606,408	3,480,731	581,798	4,725,759
Transfers out	(1,681,640)	(3,660,279)	(2,633,725)	(1,995,742)	(5,432,278)	(8,754,261)	(1,773,279)	(4,010,880)	(922,092)	(5,540,269)
Bonds issued			11,250,000	3,737,104	23,139,123	61,033,773	75,725,000	35,506,691		25,143,159
Premiums on bonds issued					91,880	1,569,615	534,737			
Capital leases								347,646	1,769,865	
Installment sales					328,000		430,160	1,920,805	700,000	
Sale of capital assets									5,560,527	
Total other financing sources(uses)	(294,659)	(2,824,533)	11,091,097	3,609,323	23,426,793	67,514,253	75,523,026	37,244,993	7,690,098	24,328,649
Net changes in fund balances	\$ (3,904,290)	\$ (14,515,440)	\$ (14,374,862)	\$ (24,180,792)	\$ (42,084,667)	\$ 25,337,410	\$ 36,022,649	\$ 19,932,500	\$ (7,711,185)	\$ 34,762,416
Debt service as a percentage of noncapital expenditures	26.58%	26.71%	25.51%	25.71%	28.79%	23.33%	51.06%	25.13%	25.05%	4.65%

City of Fayetteville, Arkansas
Governmental Activities Tax Revenues by Source
Last Ten Fiscal Years
(accrual basis of accounting)

Fiscal Year	Sales Tax (1) (2) (4)	Franchise Fees	HMR Tax	Alcoholic Beverage Tax	City Property Tax (3)	TIF Property Tax	Total
2002	\$ 31,457,819	\$ 3,057,981	\$ 1,489,011	\$ 316,162	\$ 89,591	\$	\$ 36,410,564
2003	31,804,947	3,523,725	1,556,511	327,370	5,483		37,218,036
2004	34,889,146	3,726,037	1,756,319	345,428	-		40,716,930
2005	38,057,704	4,208,306	1,944,250	397,133	-		44,607,393
2006	39,084,042	4,602,572	2,063,875	429,839	2,670,714	184,532	49,035,573
2007	41,764,996	4,621,999	2,030,913	447,071	2,204,803	76	51,069,858
2008	44,012,599	4,834,761	2,171,452	467,883	2,656,827	0	54,143,522
2009	41,990,910	4,603,450	2,165,809	484,440	2,518,632	57,762	51,821,003
2010	41,843,823	4,904,603	2,181,585	479,857	2,648,386	110,485	52,168,739
2011	43,839,231	4,961,645	2,298,187	495,852	2,599,615	148,688	54,343,218

- Notes:
- (1) Sales tax rate increased by 1% in 2000 for 18 months for City library.
 - (2) Sales tax rate increased by .75% in 2002 for wastewater improvements.
 - (3) Property tax rate increased by 1.3 mills in 2006.
 - (4) Sales tax rate increased by .25% in 2007 for wastewater, street, and trail improvements.

City of Fayetteville, Arkansas
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Year	Real Property		Personal Property			Total		Ratio of Total Assessed to	
	Assessed Value	Appraised Value	Assessed Value	Appraised Value	Assessed Value	Appraised Value	Total Estimated Actual	Total Direct Tax Rate	
2002	\$ 530,235,135	\$ 2,434,269,110	\$ 158,778,031	\$ 778,972,895	\$ 689,013,166	\$ 3,213,242,005	20.00%	1.00	
2003	565,846,525	2,651,175,675	167,638,657	793,890,155	733,485,182	3,445,065,830	20.00%	2.80	
2004	649,361,820	2,829,232,625	183,102,702	838,193,285	832,464,522	3,667,425,910	20.00%	0.80	
2005	724,428,354	3,246,809,100	189,404,588	915,513,510	913,832,942	4,162,322,610	20.00%	0.80	
2006	802,306,156	3,622,141,770	198,469,816	947,022,940	1,000,775,972	4,569,164,710	20.00%	0.80	
2007	942,667,570	4,713,337,850	203,094,564	1,015,472,820	1,145,762,134	5,728,810,670	20.00%	0.80	
2008	1,026,022,871	5,130,114,355	206,311,701	1,031,558,505	1,232,334,572	6,161,672,860	20.00%	2.10	
2009	1,067,947,653	5,339,738,265	191,973,349	959,866,745	1,259,921,002	6,299,605,010	20.00%	2.10	
2010	1,025,933,870	5,129,669,350	188,130,198	940,650,990	1,214,064,068	6,070,320,340	20.00%	2.10	
2011	1,046,174,941	5,230,874,705	199,900,209	999,501,045	1,246,075,150	6,230,375,750	20.00%	2.10	

Source: Washington County Assessor

City of Fayetteville, Arkansas
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

Tax rates (millages)

Year	City of Fayetteville					Washington County	Fayetteville Public Schools	Total Direct & Overlapping Rates
	Police's Pension & Relief Fund	Firemen's Pension & Relief Fund	General Fund	Total Fayetteville	Fayetteville Library			
2002	0.4	0.4		0.80	1.00	5.00	44.00	50.80
2003	0.4	0.4		0.80	1.00	6.16	45.00	52.96
2004	0.4	0.4		0.80	1.00	6.16	45.00	52.96
2005	0.4	0.4		0.80	1.00	6.16	45.00	52.96
2006	0.4	0.4	1.3	2.10	1.00	5.80	43.80	52.70
2007	0.4	0.4	1.3	2.10	1.00	5.60	42.90	51.60
2008	0.4	0.4	1.3	2.10	1.00	5.50	42.90	51.50
2009	0.4	0.4	1.3	2.10	1.00	5.50	42.90	51.50
2010	0.4	0.4	1.3	2.10	1.00	5.50	45.65	54.25
2011	0.4	0.4	1.3	2.10	1.00	5.00	45.65	53.75

Source: Washington County Assessor

City of Fayetteville, Arkansas
Property Tax Levies and Collections
Last Ten Fiscal Years

<u>Year</u>	<u>Total Tax Levy (1,2,3)</u>	<u>Current Tax Collections</u>	<u>Percentage of Levy Collected</u>	<u>Prior Years' Collections</u>	<u>Total Collections</u>	<u>Percentage of Total Collections to Tax Levy</u>
2002	\$ 514,119	\$ 471,932	91.79%	\$ 140,427	\$ 612,359	119.11%
2003	551,210	512,591	92.99%	42,603	555,194	100.72%
2004	586,788	549,837	93.70%	64,337	614,174	104.67%
2005	665,972	628,905	94.43%	52,644	681,549	102.34%
2006	1,955,583	2,011,782	102.87%	83,368	2,095,150	107.14%
2007	2,101,210	1,999,673	95.17%	60,886	2,060,559	98.07%
2008	2,458,507	2,027,885	82.48%	271,646	2,299,530	93.53%
2009	2,609,905	2,264,060	86.75%	313,717	2,577,777	98.77%
2010	2,388,080	2,497,792	104.59%	261,079	2,758,871	115.53%
2011	2,567,467	2,601,304	101.32%	146,999	2,748,303	107.04%

Note: (1) Tax levies and collections do not include taxes paid on city utilities.

(2) Tax levy increased by 1 mill for one year in 2001 for senior center project.

(3) The highway 71 east square redevelopment district No. 1 was created in 2005.

Source: Washington County Assessor

Property assessments are made; tax rates are established; and taxes are levied in one year for payment by the taxpayer and collection by local government the following year. The tax levy for this schedule includes the city's levy for its general fund, sales tax construction fund, police pension plan, and fire pension plan.

City of Fayetteville, Arkansas
Principal Property Taxpayers
December 31, 2011

Taxpayer	2011		2012		Percentage of Total Assessed Valuation
	Assessed Valuation (1)	Rank	Assessed Valuation (1)	Rank	
MMP Arkansas LLC	\$ 15,048,530	1	\$ 9,799,440	1	1.42%
Mathias Shopping Center	7,449,188	2	4,228,026	2	0.61%
Links at Fayetteville	5,787,620	3			0.00%
Wal-Mart Properties Inc.	4,580,710	4	4,211,520	3	0.61%
Butterfield Trail Village, Inc	3,999,950	6	2,169,058	9	0.31%
Southern View Apartments	3,943,040	5			0.00%
Sweetser Family Limited	3,820,675	7			0.00%
JB Hanna	3,789,750	8	2,675,240	5	0.39%
BVP Hill Place LLC	3,708,160	9			0.00%
Lazen Duplexes LLC	3,522,220	10	3,547,318	4	0.51%
Dillard's Department Stores			2,267,006	7	0.33%
The Greens at Lakeside Village			2,267,066	6	0.33%
Superior Industries Int'L Inc			2,179,200	8	0.32%
University of Arkansas			2,102,039	10	0.31%
Totals	\$ 55,649,843		\$ 35,445,913		5.14%

(1) Washington County Assessor

City of Fayetteville, Arkansas
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita (1)
	General Obligation Bond	Special Obligation Bonds	Capital Leases/Notes	Sales Tax Bonds	Revenue Bonds	Capital Leases/Notes			
2002	\$ 1,025,000	\$ 24,400,000	\$	\$ 700,000	\$ 22,065,000	\$	48,190,000	3.27%	830
2003	665,000	15,405,000	2,328,141	360,000	20,845,000	1,085,672	40,688,813	2.63%	701
2004	290,000	39,340,000	2,190,988		19,875,000	1,171,145	62,867,133	3.86%	1,083
2005		75,725,000	1,596,262		18,325,000	856,544	96,502,806	5.65%	1,662
2006	3,570,000	124,228,773	988,509		16,745,000	552,843	146,085,126	7.04%	2,517
2007	2,910,000	135,207,896	695,351		15,115,000	199,498	154,127,745	7.04%	2,655
2008	2,225,000	128,985,000	269,814		13,430,000		144,909,814	6.33%	2,158
2009	1,140,000	128,532,196	208,137		19,910,000		149,790,333	6.24%	2,230
2010	400,000	117,826,716	142,759		18,130,000		136,499,475	4.94%	1,855
2011	0	106,076,968	73,459		16,285,000		122,435,426	4.22%	1,664

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) Population data can be found in the Schedule of Demographic and Economic Statistics.

Source: General ledger files

City of Fayetteville, Arkansas
Direct and Overlapping Governmental Activities Debt
As of December 31, 2011

	<u>Total Bonded Debt Outstanding</u>	<u>Percentage Applicable to the City</u>	<u>Estimated Share of Direct Overlapping Debt</u>
Direct:			
City of Fayetteville (1)	\$ <u>73,459</u>	100%	\$ <u>73,459</u>
Overlapping:			
Fayetteville Public School District (2)	155,682,138	100%	155,682,138
Washington County (3)	<u>-</u>		<u>-</u>
Total overlapping	<u>155,682,138</u>		<u>155,682,138</u>
Total direct and estimated overlapping bonded debt	<u>\$ 155,755,597</u>		<u>\$ 155,755,597</u>

(1) The percentage of overlapping debt applicable is estimated using taxable assessed property values within the City.

(2) Stephens, Inc.

(3) Washington County Comptroller

City of Fayetteville, Arkansas
Legal Debt Margin Information
Last Ten Fiscal Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Debt limit	\$ 311,518,788	\$ 303,516,017	\$ 314,980,251	\$ 308,083,643	\$ 286,440,534	\$ 250,193,993	\$ 228,455,985	\$ 208,116,130	\$ 183,371,295	\$ 172,253,291
Total net debt applicable to limit	73,459	542,759	1,348,137	2,494,814	3,605,350	4,558,509		59,652	428,492	786,187
Legal debt margin	\$ <u>311,445,329</u>	\$ <u>302,973,258</u>	\$ <u>313,632,114</u>	\$ <u>305,588,829</u>	\$ <u>282,835,184</u>	\$ <u>245,635,484</u>	\$ <u>228,455,985</u>	\$ <u>208,056,478</u>	\$ <u>182,944,803</u>	\$ <u>171,467,104</u>
Total net debt applicable to limit as a percentage of debt limit	0.02%	0.18%	0.43%	0.81%	1.26%	1.82%	0.00%	0.03%	0.23%	0.46%

Legal Debt Margin Calculation for Fiscal Year 2010

Assessed value	\$ 1,246,075,150
Debt limit-25% of assessed value	311,518,788
Debt applicable to limit	
General obligation bonds	73,459
Less: debt service reserve	
Total net debt applicable to debt limit	73,459
Legal debt margin	\$ <u>311,445,329</u>

Note: Under state finance law the City of Fayetteville's outstanding general obligation debt should not exceed 25 percent of total assessed property value. Act 1808 of 2001 increased the debt limit by allowing an additional 5 percent for short term financing. Prior to 2001 the debt limit was 20 percent of assessed property value.

Source: Washington County Assessor

**City of Fayetteville, Arkansas
Revenue Bond Coverage
Last Ten Fiscal Years**

<u>Year</u>	<u>Operating Revenue (1)</u>	<u>Operating Expenses (1)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service</u>			<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
<u>Water and sewer fund</u>							
2002	\$ 19,946,464	\$ 15,078,396	\$ 4,868,068	\$ 1,175,000	\$ 592,878	\$ 1,767,878	2.75
2003	20,364,602	16,943,064	3,421,538	935,000	421,563	1,356,563	2.52
2004	22,626,926	18,693,431	3,933,495	970,000	620,664	1,590,664	2.47
2005	25,086,080	19,899,966	5,186,114	1,005,000	586,837	1,591,837	3.26
2006	26,511,807	20,666,711	5,845,096	1,070,000	549,900	1,619,900	3.61
2007	25,472,138	22,564,228	2,907,910	1,110,000	467,192	1,577,192	1.84
2008	24,728,050	22,607,901	2,120,149	1,150,000	429,436	1,579,436	1.34
2009	27,531,109	23,256,352	4,274,757	1,190,000	440,965	1,630,965	2.62
2010	29,761,443	22,433,809	7,327,634	1,225,000	599,218	1,824,218	4.02
2011	32,133,628	23,104,420	9,029,208	1,270,000	554,918	1,824,918	4.95

(1) As defined by each respective bond ordinance.

City of Fayetteville, Arkansas
Demographic & Economic Statistics
Last Ten Fiscal Years

Year	City of Fayetteville Population(1)	Personal Income (in thousands)	Per Capita Income(2)	Median Age(1)	Education Level in Years of		Unemployment Percentage Rate(5)
					Schooling(3)	School Enrollment(4)	
2002	58,047	\$ 1,475,787	\$ 25,424	26.9	14.0	8,129	3.3
2003	58,047	1,549,565	26,695	26.9	14.0	8,212	3.8
2004	58,047	1,626,999	28,029	26.9	14.0	8,329	3.8
2005	58,047	1,708,323	29,430	26.9	14.0	8,353	3.3
2006	67,158	2,075,283	30,902	26.7	14.0	8,520	3.7
2007	67,158	2,179,047	32,447	26.7	14.0	8,406	3.7
2008	67,158	2,287,999	34,069	26.7	14.0	8,548	3.9
2009	67,158	2,402,399	35,772	26.7	14.0	8,566	5.1
2010	73,580	2,763,736	37,561	26.7	14.0	8,838	6.0
2011	73,580	2,901,923	39,439	26.7	14.0	9,017	5.3

Sources:

- (1) U.S. Census Bureau
- (2) Income of previous year x 5%
- (3) Previous U.S. Census Bureau report
- (4) Fayetteville Public School Administrator
- (5) Discover Arkansas Unemployment Rates

**City of Fayetteville
Principal Employers
Current Year and Nine Years Ago**

Employer	2011			2002		
	Employees	Rank	Percentage of Population of Population 73,580	Employees	Rank	Percentage of Population of Population 58,047
University of Arkansas	11,798	1	16.03%	6,967	1	12.00%
Washington Regional Medical Center	1,721	2	2.34%	1,629	2	2.81%
Washington Co. Government	1,525	3	2.07%	556	8	0.96%
Fayetteville School District	1,290	4	1.75%	1,381	4	2.38%
Veteran's Admin. Medical	1,200	5	1.63%	696	6	1.20%
Superior Industries	880	6	1.20%	1,459	3	2.51%
Wal-mart #9149 (optical lab)	760	7	1.03%	345	9	0.59%
City of Fayetteville	713	8	0.97%	644	7	1.11%
Tyson Mexican Original	602	9	0.82%	1,200	5	2.07%
Walmart#144	507	10	0.69%	315	10	0.54%
	20,996		28.53%	15,192		26.17%

Source: HR Departments from above listed employers

City of Fayetteville, Arkansas
Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
General government	41.5	41.5	41.9	41.9	41.25	41.25	41.25	41.75	41.75	42.75
Finance	52.75	52.75	53.25	53.25	53.25	52.75	52.75	47.5	45.25	42.75
Police										
Officers	121	121	121	121	121	120	116	105	104	103
Civilians	66.4	66.4	66.43	66.43	66.43	65.43	65.43	67.43	65.43	65.43
Fire										
Officers	110	110	110	110	109	105	101	98	87	87
Civilians	4	4	4	4	4	4	3	3	2	2
Community planning and engineering	54.5	54.5	57.5	57.5	58.15	55	55	50	50.25	45.75
Transportation, parking, utilities	83	82	75	75	75	74.65	74.65	62.4	56.4	52.35
Parks and recreation	54.35	54.35	53.35	53.35	53.35	52.85	51.85	49.85	48.85	51.35
Water and sewer	88	88	91.5	91.5	91.5	90.5	90.5	87	83.5	80.5
Solid waste	57	57	55.6	55.6	55.6	51.6	50.6	49.6	49.6	49.4
Airport	6	6	5.5	5.5	5.5	5.5	8.5	8.5	8.5	8.5
Fleet operations	18.5	18.5	18.5	18.5	18.5	17.5	17.5	17	17	16
Total	757	756	753.53	753.53	752.53	736.03	728.03	687.03	659.53	646.78

Source: City of Fayetteville Budget Office

City of Fayetteville
Capital Assets by Function
Last Ten Fiscal Years

Function	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Police										
Stations	2	2	2	2	2	2	1	1	1	1
Police units	62	62	62	63	66	61	40	40	39	39
Fire										
Fire stations	7	7	7	7	6	6	6	6	6	6
Fire trucks	16	16	15	15	15	11	12	11	10	11
Transportation										
Paved streets (miles)	406	405	401	399	394	312	274	320	315	309
Traffic signals	104	107	100	96	90	80	76	74	72	70
Parks and recreation										
Parks acreage	3,380	3,189	3,085	2,946	2,939	2,798	2,708	2,553	2,525	2,565
Parks	70	70	71	69	70	65	59	62	59	59
Baseball/softball fields	18	18	18	18	18	18	20	20	20	20
Water and sewer										
Water meters active	37,338	37,396	38,977	36,180	35,162	34,324	35,247	34,900	34,000	31,100
Water mains (miles)	751	750	730	720	685	645	605	595	590	530
Sewer mains (miles)	543	543	539	530	520	520	500	480	470	470
Solid waste										
Sanitation trucks	38	41	41	41	40	37	37	34	33	30

Source: City of Fayetteville divisions

City of Fayetteville, Arkansas
Operating Indicators by Function
Last Ten Fiscal Years

Function	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Police										
Calls for service	37,827	35,570	45,565	46,985	50,846	51,529	52,146	46,140	46,495	44,554
Physical arrests	5,331	5,447	5,771	6,709	5,883	5,530	7,325	10,300	10,048	9,199
9-1-1 calls	33,121	29,713	32,039	31,129	31,364	30,836	31,716	28,361	26,676	28,850
Fire										
Calls for service	7,729	7,011	7,293	7,148	7,021	6,568	6,512	5,833	5,522	5,387
Inspections (hours)	962	913	1,229	1,456	1,258	695	654	1,349	1,887	1,006
Community planning & engineering										
Building inspections	11,449	13,222	24,919	23,892	28,692	29,152	28,104	34,024	27,242	22,377
Building permits issued	289	272	708	997	1,221	1,112	1,225	1,264	1,198	765
Transportation										
Streets overlaid (miles)	5	9	8	11	18	13	18	12	11	9
Parks and recreation										
Softball participants	5,242	4,565	4,538	4,426	4,982	4,769	4,205	4,121	4,004	3,612
Soccer participants	2,928	2,940	2,949	3,012	3,058	2,947	2,939	2,983	2,785	2,602
Water and sewer										
Active accounts	37,780	37,396	36,192	36,180	34,738	34,564	33,394	32,075	30,760	29,891
Meters read	464,622	463,497	453,928	444,847	415,957	406,118	420,432	404,382	388,979	374,395
Water leaks repaired	581	465	483	437	576	815	711	763	696	703
Solid waste										
Recycling (tons)	5,302	5,215	5,533	5,901	7,795	5,754	5,190	4,905	4,678	4,318

Source: City of Fayetteville divisions

**City of Fayetteville, Arkansas
Miscellaneous Statistical Data
December 31, 2011**

Municipal water system:

Beaver Water District pumping capacity	140 mgd
Pumping capacity to Fayetteville	42.50 mgd
Average daily water use in 2011	13.55 mgd
Maximum day's water use in 2011	28 mgd
Water rates charged by Beaver Water District (per million gallons)	1.24 per 1000 gallons
Water users consuming more than 5% of water output in 2011:	
University of Arkansas	6.04%
Pinnacle foods	4.94%

Sewage treatment plant:

Nominal plant capacity for two plants	21.2 mgd
Average daily sewage flow in 2011	11.2 mgd

City's water rate structure
effective 1/1/2011

	Inside City	Outside City
First 2,000 gallons	\$2.61	\$3.00
2,001 to 15,000 gallons	3.46	3.98
15,001 gallons and over	4.89	5.62

City's sewer rate structure
effective 1/1/2011

	Usage per 1,000 Gallons
First 2,000 gallons	\$3.23
Greater than 2,000	4.31
Non-residential-all usage	3.28
Major industrial-all usage	3.5
All usage:	
Farmington	5.6
Greenland	6.09
Outside city	6.09

Water and sewer system:

2011 operating revenues	\$ 32,133,628
2011 bad debt expense	\$ 182,694
2011 bad debt percentage	0.57%
Cost of projected capital improvements for 2012	\$ 18,491,169

Independent Accountants' Report on Compliance With Arkansas State Requirements

The Honorable Mayor and Members of City Council
City of Fayetteville, Arkansas
Fayetteville, Arkansas

We have examined management's assertions that the City of Fayetteville, Arkansas complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas statutes during the year ended December 31, 2011.

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

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

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

In our opinion, the City of Fayetteville, Arkansas complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2011.

This report is intended solely for the information and use of the Audit Committee, Mayor, City Council, 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

June 25, 2012

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Single Audit Section

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

The Honorable Mayor and Members of the City Council
City of Fayetteville, Arkansas
Fayetteville, Arkansas

We have audited 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 Fayetteville, Arkansas as of and for the year ended December 31, 2011, which collectively comprise its basic financial statements and have issued our report thereon dated June 25, 2012, which contained an explanatory paragraph regarding a change in accounting principle. 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. The financial statements of the Fayetteville Public Library, a component unit included in the financial statements of the aggregate discretely presented component units, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

The Honorable Mayor and Members of the City Council
City of Fayetteville, Arkansas
Page 2

Compliance and Other Matters

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

We noted certain matters that we reported to the City's management in a separate letter dated June 25, 2012.

This report is intended solely for the information and use of the Audit Committee, Mayor, City Council, management, others within the City, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

June 25, 2012

Independent Accountants' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Honorable Mayor and Members of the City Council
City of Fayetteville, Arkansas
Fayetteville, Arkansas

Compliance

We have audited the compliance of the City of Fayetteville, Arkansas (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended December 31, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the compliance of the City of Fayetteville, Arkansas based on our audit.

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

In our opinion, the City of Fayetteville, Arkansas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

The management of the City of Fayetteville, Arkansas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB

Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Audit Committee, Mayor, City Council, management, others within the City, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

June 25, 2012

City of Fayetteville, Arkansas
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2011

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount
Federal Assistance:				
Airport Improvement Program	Department of Transportation	20.106	3-05-0020-038-2009	\$ 372,186
Airport Improvement Program	Department of Transportation	20.106	3-05-0020-039-2010	27,499
Airport Improvement Program	Department of Transportation	20.106	3-05-0020-040-2011	239,465
Highway Planning and Construction	Department of Transportation	20.205	AHTD Job 040518	58,952
Highway Planning and Construction	Department of Transportation	20.205	AHTD Job 040517	1,344,368
Highway Planning and Construction	Department of Transportation	20.205	AHTD Job 040505	317,496
Highway Planning and Construction	Department of Transportation	20.205	AHTD Job 040496	296,930
State and Community Highway Safety	Department of Transportation	20.600	K8-2011-08-06-11	71,623
State and Community Highway Safety	Department of Transportation	20.600	K8-2012-08-06-09	28,510
Recreational Trails Program	Department of Transportation	20.219	AHTD Job 040558	4,696
Job Access Reverse Commute	Department of Transportation	20.516	FL-95-X027	135,867
				<u>2,897,592</u>
Cooperative Forestry Assistance	Department of Agriculture	10.664	U&CF-IS-09-04	46,385
				<u>46,385</u>
ARRA Energy Efficiency & Conservation Block Grant	Department of Energy	81.128	DE-SC0002080	391,214
				<u>391,214</u>
Community Development Block Grant	Department of Housing and Urban Development	14.218	B-10-MC-0001	448,416
				<u>448,416</u>
Historic Preservation Fund Grant	Department of the Interior	15.904	09-CLG-03	539
				<u>539</u>
Federal Forfeitures	Department of Justice	16.000	none assigned	190,276
Public Safety Partnership and Community Policing Grant	Department of Justice	16.710	2008CKWX0306	444,268
Public Safety Partnership and Community Policing Grant	Department of Justice	16.710	2009CKWX0372	500,000
Public Safety Partnership and Community Policing Grant	Department of Justice	16.710	2010CKWX0205	750,000
ARRA - Edward Byrne Memorial Justice Assistance Grant	Department of Justice	16.803	ARRA-JAG JRA 10-314	17,118
Edward Byrne Memorial Justice Assistance Grant	Department of Justice	16.738	J 10-014	88,439
Edward Byrne Memorial Justice Assistance Grant	Department of Justice	16.738	J 11-014	78,342
Enforcing Underage Drinking Laws Program	Department of Justice	16.727	2008-AH-FX-002-IG08-08-10	13,976
Enforcing Underage Drinking Laws Program	Department of Justice	16.727	2010-AH-FX-0067-AR10-10-1	14,023
Missing Children's Assistance	Department of Justice	16.543	ICAC10-03	10,000
Forfeitures	Department of Justice	none	forfeitures	2,606
Edward Byrne Memorial Justice Assistance Grant	Department of Justice	16.738	2009-DJ-BX-0299	12,602
Edward Byrne Memorial Justice Assistance Grant	Department of Justice	16.738	2010-DJ-BX-0533	84,286
Edward Byrne Memorial Justice Assistance Grant	Department of Justice	16.738	2011-DJ-BX-2967	22,723
ARRA - Edward Byrne Memorial Justice Assistance Grant	Department of Justice	16.804	2009-SB-B9-2950	14,670
				<u>2,243,329</u>
Hazard Mitigation Assistance	Department of Homeland Security	97.039	FEMA 1516-DR-AR	377,606
Hazard Mitigation Assistance	Department of Homeland Security	97.039	FEMA 1975-DR-AR	78,084
				<u>455,690</u>
Gulf Coast High Intensity Drug Trafficking Area(OT)	Office of National Drug Control (Wash. Co Subrecipient)	08.17PGCP616Z	18PGCP616Z	18,136
Gulf Coast High Intensity Drug Trafficking Area(PEPI)	Office of National Drug Control (Wash. Co Subrecipient)	08.17PGCP616Z	18PGCP616Z	63,004
				<u>81,140</u>
Performance Partnership Grants	Environmental Protection Agency	66.605		5,571
Region Wetland Program Development Grant	Environmental Protection Agency	66.461	CD-00F08501-0	83,525
				<u>89,096</u>
Total Federal Assistance				<u>\$ 6,653,401</u>

City of Fayetteville, Arkansas
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2011

Notes to Schedule

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

2. Of the federal expenditures presented in this schedule, the City of Fayetteville, Arkansas provided federal awards to subrecipients as follows:

City of Fayetteville, Arkansas
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2011

	CFDA Number	Subrecipient	Amount Provided
Community Development Block Grant/Entitlement Grants	14.218	Elderly Taxicab Program	\$ 3,756
Community Development Block Grant/Entitlement Grants	14.218	CDBG Administration	85,319
Community Development Block Grant/Entitlement Grants	14.218	Administration	17,379
Community Development Block Grant/Entitlement Grants	14.218	Housing Rehab Program	189,967
Community Development Block Grant/Entitlement Grants	14.218	City of Fay Transportation Program	1,900
Community Development Block Grant/Entitlement Grants	14.218	City of Fay Taxi Program	8,812
Community Development Block Grant/Entitlement Grants	14.218	NWA Fay Senior Center Kitchen	34,009
Community Development Block Grant/Entitlement Grants	14.218	Transportation Program	3,340
Community Development Block Grant/Entitlement Grants	14.218	Fayetteville Animal Shelter	900
Community Development Block Grant/Entitlement Grants	14.218	Sang Bldg	7,404
Community Development Block Grant/Entitlement Grants	14.218	Garland Improvements	15,841
Community Development Block Grant/Entitlement Grants	14.218	City of Fay Redevelopment Program	13,242
Community Development Block Grant/Entitlement Grants	14.218	Redevelopment Projects	2,788
Community Development Block Grant/Entitlement Grants	14.218	Peace at Home Family Shelter	6,044
Community Development Block Grant/Entitlement Grants	14.218	Big Brothers, Big Sisters	8,500
Community Development Block Grant/Entitlement Grants	14.218	Credit Counseling of AR	13,540
Community Development Block Grant/Entitlement Grants	14.218	Life Source Summer Camp	14,875
Community Development Block Grant/Entitlement Grants	14.218	Fayetteville Public Library	2,379
Community Development Block Grant/Entitlement Grants	14.218	Life Styles	11,957
Community Development Block Grant/Entitlement Grants	14.218	U of A Medical School AHEC	6,465
			<u>\$ 448,417</u>

City of Fayetteville, Arkansas
Schedule of Expenditures of State Awards
Year Ended December 31, 2011

Granting Agency/Grant Program	Grant or Identifying Number	Amount
State Assistance:		
Dept. of Aeronautics		
Dept of Aero- State Airport Aid Grant (SAAG on AIP38)	N/A	\$ 18,881
Dept of Aero- State Airport Aid Grant (SAAG on AIP39)	N/A	1,655
Dept of Aero- State Airport Aid Grant (SAAG on AIP40)	N/A	12,603
Dept of Aero- State Airport Aid Grant (SAAG only) (Security Improvement)	2914-10	102,954
		<u>136,093</u>
AR Dept. of Emergency Management		
Act 833 (turnback of Fire insurance premiums)	N/A	71,121
		<u>71,121</u>
AR Economic Development Commission		
NWACC Training Equip. Grant (GIF)	N/A	52,668
		<u>52,668</u>
Federal Emergency Management Agency		
Public Assistance Grant (Lake Wilson)	FEMA 1516-DR-AR	55,209
		<u>55,209</u>
AR State Police		
STEP Grant	K8-2012-08-06-09	13,491
AR State Police Grant Vehicle	none	19,302
AR State Police DTF Grant	none	38,604
AR State Police Trunking Radio Grant	none	36,000
Drug Law Enforcement Program	J-10.014	17,706
Drug Law Enforcement Program	J 11-014	15,552
		<u>140,655</u>
Total State Assistance		<u><u>\$ 455,746</u></u>

City of Fayetteville, Arkansas
Schedule of Findings and Questioned Costs
Year Ended December 31, 2011

Summary of Auditor's Results

1. The opinion(s) expressed in the independent accountants' report was (were):
(Check each description that applies)

 Unqualified Qualified Adverse Disclaimed

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

Significant deficiency(ies)? Yes No

Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent accountants' report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:

Significant deficiency(ies)? Yes No

Material weakness(es)? Yes No

5. The opinion(s) expressed in the independent accountants' report on compliance with requirements that could have a direct and material effect on major federal awards was (were):
(Check each description that applies. If any other than unqualified apply, also list the name of each major program by the type of opinion applicable to that program.)

 Unqualified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

City of Fayetteville, Arkansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2011

7. The City's major programs were:

Cluster/Program	CFDA Number
Public Safety Partnership and Community Policing Grant	16.710
ARRA JAG Cluster	16.738, 16.803 and 16.804
ARRA Energy Efficiency & Conservation Block Grant	81.128

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

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

City of Fayetteville, Arkansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2011

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

City of Fayetteville, Arkansas
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2011

Reference Number	Summary of Finding	Status
	No matters are reportable.	