

City of Texarkana, Arkansas

Comprehensive Annual Financial Report

For the Year Ended December 31, 2011

Finance Department

Jessica Hyman
Finance Director

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City of Texarkana, Arkansas
Year Ended December 31, 2011

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Introductory Section

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CITY OF TEXARKANA, ARKANSAS
DEPARTMENT OF FINANCE
P.O. Box 2711 - Texarkana, Arkansas 75504
Phone (870) 779-4989 - Fax (870) 772-8182

Honorable Mayor and Members
of the Board of Directors
City of Texarkana, Arkansas

The Comprehensive Annual Financial Report (CAFR) of the City of Texarkana, Arkansas (the City) for the year ended December 31, 2011, is submitted in accordance with State statutes. These statutes require that every general-purpose local government publish at the close of each fiscal year a complete set of audited financial statements.

The report is published to provide the Board of Directors, City staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

BKD, LLP has issued an unqualified opinion on the City of Texarkana, Arkansas' financial statements for the year ended December 31, 2011. The independent accountants' report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent accountants' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A compliments this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of Texarkana, Arkansas was founded in 1873 and incorporated in 1880 and is located on the Arkansas - Texas state line in the southwest corner of the State of Arkansas. The City is 28 miles south of Oklahoma and 25 miles north of the Louisiana boundary line. The City currently occupies a land area of 42 square miles and serves a population of 29,919. The City of Texarkana, Arkansas is empowered to levy a property tax on real 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 Board of Directors.

The City of Texarkana, Arkansas operates under the city manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and six other members. The Board of Directors is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the City's manager and attorney. The City Manager is responsible for carrying out the policies and ordinances of the Board of Directors, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The Board of Directors is elected on a non-partisan basis. Board Directors serve four-year staggered terms with three

directors elected every two years. The mayor is elected to serve a four-year term. The six directors are elected by ward. The mayor is elected at large.

The City of Texarkana, Arkansas provides a full range of services, including police and fire protection; sanitation services; the construction and maintenance of highways, streets, and infrastructure; recreational activities and cultural events; education; health and social services; planning and zoning; and general administrative services. Water and sewer distribution and collection activities are provided by Texarkana Water Utilities (TWU). The Arkansas activity of the Texarkana Water Utilities is accounted for as if it were part of the operations of the primary government. Texarkana, Arkansas Water Utilities is not a legally separate entity from the City. The Texarkana, Arkansas Water Utilities is included as an enterprise fund of the City with its fiscal year end of September 30, 2011.

The City of Texarkana, Arkansas is also financially accountable for a legally separate Retired and Senior Volunteer Program and legally separate Advertising and Promotion Commission, both of which are reported separately within the City of Texarkana, Arkansas' financial statements.

Local Economy

Texarkana's economy relies on an industrial base that is strong and broadly diversified. Throughout the history of Texarkana, manufacturing employment has grown steadily with approximately 80% of the new jobs coming from expansions of existing industry and 20% from new plants. Employers such as Red River Army Depot, Cooper Tire & Rubber Co., International Paper, and Domtar, Inc. have plants in the Texarkana area. These employers draw their workers from a population of more than 200,000 within a 30-mile radius of Texarkana. Once Interstate 49 connecting Shreveport, Louisiana, and Kansas City, Missouri, is complete, Texarkana will be a part of interstates connecting Canada, the United States, and Mexico (I-49 and I-69). In addition, Texarkana is served by the Union Pacific and Kansas City Southern railroads and the Texarkana Regional Airport, a full-service commercial facility.

Relevant Financial Policies

The City's financial policies set forth the basic framework for the fiscal management of the City. These include policies for accounting, budgeting, capital improvements, asset management, revenue management, risk management, and fund balance/reserve levels. These policies were developed within the parameters established by applicable provisions of the Arkansas State Statutes and the City of Texarkana, Arkansas City Charter. The policies are to be reviewed on an annual basis and modified to accommodate changing circumstances or conditions.

The City's accounting records for general government activities are maintained on a modified accrual basis, with revenues being recorded when available and measurable, and expenditures being recorded when the services of goods are received and the liabilities are incurred. Accounting records for the City's water and sewer utility and other proprietary activities are maintained on an accrual basis.

The annual budget serves as the foundation for the City of Texarkana, Arkansas' financial planning and control. All agencies of the City of Texarkana, Arkansas are required to submit requests for appropriation to the City Manager. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the Board of Directors for review prior to December 1. Prior to February 1, the budget is legally enacted through passage of a resolution. The appropriated budget is prepared by fund, function (e.g., public safety), and department, (e.g., police). The City Manager may make transfers of appropriations between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors. The City Charter prohibits budgeting total proposed expenditures in excess of total anticipated revenues and any unencumbered funds from prior years. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget

has been adopted. For the General Fund and the Public Works Fund, this comparison is presented as part of the basic financial statements for the governmental funds. For governmental funds, other than the General Fund and the Public Works Funds, with appropriated annual budgets, this comparison is presented in the supplementary information section of this report.

Awards and Acknowledgements

Awards: The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Texarkana, Arkansas for its comprehensive annual financial reports (CAFR) for the fiscal year ended December 31, 2010. In order to be awarded a Certificate of Achievement, the government has to publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements: The preparation of this report would not have been made 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 must also be given to the Board of Directors for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectively submitted,



Jessica Hyman

Jessica Hyman
Finance Director

July 30, 2012

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Texarkana
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

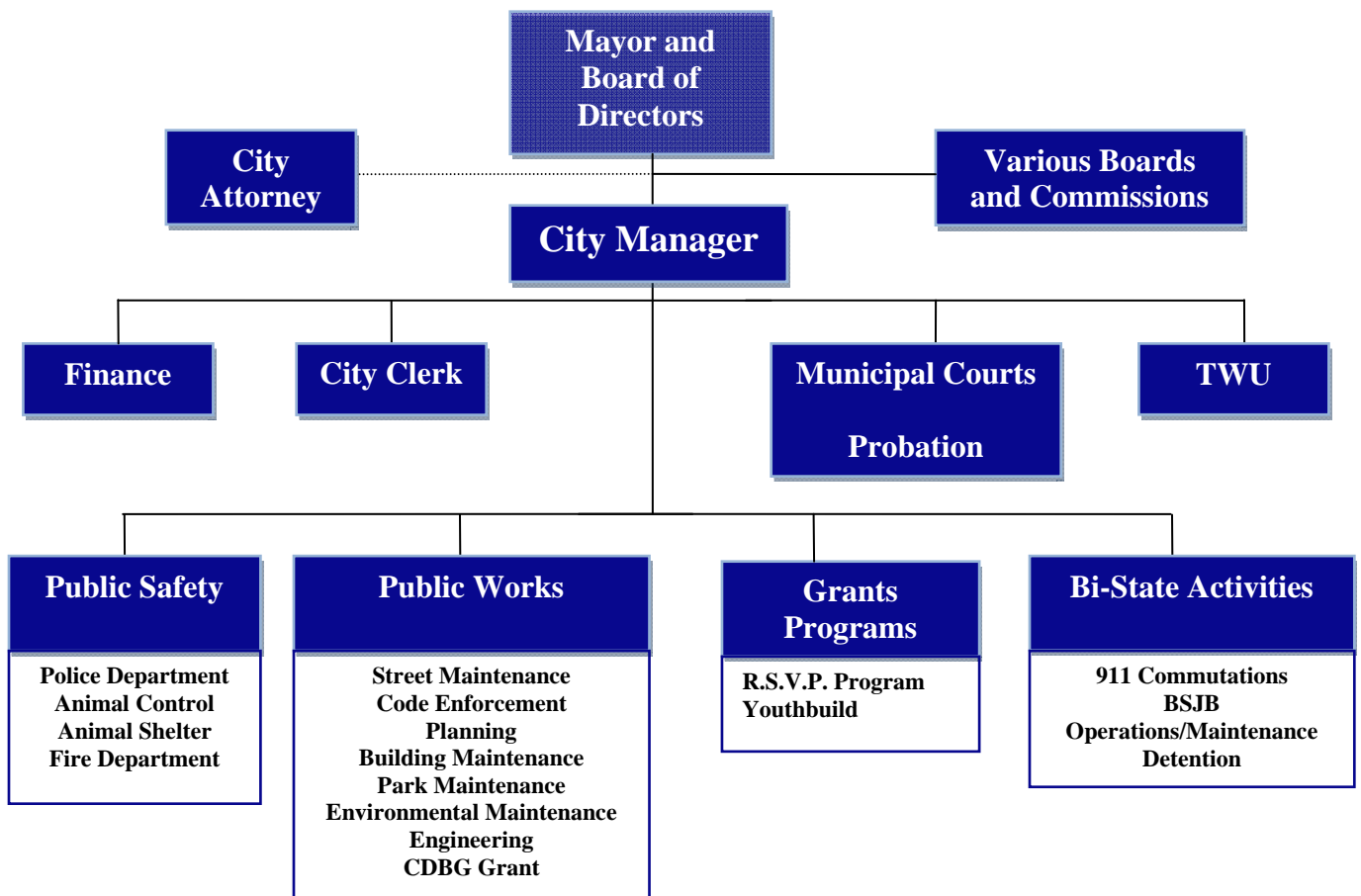
President

Jeffrey R. Emer

Executive Director



CITY OF TEXARKANA, ARKANSAS ORGANIZATIONAL CHART



City of Texarkana, Arkansas

Elected Officials:

N. Wayne Smith	Mayor
James Mike Jones	Assistant Mayor, Director – Ward 5
Ruth Penney Davis	Director – Ward 1
Laney J. Harris	Director – Ward 2
Londell Williams	Director – Ward 3
Chad Dowd	Director – Ward 4
Sue Johnson	Director – Ward 6
Wren Autrey	District Court Judge

Appointed Officials:

Harold E. Boldt	City Manager
Ned Stewart	City Attorney

Financial Section

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Independent Accountants' Report on Financial Statements and Supplementary Information

Honorable Mayor, City Manager
and Members of the Board of Directors
City of Texarkana, Arkansas

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Texarkana, 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 did not audit the financial statements of Texarkana, Arkansas Water Utilities, enterprise funds of the City, which statements reflect total assets and operating revenues of \$58,713,782 and \$10,264,791, respectively, and represent 100% of the business-type activities' total assets and operating revenues, respectively, at September 30, 2011 and for the year then ended. We did not audit the financial statements of Texarkana Airport Authority, a joint venture of the City. The City's investment in Texarkana Airport Authority reported at December 31, 2011 is \$11,702,996 which includes a current year increase of \$482,003. The financial statements of these entities were audited by other accountants whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for such entities, is based solely on the reports of the other accountants.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other accountants provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other accountants, 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 Texarkana, 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 and public works funds 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, during the year ended December 31, 2011, the City changed its method of reporting 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 July 30, 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 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, budgetary comparison 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 subjected 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

July 30, 2012

City of Texarkana, Arkansas

Management's Discussion and Analysis

December 31, 2011

As management of the City of Texarkana, Arkansas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

- The assets of the City of Texarkana, Arkansas exceeded its liabilities at the close of the most recent fiscal year by \$66,270,593 (net assets). Of this amount, \$19,254,814 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$1,023,586.
- As of the close of the current fiscal year, the City of Texarkana, Arkansas' governmental funds reported combined ending fund balances of \$8,751,869.
- At the end of the current fiscal year, unassigned fund balance was \$2,987,374.

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 City's net assets changed during the fiscal year. All changes in net assets are reported when 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 the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from 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, police department, fire department, protective inspection, public works, public service, health, culture and recreation, and administrative and general. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City of Texarkana, Arkansas itself (known as the primary government), but also a legally separate Retired and Senior Volunteer Program and legally separate Advertising and Promotion Commission for which the City of Texarkana, Arkansas is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

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

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on 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 funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 20 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Public Works Fund, both of which are considered to be major funds. Data from the other 18 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major 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 and Public Works Fund. Budgetary comparison statements have been provided for the General fund and the Public Works fund to demonstrate compliance with this budget.

Proprietary Funds - The City maintains three enterprise 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 operations.

Proprietary funds 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 Texarkana, Arkansas Water Utilities and the Texarkana, Arkansas Union Water Utilities since they are considered to be major funds of the City. Individual fund data for the non-major proprietary fund is provided in the proprietary funds statements.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Texarkana, Arkansas' own programs.

The accounting used for fiduciary funds is much like that used for proprietary funds. The City maintains 4 pension trust funds and 3 agency funds. Individual fund data for each of these funds is provided in the form of combining statements elsewhere in 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.

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 to its employees.

The combining statements referred to earlier in connection with non-major governmental funds and fiduciary funds are presented following the required supplementary information on pensions.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Texarkana, Arkansas, assets exceeded liabilities by \$66,270,593 as of December 31, 2011. The largest portion of the City's net assets, 62.30% (\$41,287,389), reflects its investments in capital assets (e.g., land, buildings, improvements other than buildings, machinery and equipment, infrastructure, water rights and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. An additional portion of the City's net assets represents resources that are subject to restriction on how they may be used. The remaining balance of unrestricted net assets, \$19,254,814, may be used to meet the government's ongoing obligation to citizens and creditors.

Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets represents resources that are subject to restriction on how they may be used. The remaining balance of unrestricted net assets, \$19,254,814, may be used to meet the government's ongoing obligation to citizens and creditors.

City of Texarkana, Arkansas'
Net Position

	Governmental		Business-type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 27,669,059	\$ 27,686,324	\$ 10,373,413	\$ 8,095,204	\$ 38,042,472	\$ 35,781,528
Capital assets	26,173,599	26,340,973	43,231,332	44,251,067	69,404,931	70,592,040
Other assets	318,120	583,574	5,109,037	5,326,537	5,427,157	5,910,111
Total assets	54,160,778	54,610,871	58,713,782	57,672,808	112,874,560	112,283,679
Long-term liabilities outstanding	26,446,624	25,888,714	14,845,068	15,633,445	41,291,692	41,522,159
Other liabilities	2,698,567	3,159,791	2,613,708	2,354,722	5,312,275	5,514,513
Total liabilities	29,145,191	29,048,505	17,458,776	17,988,167	46,603,967	47,036,672
Net assets:						
Invested in capital assets, net of related debt	13,405,075	12,850,864	27,882,314	28,029,483	41,287,389	40,880,347
Restricted	2,406,273	2,225,926	3,322,117	2,442,605	5,728,390	4,668,531
Unrestricted	9,204,239	10,485,576	10,050,575	9,212,553	19,254,814	19,698,129
Total net assets	\$ 25,015,587	\$ 25,562,366	\$ 41,255,006	\$39,684,641	\$ 66,270,593	\$ 65,247,007

As of December 31, 2011, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate category of governmental and business-type activities.

Analysis of the City's Operations - The following table provides a summary of the City's operations for the year ended December 31, 2011. Governmental activities decreased the City's net assets by \$546,779. From 2010 to the 2011 revenues decreased by \$877,569 and expenses decreased by \$2,065,280. The overall decrease in revenues can be directly related to a decrease in federal grant funds received. While the current recession had an impact on the City of Texarkana, Arkansas, management was able to take various actions (e.g., reducing nonrecurring expenses) that neutralized its effect on governmental activities. Business-type activities increased the City's net assets by \$1,570,365. For the business type activities the revenues from 2010 to 2011 increased by \$39,371 and expenses from 2010 to 2011 increased by \$196,765.

City of Texarkana, Arkansas'
Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues:						
Charges for services	\$ 5,444,642	\$ 5,416,351	\$ 10,264,791	\$ 10,141,700	\$ 15,709,433	\$ 15,558,051
Operating grants and contributions	4,722,269	4,423,291	-	-	4,722,269	4,423,291
Capital grants and contributions	1,028,843	2,246,130	78,337	43,157	1,107,180	2,289,287
General revenues:						
Property taxes	3,102,615	3,453,940	-	-	3,102,615	3,453,940
Other taxes	11,516,517	11,280,675	-	-	11,516,517	11,280,675
Other revenue	309,452	181,520	55,995	174,895	365,447	356,415
Total revenues	<u>26,124,338</u>	<u>27,001,907</u>	<u>10,399,123</u>	<u>10,359,752</u>	<u>36,523,461</u>	<u>37,361,659</u>
Expenses:						
General government	2,619,263	2,085,755	-	-	2,619,263	2,085,755
Police department	7,644,104	12,410,163	-	-	7,644,104	12,410,163
Fire department	4,493,231	5,626,796	-	-	4,493,231	5,626,796
Other public safety	3,869,368	-	-	-	3,869,368	-
Protective inspection	467,210	467,872	-	-	467,210	467,872
Public works	5,697,414	5,723,499	-	-	5,697,414	5,723,499
Public services	15,381	6,518	-	-	15,381	6,518
Health	361,460	347,763	-	-	361,460	347,763
Culture and recreation	825,434	895,119	-	-	825,434	895,119
Interest on long-term debt	678,252	1,172,912	-	-	678,252	1,172,912
Water and sewer	-	-	8,828,758	8,631,993	8,828,758	8,631,993
Total expenses	<u>26,671,117</u>	<u>28,736,397</u>	<u>8,828,758</u>	<u>8,631,993</u>	<u>35,499,875</u>	<u>37,368,390</u>
Increase (decrease) in net assets	(546,779)	(1,734,490)	1,570,365	1,727,759	1,023,586	(6,731)
Net assets - beginning of year	<u>25,562,366</u>	<u>27,296,856</u>	<u>39,684,641</u>	<u>37,956,882</u>	<u>65,247,007</u>	<u>65,253,738</u>
Net assets - end of year	<u>\$25,015,587</u>	<u>\$25,562,366</u>	<u>\$ 41,255,006</u>	<u>\$ 39,684,641</u>	<u>\$ 66,270,593</u>	<u>\$ 65,247,007</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

At the end of the current fiscal year, the City of Texarkana, Arkansas' governmental funds reported combined ending fund balances of \$8,751,869.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance in the General fund was \$2,991,764. Unassigned fund balance represents approximately 17.84% of the total General fund expenditures.

For the City's General Fund, from 2010 to 2011, total revenue increased by 2.21% and total expenditures decreased by 4.27%. The City's General fund balance decreased by \$395,800 and resulted in an ending fund balance of \$3,640,660.

For the City's Public Works Fund, from 2010 to 2011, total revenue increased by 3.57%, total expenditures increased by 3.46% and the change in total revenue over total expenditures increased by 5.80%. Therefore, the Public Works Fund reported a net increase and change in fund balance of \$47,127, which resulted in an ending fund balance of \$423,537. This is a result of an increase in grant revenue and capital outlay expenditures.

The other non-major governmental fund balances decreased by \$521,379 resulting in an ending balance of \$4,687,672.

Proprietary funds - The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of Texarkana, Arkansas Water Utilities at the end of the year amounted to \$9,685,871. Unrestricted net assets of Texarkana, Arkansas Union Water Utilities at the end of the year amounted to \$308,341. The total growth in net assets for Texarkana, Arkansas Water Utilities was \$1,467,314. The increase in net assets for Texarkana, Arkansas Union Water Utilities was \$91,519. Growth in net assets is attributable to the dry conditions throughout the summer.

The non-major proprietary fund balance increased by \$11,532 to an ending balance of \$96,851.

General Fund Budgetary Highlights

The City made revisions to the original appropriations approved by the Board of Directors. Overall actual results reflected a net decrease and negative change in fund balance of \$395,800 or ending fund balance of \$3,640,660. Significant variances between the final amended budget and actual results occurred as a result of various factors. The variance in property tax collections can be contributed to a delay in the timing of property tax payments while the increase in sales tax collections is a result of growth in economic development. Due to the Police Department's elimination of nonrecurring expenditures as well as their budget conscious approach to spending, their expenditures were under budget by \$204,134 for 2011. Other Public Safety expenditures exceeded the final amount budgeted because the contribution to the Bi State Justice Center was more than expected. This is partially due to the actual number of inmates housed at the Center that may vary from year to year. The large variance in Capital Outlay and Other Financing Sources is primarily due to debt that has been re-appropriated to 2012.

Capital Assets

The City of Texarkana, Arkansas' investment in capital assets for its governmental and business-type activities as of December 31, 2011, amounts to \$69,404,931 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, property under capital leases, water rights and construction in progress.

Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 2,563,907	\$ 2,563,907	\$ 798,585	\$ 795,037	\$ 3,362,492	\$ 3,358,944
Buildings	7,589,078	8,040,598	1,604,889	1,672,448	9,193,967	9,713,046
Improvements other than buildings	855,098	817,921	26,668,013	27,223,715	27,523,111	28,041,636
Machinery and equipment	2,152,195	2,195,635	1,724,740	1,666,578	3,876,935	3,862,213
Infrastructure	10,607,115	6,853,910	-	-	10,607,115	6,853,910
Property under capital lease	-	-	12,155,796	12,624,713	12,155,796	12,624,713
Water rights	-	-	-	14,039	-	14,039
Construction in progress	2,406,206	5,869,002	279,309	254,537	2,685,515	6,123,539
Total	<u>\$ 26,173,599</u>	<u>\$ 26,340,973</u>	<u>\$ 43,231,332</u>	<u>\$ 44,251,067</u>	<u>\$ 69,404,931</u>	<u>\$ 70,592,040</u>

Additional information on the City of Texarkana, Arkansas' capital assets can be found in *Note 3* of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the governmental activities of the City of Texarkana, Arkansas had total bonded debt of \$15,170,000. Of this amount, \$1,660,000 comprises bonded debt backed by the full faith and credit of the government, \$13,510,000 represents bonds secured solely by franchise fees charged to public utilities for the privilege of using the City's streets and right-of-ways. Business-type activities of \$15,245,457, represents bonds secured solely by water and sewer revenues.

General Obligation and Revenue Bonds

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General obligation bonds	\$ 1,660,000	\$ -	\$ 1,660,000
Revenue bonds	<u>13,510,000</u>	<u>15,245,457</u>	<u>28,755,457</u>
Total	<u>\$ 15,170,000</u>	<u>\$ 15,245,457</u>	<u>\$ 30,415,457</u>

The City has a rating A- from Standard and Poor's for general obligation bonds and rating A1 from Moody's Investors Service for revenue bonds.

Additional information of the City of Texarkana, Arkansas' long term obligations can be found in *Note 5* of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City General Fund 2012 budget continued with expenditure trends that outstrip revenue growth. If these trends continue, then General fund balances will decrease beyond reasonable levels. Since 1996, the City has maintained civil service "pay parity" with the Texas-side of Texarkana through the collection of a special .25% sales tax for both the Police and Fire departments. However, depending upon the definition of "pay parity" (maintaining salaries equal to counterparts across the state line in order to retain qualified officers), the cost of awarding annual COLAs at rates predetermined by the other city is expected to eventually exceed the tax revenue collected for that purpose. Because the cost of public service personnel is by far the largest component of the General Fund budget, this matter will continue to be a significant budget issue for 2012 and beyond. In addition, the costs of jointly operating the Bi-State Justice Center with other agencies continue to rise. During 2012, the Finance Department will continue a process of developing a Financial Trends and a Long Range Forecasting System that improves Financial Analysis for the City.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the City's finances. If you have questions about this report or need any additional information, contact the Finance Department, Attn: Jessica Hyman, Finance Director, at P.O. Box 2711, Texarkana, Arkansas 75504, call 870-779-4954, or email jessica.hyman@txkusa.org.

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Basic Financial Statements

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

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	RSVP	Arkansas Advertising & Promotion
Assets					
Cash	\$ 7,251,268	\$ 1,671,080	\$ 8,922,348	\$ 4,354	\$ 850,862
Investments	1,023,434	560,056	1,583,490	-	272,227
Accounts receivable, net of allowance					
Property taxes	3,554,780	-	3,554,780	-	-
Accounts	302,222	1,802,019	2,104,241	-	-
Other government agencies	2,038,492	437,633	2,476,125	5,760	-
Accrued interest	-	404	404	-	-
Other	54,074	-	54,074	2	107,901
Due from primary government	-	-	-	-	78,503
Due from component units	14	-	14	-	-
Inventories	-	578,027	578,027	-	-
Prepaid items	312,426	10,666	323,092	228	-
Restricted assets					
Cash	-	3,324,208	3,324,208	-	-
Investments	-	164,894	164,894	-	-
Accounts receivable	-	78,337	78,337	-	-
Deferred charges	-	1,427,564	1,427,564	-	-
Net investment in direct financing lease:					
Due within one year	-	318,525	318,525	-	-
Due in more than one year	-	5,109,037	5,109,037	-	-
Investment in joint venture	13,132,349	-	13,132,349	-	-
Capital assets (net of accumulated depreciation)	26,173,599	43,231,332	69,404,931	-	-
Net pension assets	318,120	-	318,120	-	-
	<u>\$ 54,160,778</u>	<u>\$ 58,713,782</u>	<u>\$ 112,874,560</u>	<u>\$ 10,344</u>	<u>\$ 1,309,493</u>
Total assets					

	Primary Government			Component Units	
	Governmental	Business-Type	Total	RSVP	Arkansas
	Activities	Activities			Advertising & Promotion
Liabilities					
Accounts payable	\$ 762,710	\$ 471,922	\$ 1,234,632	\$ 730	\$ 17,488
Construction contracts payable	-	77,743	77,743	-	-
Accrued liabilities	468,994	247,900	716,894	2,086	-
Due to other governments	285,670	25,602	311,272	-	-
Due to fiduciary funds	722,606	-	722,606	-	-
Due to primary government	-	-	-	14	-
Due to component units	78,503	-	78,503	-	-
Customer deposits	-	521,429	521,429	-	-
Capital improvement deposits	-	207,019	207,019	-	-
Other liabilities	1,185	34,120	35,305	-	-
Long-term liabilities					
Due within one year:					
Bonds payable	320,000	971,668	1,291,668	-	-
Obligations under capital leases	-	43,495	43,495	-	-
Accrued compensated absences	58,899	12,810	71,709	-	-
Due in more than one year					
Bonds payable	14,850,000	14,273,789	29,123,789	-	-
Obligations under capital leases	-	60,063	60,063	-	-
Accrued compensated absences	2,033,241	182,401	2,215,642	-	-
Net pension and other post-employment obligations	9,563,383	328,815	9,892,198	-	-
Total liabilities	29,145,191	17,458,776	46,603,967	2,830	17,488
Net Assets					
Invested in capital assets, net of related debt	13,405,075	27,882,314	41,287,389	-	-
Restricted					
General administration	92,050	-	92,050	-	-
Police department	9,192	-	9,192	-	-
Fire department	110,312	-	110,312	-	-
Public works	497	-	497	-	-
Construction	-	1,440,259	1,440,259	-	-
Capital maintenance	-	740,151	740,151	-	-
Culture and recreation	68,681	-	68,681	-	1,292,005
Debt service	2,125,541	1,141,707	3,267,248	-	-
Unrestricted	9,204,239	10,050,575	19,254,814	7,514	-
Total net assets	\$ 25,015,587	\$ 41,255,006	\$ 66,270,593	\$ 7,514	\$ 1,292,005

City of Texarkana, Arkansas
Statement of Activities
Year Ended December 31, 2011

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets							
	Expenses	Program Revenues			Primary Government			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Arkansas Advertising & Promotion
Primary Government							RSVP	
Governmental Activities								
General administration	\$ 2,619,263	\$ 529,048	\$ 1,255,314	\$ 841,402	\$ 6,501	\$ -	\$ 6,501	
Police department	7,644,104	810,666	690,925	-	(6,142,513)	-	(6,142,513)	
Fire department	4,493,231	1,900	5,882	-	(4,485,449)	-	(4,485,449)	
Other public safety	3,869,368	-	1,501	-	(3,867,867)	-	(3,867,867)	
Protective inspection	467,210	-	-	-	(467,210)	-	(467,210)	
Public works	5,697,414	4,066,545	1,590,053	-	(40,816)	-	(40,816)	
Public service	15,381	36,483	1,110,311	187,441	1,318,854	-	1,318,854	
Health and welfare	361,460	-	-	-	(361,460)	-	(361,460)	
Culture and recreation	825,434	-	68,283	-	(757,151)	-	(757,151)	
Interest on long-term debt	678,252	-	-	-	(678,252)	-	(678,252)	
Total governmental activities	<u>26,671,117</u>	<u>5,444,642</u>	<u>4,722,269</u>	<u>1,028,843</u>	<u>(15,475,363)</u>	<u>-</u>	<u>(15,475,363)</u>	
Business-Type Activities								
Water and sewer	8,828,758	10,264,791	-	78,337	-	1,514,370	1,514,370	
Total business-type activities	<u>8,828,758</u>	<u>10,264,791</u>	<u>-</u>	<u>78,337</u>	<u>-</u>	<u>1,514,370</u>	<u>1,514,370</u>	
Total primary government	<u>\$ 35,499,875</u>	<u>\$ 15,709,433</u>	<u>\$ 4,722,269</u>	<u>\$ 1,107,180</u>	<u>(15,475,363)</u>	<u>1,514,370</u>	<u>(13,960,993)</u>	

Functions/Programs Primary Government	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		RSVP	Arkansas Advertising & Promotion	
					Governmental Activities	Business-Type Activities			Total
Component Units									
RSVP	\$ 170,956	\$ -	\$ 169,356				\$ (1,600)	\$ -	
Arkansas Advertising & Promotion	927,606	-	-				-	(927,606)	
Total component units	<u>\$ 1,098,562</u>	<u>\$ -</u>	<u>\$ 169,356</u>				<u>(1,600)</u>	<u>(927,606)</u>	
General revenues									
Property taxes				3,102,615	-	3,102,615	-	-	
Sales taxes				8,751,952	-	8,751,952	-	-	
Franchise taxes				2,688,227	-	2,688,227	-	-	
Other taxes				76,338	-	76,338	-	1,073,856	
Unrestricted investment earnings				14,105	318,080	332,185	-	2,638	
Gain (loss) on sale of capital assets				47,145	(7,050)	40,095	-	-	
Miscellaneous				248,202	-	248,202	5	-	
Transfers				-	(255,035)	(255,035)	-	-	
Total general revenues and transfers				<u>14,928,584</u>	<u>55,995</u>	<u>14,984,579</u>	<u>5</u>	<u>1,076,494</u>	
Change in Net Assets				(546,779)	1,570,365	1,023,586	(1,595)	148,888	
Net Assets, Beginning of Year				<u>25,562,366</u>	<u>39,684,641</u>	<u>65,247,007</u>	<u>9,109</u>	<u>1,143,117</u>	
Net Assets, End of Year				<u>\$ 25,015,587</u>	<u>\$ 41,255,006</u>	<u>\$ 66,270,593</u>	<u>\$ 7,514</u>	<u>\$ 1,292,005</u>	

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

	<u>General</u>	<u>Public Works</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash	\$ 2,227,925	\$ 359,724	\$ 4,663,619	\$ 7,251,268
Investments	1,023,434	-	-	1,023,434
Receivables				
Property taxes, net of allowance for uncollectible accounts of \$127,265	2,332,128	56,482	1,166,170	3,554,780
Accounts	302,222	-	-	302,222
Other government agencies	1,251,143	463,588	323,761	2,038,492
Other	52,645	449	980	54,074
Due from other funds	44,183	22,262	154,035	220,480
Due from component units	14	-	-	14
Prepaid items	276,177	35,853	396	312,426
	<u>\$ 7,509,871</u>	<u>\$ 938,358</u>	<u>\$ 6,308,961</u>	<u>\$ 14,757,190</u>
Total assets				
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 111,138	\$ 410,407	\$ 241,165	\$ 762,710
Accrued liabilities	204,624	26,862	926	232,412
Due to other governments	285,439	231	-	285,670
Due to other funds	875,277	24,248	43,561	943,086
Due to component units	78,303	-	200	78,503
Deferred revenue	2,314,430	51,888	1,335,437	3,701,755
Other liabilities	-	1,185	-	1,185
	<u>3,869,211</u>	<u>514,821</u>	<u>1,621,289</u>	<u>6,005,321</u>
Total liabilities				
Fund Balances				
Nonspendable				
Prepaid items	276,177	35,853	396	312,426
Restricted				
General administration	-	-	92,050	92,050
Police department	-	-	9,192	9,192
Fire department	-	-	110,312	110,312
Public works	-	-	2,393,130	2,393,130
Debt service	-	-	1,567,579	1,567,579
Culture and recreation	-	-	2,358	2,358
Committed				
Public works	-	194,023	-	194,023
Culture and recreation	13,855	-	-	13,855
Assigned				
General administration	-	-	156,683	156,683
Police department	164,470	-	287,796	452,266
Fire department	-	-	10,000	10,000
Public works	194,394	193,661	62,566	450,621
Unassigned	2,991,764	-	(4,390)	2,987,374
	<u>3,640,660</u>	<u>423,537</u>	<u>4,687,672</u>	<u>8,751,869</u>
Total fund balances				
Total liabilities and fund balances	<u>\$ 7,509,871</u>	<u>\$ 938,358</u>	<u>\$ 6,308,961</u>	<u>\$ 14,757,190</u>

See Notes to Financial Statements

Total fund balances - total governmental funds \$ 8,751,869

Amounts reported for the 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. 26,173,599

Net pension assets are not available to pay for current-period expenditures and, therefore are not reported in the funds. 318,120

The City's equity investment in joint venture is not a financial resource and is, therefore, not reported in the funds. 13,132,349

Other long-term assets, such as property tax and grant receivables, are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 3,701,755

Long-term liabilities are not due and payable in the current period and, therefore, are not report in the funds. Those liabilities are as follows:

Accrued interest payable (236,582)

Accrued compensated absences (2,092,140)

Net pension and other post-employment obligations (9,563,383)

Bonds payable (15,170,000)

Total net assets - governmental activities \$ 25,015,587

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

	General	Public Works	Other Governmental Funds	Total
Revenues				
Property taxes	\$ 2,011,201	\$ 90,613	\$ 1,030,994	\$ 3,132,808
Sales taxes	8,751,952	-	-	8,751,952
Other taxes	76,338	-	-	76,338
Utility franchise	2,688,227	-	-	2,688,227
Licenses and permits	41,785	141,719	-	183,504
Fines, forfeitures and penalties	729,624	-	44,525	774,149
Charges for services	391,311	3,826,132	-	4,217,443
Grants and entitlements	588,434	168,037	912,710	1,669,181
Intergovernmental	1,500,003	1,401,814	60,603	2,962,420
Investment income	6,737	702	6,666	14,105
Miscellaneous	206,186	147,173	139,758	493,117
	<u>16,991,798</u>	<u>5,776,190</u>	<u>2,195,256</u>	<u>24,963,244</u>
Expenditures				
Current:				
General government	2,204,064	-	240,622	2,444,686
Police department	6,967,050	-	-	6,967,050
Fire department	4,303,165	-	-	4,303,165
Other public safety	2,607,739	-	210,000	2,817,739
Protective inspection	-	428,681	-	428,681
Public works	-	4,264,964	70,372	4,335,336
Public services	-	-	14,869	14,869
Health and welfare	321,430	-	-	321,430
Culture and recreation	52,299	293,878	367,611	713,788
Capital outlay	242,552	498,938	1,153,177	1,894,667
Debt service:				
Principal retirement	70,337	-	760,000	830,337
Interest and fiscal charges	3,049	-	758,499	761,548
	<u>16,771,685</u>	<u>5,486,461</u>	<u>3,575,150</u>	<u>25,833,296</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>220,113</u>	<u>289,729</u>	<u>(1,379,894)</u>	<u>(870,052)</u>
Other Financing Sources (Uses)				
Transfers in	309,630	47,073	878,919	1,235,622
Transfers out	(925,543)	(289,675)	(20,404)	(1,235,622)
	<u>(615,913)</u>	<u>(242,602)</u>	<u>858,515</u>	<u>-</u>
Net Change in Fund Balances	(395,800)	47,127	(521,379)	(870,052)
Fund Balances, Beginning of Year	<u>4,036,460</u>	<u>376,410</u>	<u>5,209,051</u>	<u>9,621,921</u>
Fund Balances, End of Year	<u>\$ 3,640,660</u>	<u>\$ 423,537</u>	<u>\$ 4,687,672</u>	<u>\$ 8,751,869</u>

See Notes to Financial Statements

Net change in fund balances - total governmental funds \$ (870,052)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital asset purchases	1,961,399
Loss on disposal of capital assets	(19,580)
Depreciation expense	(2,109,193)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	144,637
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Revenues from the change in the equity investment in joint ventures do not provide current financial resources are not reported as revenues in the funds.	1,016,457
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	830,337
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

This is the net change in these items this year.

Accrued interest	83,296
Accrued compensated absences	(34,004)
Net pension and other post-employment obligations (assets)	(1,550,076)

Change in net assets of governmental activities \$ (546,779)

City of Texarkana, Arkansas
Statement of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual – General Fund
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 2,289,900	\$ 2,289,900	\$ 2,011,201	\$ (278,699)
Sales taxes	8,393,811	8,393,811	8,751,952	358,141
Other taxes	157,140	157,140	76,338	(80,802)
Utility franchise	2,558,310	2,558,310	2,688,227	129,917
Licenses and permits	33,270	33,270	41,785	8,515
Fines, forfeitures and penalties	821,149	821,149	729,624	(91,525)
Charges for services	439,625	439,625	391,311	(48,314)
Grants and entitlements	515,828	565,078	588,434	23,356
Intergovernmental	1,414,593	1,414,593	1,500,003	85,410
Investment income	12,315	12,315	6,737	(5,578)
Miscellaneous	47,371	118,031	206,186	88,155
	<u>16,683,312</u>	<u>16,803,222</u>	<u>16,991,798</u>	<u>188,576</u>
Expenditures				
Current:				
General government	2,144,082	2,267,355	2,204,064	63,291
Police department	7,171,184	7,171,184	6,967,050	204,134
Fire department	4,324,709	4,324,709	4,303,165	21,544
Other public safety	1,750,754	1,750,754	2,607,739	(856,985)
Health and welfare	433,890	433,890	321,430	112,460
Culture and recreation	48,310	55,972	52,299	3,673
Capital outlay	353,832	515,882	242,552	273,330
Debt service:				
Principal retirement	69,172	69,172	70,337	(1,165)
Interest and fiscal charges	3,017	3,017	3,049	(32)
	<u>16,298,950</u>	<u>16,591,935</u>	<u>16,771,685</u>	<u>(179,750)</u>
Excess of Revenues Over Expenditures				
	<u>384,362</u>	<u>211,287</u>	<u>220,113</u>	<u>8,826</u>
Other Financing Sources (Uses)				
Proceeds from issuance of debt	282,500	282,500	-	(282,500)
Transfers in	312,186	312,186	309,630	(2,556)
Transfers out	(969,704)	(950,651)	(925,543)	25,108
	<u>(375,018)</u>	<u>(355,965)</u>	<u>(615,913)</u>	<u>22,552</u>
Net Change in Fund Balances				
	9,344	(144,678)	(395,800)	(251,122)
Fund Balances, Beginning of Year				
	<u>4,036,460</u>	<u>4,036,460</u>	<u>4,036,460</u>	<u>-</u>
Fund Balances, End of Year				
	<u>\$ 4,045,804</u>	<u>\$ 3,891,782</u>	<u>\$ 3,640,660</u>	<u>\$ (251,122)</u>

City of Texarkana, Arkansas
Statement of Revenues, Expenditures and Changes in Fund
Balances – Budget and Actual - Public Works Fund
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 86,000	\$ 86,000	\$ 90,613	\$ 4,613
Licenses and permits	157,590	157,590	141,719	(15,871)
Charges for services	3,794,890	3,794,890	3,826,132	31,242
Grants and entitlements	120,750	220,750	168,037	(52,713)
Intergovernmental	1,252,900	1,252,900	1,401,814	148,914
Investment income	1,105	1,105	702	(403)
Miscellaneous	184,390	184,390	147,173	(37,217)
Total revenues	<u>5,597,625</u>	<u>5,697,625</u>	<u>5,776,190</u>	<u>78,565</u>
Expenditures				
Current:				
Protective inspection	450,444	450,444	428,681	21,763
Public works	4,675,021	4,656,521	4,264,964	391,557
Culture and recreation	314,915	314,915	293,878	21,037
Capital outlay	54,369	215,869	498,938	(283,069)
Total expenditures	<u>5,494,749</u>	<u>5,637,749</u>	<u>5,486,461</u>	<u>151,288</u>
Excess of Revenues Over Expenditures	<u>102,876</u>	<u>59,876</u>	<u>289,729</u>	<u>229,853</u>
Other Financing Sources (Uses)				
Transfers in	77,000	77,000	47,073	(29,927)
Transfers out	(289,672)	(289,672)	(289,675)	(3)
Total other financing sources (uses)	<u>(212,672)</u>	<u>(212,672)</u>	<u>(242,602)</u>	<u>(29,930)</u>
Net Change in Fund Balances	(109,796)	(152,796)	47,127	199,923
Fund Balances, Beginning of Year	<u>376,410</u>	<u>376,410</u>	<u>376,410</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 266,614</u>	<u>\$ 223,614</u>	<u>\$ 423,537</u>	<u>\$ 199,923</u>

City of Texarkana, Arkansas
Statement of Fund Net Assets
Proprietary Funds
September 30, 2011

	Texarkana Water Utilities			Total Enterprise Funds
	Water Utilities	Union Utilities	Mandeville Utilities (Non Major)	
Assets				
Current assets				
Cash	\$ 1,438,966	\$ 176,905	\$ 55,209	\$ 1,671,080
Investments	517,810	42,246	-	560,056
Receivables:				
Accounts (net of allowance for uncollectible of \$62,945, \$1,371, and \$450)	1,721,790	63,151	17,078	1,802,019
Accrued interest	404	-	-	404
Due from other funds	22,790	126	34	22,950
Due from other governments	437,195	335	103	437,633
Inventories	578,027	-	-	578,027
Prepaid items	10,635	26	5	10,666
Net investment in direct financing leases - current	318,525	-	-	318,525
Total current assets	<u>5,046,142</u>	<u>282,789</u>	<u>72,429</u>	<u>5,401,360</u>
Noncurrent assets				
Restricted assets				
Cash	3,051,551	157,187	115,470	3,324,208
Investments	66,320	98,574	-	164,894
Accounts receivable	78,337	-	-	78,337
Total restricted assets	<u>3,196,208</u>	<u>255,761</u>	<u>115,470</u>	<u>3,567,439</u>
Capital assets (net of accumulated depreciation)				
Land	783,139	13,749	1,697	798,585
Buildings	1,603,462	1,084	343	1,604,889
Improvements other than buildings	35,792,115	2,726,566	305,128	38,823,809
Machinery and equipment	1,719,119	4,309	1,312	1,724,740
Construction in progress	278,459	638	212	279,309
Net capital assets	<u>40,176,294</u>	<u>2,746,346</u>	<u>308,692</u>	<u>43,231,332</u>
Other assets				
Deferred charges	1,318,323	96,773	12,468	1,427,564
Net investment in direct financing leases - noncurrent	5,109,037	-	-	5,109,037
Total other assets	<u>6,427,360</u>	<u>96,773</u>	<u>12,468</u>	<u>6,536,601</u>
Total noncurrent assets	<u>49,799,862</u>	<u>3,098,880</u>	<u>436,630</u>	<u>53,335,372</u>
Total assets	<u>\$ 54,846,004</u>	<u>\$ 3,381,669</u>	<u>\$ 509,059</u>	<u>\$ 58,736,732</u>

See Notes to Financial Statements

	Texarkana Water Utilities			Total Enterprise Funds
	Water Utilities	Union Utilities	Mandeville Utilities (Non Major)	
Liabilities				
Current liabilities				
Accounts payable	\$ 469,494	\$ 1,929	\$ 499	\$ 471,922
Construction contracts payable	77,743	-	-	77,743
Accrued liabilities	91,834	4,959	131	96,924
Accrued interest payable	103,966	41,379	5,631	150,976
Due to other funds	161	15,734	7,055	22,950
Due to other governments	-	15,175	10,427	25,602
Other payables	31,308	1,851	961	34,120
Compensated absences - current portion	12,810	-	-	12,810
Bonds payable - current portion	785,716	164,317	21,635	971,668
Capital lease obligation - current portion	43,495	-	-	43,495
Total current liabilities	<u>1,616,527</u>	<u>245,344</u>	<u>46,339</u>	<u>1,908,210</u>
Noncurrent liabilities				
Customer deposits	484,321	28,422	8,686	521,429
Capital improvement deposits	207,019	-	-	207,019
Compensated absences	182,401	-	-	182,401
Net pension obligation	324,889	3,151	775	328,815
Revenue bonds	11,303,785	2,613,596	356,408	14,273,789
Capital lease obligation	60,063	-	-	60,063
Total noncurrent liabilities	<u>12,562,478</u>	<u>2,645,169</u>	<u>365,869</u>	<u>15,573,516</u>
Total liabilities	<u>14,179,005</u>	<u>2,890,513</u>	<u>412,208</u>	<u>17,481,726</u>
Net Assets				
Invested in capital assets, net of related debt	27,983,232	(31,567)	(69,351)	27,882,314
Restricted for construction	1,440,259	-	-	1,440,259
Restricted for capital maintenance	611,266	30,182	98,703	740,151
Restricted for debt service	946,371	184,200	11,136	1,141,707
Unrestricted	9,685,871	308,341	56,363	10,050,575
Total net assets	<u>\$ 40,666,999</u>	<u>\$ 491,156</u>	<u>\$ 96,851</u>	<u>\$ 41,255,006</u>

City of Texarkana, Arkansas
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended September 30, 2011

	Texarkana Water Utilities			Total Enterprise Funds
	Water Utilities	Union Utilities	Mandeville Utilities (Non Major)	
Operating Revenues				
Water sales	\$ 4,208,109	\$ 457,070	\$ 92,825	\$ 4,758,004
Water connection fees	2,150	400	100	2,650
Sewer charges	4,289,274	-	-	4,289,274
Penalties and service charges	453,959	23,696	4,575	482,230
Other income	726,572	4,843	1,218	732,633
	<u>9,680,064</u>	<u>486,009</u>	<u>98,718</u>	<u>10,264,791</u>
Total operating revenues				
Operating Expenses				
Administrative	97,880	-	-	97,880
Finance	464,920	8,898	2,801	476,619
Customer service	291,481	31,881	8,049	331,411
Water production	1,041,038	71,526	22,122	1,134,686
Waster distribution	471,398	12,914	13,141	497,453
Sewer collection	423,371	-	-	423,371
Wastewater treatment	1,409,977	-	-	1,409,977
Environmental service	97,174	-	-	97,174
Engineer design	269,179	-	-	269,179
Geographical information systems	122,700	-	-	122,700
Composting	121,676	-	-	121,676
Operations administration	89,881	-	-	89,881
Service center	348,894	-	-	348,894
Safety/security	31,619	-	-	31,619
Field service	191,064	21,114	5,409	217,587
Construction oversight	300,270	-	-	300,270
Depreciation	1,652,589	144,631	20,877	1,818,097
Other expenses	333,228	11,396	2,204	346,828
	<u>7,758,339</u>	<u>302,360</u>	<u>74,603</u>	<u>8,135,302</u>
Total operating expenses				
Operating Income	<u>1,921,725</u>	<u>183,649</u>	<u>24,115</u>	<u>2,129,489</u>
Nonoperating Revenues (Expenses)				
Interest income	317,780	222	78	318,080
Interest expense	(589,169)	(91,801)	(12,486)	(693,456)
Other, net	(6,324)	(551)	(175)	(7,050)
	<u>(277,713)</u>	<u>(92,130)</u>	<u>(12,583)</u>	<u>(382,426)</u>
Income Before Contributions and Transfers	<u>1,644,012</u>	<u>91,519</u>	<u>11,532</u>	<u>1,747,063</u>
Contributions	78,337	-	-	78,337
Transfers Out	<u>(255,035)</u>	<u>-</u>	<u>-</u>	<u>(255,035)</u>
	<u>(176,698)</u>	<u>-</u>	<u>-</u>	<u>(176,698)</u>
Changes in Net Assets	1,467,314	91,519	11,532	1,570,365
Net Assets, Beginning of Year	<u>39,199,685</u>	<u>399,637</u>	<u>85,319</u>	<u>39,684,641</u>
Net Assets, End of Year	<u>\$ 40,666,999</u>	<u>\$ 491,156</u>	<u>\$ 96,851</u>	<u>\$ 41,255,006</u>

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City of Texarkana, Arkansas
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2011

	Texarkana Water Utilities			Total Enterprise Funds
	Water Utilities	Union Utilities	Mandeville Utilities (Non Major)	
Operating Activities				
Cash received from customers	\$ 9,191,100	\$ 477,780	\$ 95,770	\$ 9,764,650
Cash paid to suppliers	(3,804,207)	(113,975)	(31,379)	(3,949,561)
Cash paid to employees	(2,117,437)	(16,732)	(6,209)	(2,140,378)
Net cash provided by operating activities	<u>3,269,456</u>	<u>347,073</u>	<u>58,182</u>	<u>3,674,711</u>
Noncapital Financing Activities				
Transfers to other funds	(255,035)	-	-	(255,035)
Net cash used for noncapital financing activities	<u>(255,035)</u>	<u>-</u>	<u>-</u>	<u>(255,035)</u>
Capital and Related Financing Activities				
Acquisition and construction of capital assets	(248,582)	-	37	(248,545)
Payment of bonds/capital lease/interfund loans	(520,988)	(159,105)	(20,949)	(701,042)
Interest paid on bonds/capital leases/interfund loans	(255,645)	(94,171)	(12,798)	(362,614)
Capital improvement deposits paid	(514,890)	-	-	(514,890)
Capital improvement deposits received	19,500	-	-	19,500
Interest received on capital improvement deposits	2,945	-	-	2,945
Proceeds from sale of capital assets	2,059	-	-	2,059
Net cash used for capital and related financing activities	<u>(1,515,601)</u>	<u>(253,276)</u>	<u>(33,710)</u>	<u>(1,802,587)</u>
Investing Activities				
Purchase of investments	(866,565)	-	-	(866,565)
Proceeds from sale and maturities of investments	865,013	-	-	865,013
Interest received on investments	8,249	57	65	8,371
Net cash provided by investing activities	<u>6,697</u>	<u>57</u>	<u>65</u>	<u>6,819</u>
Increase in Cash	1,505,517	93,854	24,537	1,623,908
Cash, Beginning of Year	<u>2,985,000</u>	<u>240,238</u>	<u>146,142</u>	<u>3,371,380</u>
Cash, End of Year	<u>\$ 4,490,517</u>	<u>\$ 334,092</u>	<u>\$ 170,679</u>	<u>\$ 4,995,288</u>

See Notes to Financial Statements

	Texarkana Water Utilities			Total Enterprise Funds
	Water Utilities	Union Utilities	Mandeville Utilities (Non Major)	
Cash of Proprietary Funds, as presented, on the				
"Statement of Net Assets - Proprietary Funds" is as follows:				
Cash	\$ 1,438,966	\$ 176,905	\$ 55,209	\$ 1,671,080
Restricted cash	3,051,551	157,187	115,470	3,324,208
	<u>\$ 4,490,517</u>	<u>\$ 334,092</u>	<u>\$ 170,679</u>	<u>\$ 4,995,288</u>

Reconciliation of operating income to cash flows from operating activities

Operating income	\$ 1,921,725	\$ 183,649	\$ 24,115	\$ 2,129,489
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	1,652,589	144,631	20,877	1,818,097
Amortization of bond issuance	24,311	6,516	880	31,707
Millwood expense	(28,310)	-	-	(28,310)
(Increase) decrease in customer accounts receivable	(100,607)	(5,867)	(2,834)	(109,308)
(Increase) decrease in due from other funds	(354,532)	(13)	(3)	(354,548)
(Increase) decrease in inventory	(56,907)	-	-	(56,907)
(Increase) decrease in prepaid expenses	4,581	-	6	4,587
Increase (decrease) in accounts payable	6,959	580	129	7,668
Increase (decrease) in other accrued expenses	12,709	59	15	12,783
Increase (decrease) in due to other funds	6	17,994	14,597	32,597
Increase (decrease) in deferred revenue and deposits	31,031	(2,353)	(110)	28,568
Other revenue	155,901	1,877	510	158,288
Net cash provided by operating activities	<u>\$ 3,269,456</u>	<u>\$ 347,073</u>	<u>\$ 58,182</u>	<u>\$ 3,674,711</u>

Supplemental Schedule of Noncash Transactions Affecting Financial Position

During the fiscal year the following additions to direct financing leases and obligations under capital leases were recorded.

Financing lease	\$ 28,310
Capital lease	23,241
Eliminations	<u>(28,310)</u>
Net additions	<u>\$ 23,241</u>

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

	Pension Trust Funds	Agency Funds
Assets	<hr/>	<hr/>
Cash and cash equivalents	\$ 846,129	\$ 176,662
Investments		
Equities	3,394,727	-
U. S. government obligations	2,099,556	-
Corporate bonds and notes	3,525,090	-
Mutual funds and other investments	7,823,247	-
Certificates of deposit	-	52,665
Interest receivable	68,084	3,556
Due from other funds	722,606	-
Due from other governments	-	2,550
	<hr/>	<hr/>
Total assets	18,479,439	235,433
	<hr/>	<hr/>
Liabilities		
Accounts payable	23,119	52,665
Escrow deposits	-	182,768
	<hr/>	<hr/>
Total liabilities	23,119	235,433
	<hr/>	<hr/>
Net Assets		
Net assets held in trust	<u>\$ 18,456,320</u>	<u>\$ -</u>

City of Texarkana, Arkansas
Statement of Changes in Fiduciary Net Assets
Year Ended December 31, 2011

	<u>Pension Trust Funds</u>
Additions	
Contributions	
Employer	\$ 1,048,970
Employee	8,467
Intergovernmental	291,164
Other	<u>68,069</u>
Total contributions	<u>1,416,670</u>
Investment income (loss)	
Net decrease in fair value of investments	(532,992)
Interest and dividends	<u>497,999</u>
	(34,993)
Less investment expense	<u>75,868</u>
Net investment loss	<u>(110,861)</u>
Total additions	<u>1,305,809</u>
Deductions	
Benefits paid directly to participants	2,213,776
Administrative expenses	<u>111,843</u>
Total deductions	<u>2,325,619</u>
Change in Net Assets	(1,019,810)
Net Assets Held in Trust, Beginning of Year	<u>19,476,130</u>
Net Assets Held in Trust, End of Year	<u><u>\$ 18,456,320</u></u>

City of Texarkana, Arkansas

Notes to Financial Statements

December 31, 2011

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

The City of Texarkana, Arkansas (the City), is a municipal corporation operating under the authority of Arkansas state statute. The City operates under a city manager form of government. Six elected directors and the Mayor set policy and employ the City Manager. The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America for state and local governments as defined by the Governmental Accounting Standards Board (GASB). Enterprise funds and similar component units also apply Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The following is a summary of the significant accounting and reporting policies of the City.

Reporting Entity

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

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

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

Discretely Presented Component Units

Texarkana Advertising and Promotion Commission (Commission) – The Commission is governed by a seven member board appointed by the City Board of Directors. The Commission is comprised of four owners or managers of businesses in the tourism industry, two members of the City Board of Directors, and one member not associated with the tourism industry or the City Board of Directors. The Commission is primarily funded by a City tax imposed on gross receipts from hotel/motel and restaurant sales. Arkansas state statutes require this to be collected by the City. The proceeds of the tax are used for advertising and promoting the City. The City performs all accounting functions for the Commission. The City tax provided to the Commission during the year ended December 31, 2011 totaled \$1,073,856. The Commission does not have separately issued financial statements.

City of Texarkana, Arkansas

Notes to Financial Statements

December 31, 2011

Greater Texarkana Retired and Senior Volunteer Program (RSVP) – RSVP is governed by the RSVP Advisory Council comprised of twenty-one members. RSVP serves a nine county area. The Texas counties represented are Bowie and Cass. The Arkansas counties represented are Miller, Little River, Lafayette, Howard, Nevada, Sevier and Hempstead. The purpose of RSVP is to provide a recognized role in the community and a meaningful life in retirement for older people through significant volunteer service. RSVP places volunteer retirees in nonprofit agencies throughout the community and aids in recognizing the services provided by the volunteers. RSVP is largely funded with federal and state grants that are obtained through the City. The City provides the office facilities and performs all accounting functions of RSVP. RSVP is fiscally dependent on the City of Texarkana, Arkansas and, as a result, is properly reported as a component unit of the City. RSVP cannot levy taxes or set rates without approval by the City, nor can RSVP issue bonded debt without approval by the City. RSVP does not have separately issued financial statements.

Joint Ventures

Texarkana Airport Authority

The City is a participant with Texarkana, Texas in a joint venture to operate Texarkana Regional Airport. The Texarkana Airport Authority was created in 1956 by ordinance enacted by the two cities. The governing body of Texarkana Airport Authority consists of eight members, four of whom are residents of Texarkana, Arkansas and four of whom are residents of Texarkana, Texas. Arkansas members are appointed by the City of Texarkana, Arkansas Board of Directors. Texas members are appointed by the mayor of the City of Texarkana, Texas. The Airport Authority Board has governance responsibilities over all activities relating to operating and maintaining the Texarkana Regional Airport. The Board receives funding from airport operations and from various local, state and federal agencies and must comply with any requirements of these funding sources.

Assets contributed to the Airport Authority as of December 31, 2010 consisted of \$1,030,141 by Texarkana, Arkansas and \$865,815 by Texarkana, Texas. The City of Texarkana, Arkansas' net investment and its share of operating results of the Airport Authority are reported in the City's financial statements with governmental activities capital assets. The City's equity interest in the Airport Authority was \$11,702,996 at December 31, 2010, which is the latest information available. Complete financial statements for the Authority can be obtained from the Texarkana Airport Authority's administrative office.

Bi-State Justice Center

The City is also a participant in a joint venture in the Bi-State Justice Center with the City of Texarkana, Texas and Bowie County. The Bi-State Justice Center is jointly occupied by the law enforcement and criminal justice agencies of the City of Texarkana, Arkansas, the City of Texarkana, Texas, and Bowie County, Texas. The facility is located on the state line, half in Texarkana, Arkansas and half in Texarkana, Texas. The Intergovernmental Advisory Committee is responsible for the operations of the Center. This ten member committee is comprised of the two City Managers, two members from the City of Texarkana, Texas City Council, two members from the Texarkana, Arkansas Board of Directors, the Bowie County Judge, two Bowie County Commissioners, and one independent member. The original contract only names the two City Managers and the Judge. The Center accounts only for the operations of its own law enforcement

City of Texarkana, Arkansas

Notes to Financial Statements

December 31, 2011

and criminal justice agencies. The annual budget is underwritten by the participating entities based on a formula which uses floor space occupied, the number of records processed by Central Records and Communications and the number of prisoners in the detention facility for each entity.

The City of Texarkana, Arkansas' net investment in the Bi-State Justice Center is reported in the City's governmental activities with its capital assets since the joint venture represents equity primarily in capital assets. The City's equity interest at December 31, 2011 was \$257,510. Complete financial statements for the Bi-State Justice Center can be obtained from the City of Texarkana, Arkansas Finance Department.

Texarkana Urban Transportation Study (TUTS)

The City of Texarkana, Arkansas is a participant with seven other entities in the TUTS Policy Committee, which is the designated metropolitan planning organization (MPO) for the Texarkana urbanized area. The MPO develops transportation plans and programs in cooperation with the participating entities and transit agencies. The governing body of the TUTS consists of fourteen members, three of whom are representatives of the City of Texarkana, Arkansas; three of whom are representatives of the City of Texarkana, Texas; the Bowie County Judge; the Miller County Judge; the Mayor of Wake Village, Texas; the Mayor of Nash, Texas; two representatives for the Arkansas State Highways and Transportation Department; and two representatives for the Texas Department of Transportation. The TUTS may receive federal, state, and local funding for metropolitan transportation planning for the integrated network of federal, state, and local roads and highways. The City has an ongoing financial responsibility of the TUTS since its continued existence depends on continued funding by the City. The City's equity interest at December 31, 2011 was \$0.

Texarkana Urban Transit District (TUTD)

The City of Texarkana, Arkansas is a participant with three other cities in the TUTD. The purpose of the TUTD is to provide public transportation services within the Texarkana urban area. The TUTD is a political subdivision district under the laws of the State of Texas as defined by Chapter 458 of the Texas Transportation code and Chapter 791 of the Texas Government Code. Composition of the Transit District Board is as follows; the City of Texarkana, Arkansas – three members, one of whom is an elected official; the City of Texarkana, Texas – three members, one of whom is an elected official; the City of Wake Village, Texas – two members, one of whom is an elected official; and the City of Nash, Texas – two members, one of whom is an elected official. The TUTD receives federal, state, and local funding, as well as user charges generated by the public transportation system. The City has an ongoing financial responsibility for the TUTD since the TUTD's continued existence depends on continued funding by the City.

The City of Texarkana, Arkansas' net investment in the joint venture is reported in the City's governmental activities with its capital assets since the joint venture represents equity primarily in capital assets. The City's interest at December 31, 2011 was \$1,171,843.

Jointly Governed Organizations

The City's officials are responsible for appointing a portion of the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making

City of Texarkana, Arkansas

Notes to Financial Statements

December 31, 2011

the appointments. The City Board of Directors or specific committees of the City Board appoint board members to the following organizations: Historic District Commission, Housing Authority, Texarkana Public Library Board, Public Facilities Board, Council of Governments Board, City Beautiful Commission and Solid Waste Management Committee. Positions on these boards are appointed in certain instances in entirety, partially, or with City Board members.

Government-wide and Fund Financial Statements

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

Government-wide Financial Statements

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

Fund Financial Statements

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

City of Texarkana, Arkansas

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The City reports the following major governmental funds:

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

The *Public Works Fund* accounts for the receipts and disbursements of state turnback funds, property taxes, licenses and permits, refuse collections and other revenues legally designated for street and refuse projects.

The City reports the following major enterprise funds:

The Cities of Texarkana, Arkansas and Texarkana, Texas both have an undivided interest in the Texarkana Water Utilities (TWU). The following funds are reported in the audited financial statements for TWU and have a September 30 fiscal year end. Transfers between Texarkana, Arkansas Water Utilities Fund and the City's governmental activities do not balance because TWU has a different year end than the City.

The *Texarkana, Arkansas Water Utilities Fund* accounts for the water and sewer services provided to the general public, industry and other municipalities on the Arkansas side of the City of Texarkana.

The *Texarkana, Arkansas Union Water Utilities Fund* accounts for the water and sewer services provided by the Union Water Utilities.

Special Revenue Funds – The special revenue funds, which include federal grants, are used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, which are legally restricted to expenditures for specified purposes.

Debt Service Funds – The debt service funds are used to account for financial resources that are restricted, committed or assigned to the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds – The capital projects funds are used to account for financial resources that are restricted, committed or assigned to be used for the acquisition or construction of major capital facilities, other than those financed by enterprise funds.

Enterprise Funds – The enterprise funds are used to account for activities for which a fee is charged to external user for goods or services.

Trust Funds – Accounts for assets held in trust for the Texarkana, Arkansas Public Employee Retirement System, the Texarkana, Arkansas Water Utilities Employee Retirement System, the Police Relief and Pension Fund, the Firefighter's Relief and Pension Fund and the Municipal Judges Pension Fund. Plan trustees must act in accordance with the specific purposes and terms of these retirement plans.

Agency Funds – Accounts for monies collected and held by the courts until they are disbursed to various governmental agencies.

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

Measurement Focus and Basis of Accounting

Government-wide, Proprietary and Fiduciary Funds

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

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

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

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in available spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The City considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, federal funds, local funds and investment earnings. Other revenues are considered to be measurable and available only when cash is received by the City. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences and obligations for worker's compensation and other post-employment benefits, which are recognized as expenditures when payment is due. Pension expenditures are recognized when contributed to a plan or when expected to be liquidated with expendable available financial resources.

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, cash on hand and short-term instruments with original maturities at purchase of 90 days or less. At December 31, 2011, cash equivalents consisted primarily of money market accounts with brokers.

Investments and Investment Income

City investments, excluding pension trust funds, consist entirely of nonnegotiable certificates of deposit. Pension trust funds are invested in mutual funds, U.S. Government and agency securities, corporate debentures, and common stocks and are stated at fair value as determined by custodial agents.

Investment income includes dividend and interest income and the net change for the year in the fair value of investments. Investment income is credited to the fund from which the investments were made, except where required otherwise by bond indentures or City policy.

Inventories

Inventories of the enterprise funds consist of repair materials and spare parts for water and wastewater treatment and distribution valued at the lower of average cost or market value. The costs of governmental fund type inventories are recorded as expenditures when purchased/constructed.

Prepaid Items

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

Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Restricted assets also include interest accrued on unexpended bond proceeds.

City of Texarkana, Arkansas
Notes to Financial Statements
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Capital Assets

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

Governmental activities and component units:

Capital assets are defined as assets with an initial value or cost greater than or equal to \$5,000 and an estimated useful life of greater than two years. Capital assets are depreciated using the straight-line method over their estimated useful lives ranging from 10 – 30 years for infrastructure, 40 years for buildings, 20 years for improvements other than buildings and 5 – 20 years for machinery and equipment.

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

Business-type activities:

Capital assets are defined by business type activities as assets with an initial, individual cost of more than the following amounts and an estimated life in excess of one year.

Furniture and fixtures	\$	100
Motor vehicles		1,000
Mobil equipment		1,000
Machinery and equipment		500
Communication equipment		500
Pumps and purification equipment		1,000
Buildings and facilities new improvements		1,000
New improvements		1,000

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest during construction is capitalized to the extent that interest costs exceed interest income on externally restricted bond proceeds. Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

City of Texarkana, Arkansas
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Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives:

Furniture and fixtures	5 years
Motor vehicles	5 years
Machinery and equipment	5 - 10 years
Communication equipment	5 years
Pumps and purification equipment	10 years
Buildings and facilities new improvements	10 - 50 years
Water and sewer systems	12 - 99 years

Leases are accounted for in accordance with Statement of Financial Accounting Standards No. 13. Amortization of leased assets is recorded in the depreciation accounts.

Long-term Obligations

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

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

Compensated Absences

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

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 60 days of year-end.

City of Texarkana, Arkansas

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Net Assets

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

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.

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 Board of Directors. Commitments may be changed or lifted only by issuance of a resolution by the City Board of Directors.

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 balance 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 Community Development Block Grant fund and includes all amounts not contained in the other classifications.

The City considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The City applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are used first.

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

Restricted by Enabling Legislation

The government-wide Statement of Net Assets reports \$1,292,005 of restricted net assets for Arkansas Advertising and Promotion which is restricted by enabling legislation. This amount consists of unspent hotel/motel taxes.

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Public Works Fund and the following nonmajor special revenue funds: Community Development Block Grant, Police Donations, Kline Park Monument, Domestic Violence, Bail Bond, Court Automation, Youthbuild, North Texarkana Redevelopment District and Public Safety. All annual appropriations lapse at year end and are re-established in the succeeding year.

The appropriated budget is prepared by fund, function and activity. The City manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors. The Board of Directors may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City Manager or the revenue estimates must be changed by an affirmative vote of a majority of the Board of Directors. City policy prohibits budgeting total proposed expenditures in excess of total anticipated revenues and unencumbered funds from prior years; therefore, expenditures may not legally exceed revenues and unencumbered fund balances from prior years. The legal level of budgetary control (i.e., the lowest level at which expenditures may not legally exceed appropriation) is the fund level. The Board of Directors made several supplemental budgetary appropriations throughout the year. Individual amendments were not material in relation to the original appropriations.

City of Texarkana, Arkansas
Notes to Financial Statements
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Comparison of budgeted and actual amounts in the accompanying financial statements and supplementary information includes the General Fund, Public Works Fund, and the Special Revenue Funds which are included in the annual operating budget, as listed above. A reconciliation of the special revenue fund with budget and total special revenue funds is as follows:

	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balances at Beginning of Year	Fund Balances at End of Year
Special Revenue Funds with budgets:					
Community Development Block Grant	\$ 221,349	\$ 203,910	\$ -	\$ (21,433)	\$ (3,994)
Police Donations	6,273	4,086	-	4,084	6,271
Kline Park Monument	5	400	-	2,919	2,524
N. Texarkana Redevelopment District	25,403	-	-	34,009	59,412
Domestic Violence	3,125	3,125	-	-	-
Bail Bond	9,395	-	(8,955)	540	980
Court Administration	31,539	63,105	-	116,099	84,533
YouthBuild	-	15,811	18,491	(2,680)	-
Public Safety	516	-	-	1,425	1,941
Total Special Revenue Funds with budgets	<u>297,605</u>	<u>290,437</u>	<u>9,536</u>	<u>134,963</u>	<u>151,667</u>
Special Revenue Funds without budgets:					
Library	347,550	337,485	30,000	26,258	66,323
Front Street Project	39,755	37,397	-	-	2,358
Total Special Revenue Funds without budgets	<u>387,305</u>	<u>374,882</u>	<u>30,000</u>	<u>26,258</u>	<u>68,681</u>
Total Special Revenue Funds	<u>\$ 684,910</u>	<u>\$ 665,319</u>	<u>\$ 39,536</u>	<u>\$ 161,221</u>	<u>\$ 220,348</u>

New Governmental Accounting Standards Board (GASB) Pronouncements

The GASB has issued the following statements which the City has not yet adopted and which require adoption subsequent to December 31, 2011:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, 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 No. 61, *The Financial Reporting Entity: Omnibus—An Amendment of GASB Statements No. 14 and No. 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.

City of Texarkana, Arkansas
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GASB Statement No. 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 No. 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 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 No. 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 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. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 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.

City of Texarkana, Arkansas
Notes to Financial Statements
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GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, will improve financial reporting by state and local governmental pension plans and will replace the provisions of Statement No. 25 Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and Statement No. 50, Pension Disclosures— an amendment of GASB Statements No. 25 and No. 27 as they relate to pensions that are administered through trusts, or equivalent arrangements, that meet certain criteria. This Statement established standards for financial reporting of separately issued financial reports and specifies the required approach to measuring the liability of employer(s) and certain nonemployer contributing entities. This Statement also details the required note disclosures for defined contribution pension plans administered through trusts that meet certain criteria. The provisions of GASB 67 are effective for financial statements for fiscal years beginning after June 15, 2013

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, will amend the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, as they relate to governmental employers that account for pensions provided through trusts, or equivalent arrangements, that meet certain criteria. The statement further includes guidance for accounting for participating employers in single-employer and multiple-employer defined benefit pension plans, cost-sharing plans, defined contribution plans and plans with insured benefits. The note disclosure and required supplementary information requirements for employers whose employees are provided with defined benefit pensions through qualified trusts also are addressed. Finally, the statement includes guidance on accounting for special funding situations where an entity other than the employer government is legally responsible for plan contributions. The Statement also requires employers participating in cost-sharing multiple-employer plans to recognize their proportional share of the plan’s collective net pension liability, pension expense and deferred outflows of resources and deferred inflows of resources in the employer’s financial statements. The pension expense will no longer be based on the contractually required contribution or contributions actually made, but will be actuarially determined. This will result in the pension expense and liability being recognized as benefits are earned by employees, and is expected to increase current pension expense along with the recognition of the proportional share of the net pension liability. Note disclosures and required supplementary information would also be expanded. The requirements of GASB 68 are effective for financial statements for fiscal years beginning after June 15, 2014.

Change in Accounting Principles

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting, and Governmental Fund Type Definitions* during 2011. The statement established 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 reports in governmental funds. The objective of this Statement is to provide clearer fund balance classifications that can be more consistently applied. With the implementation of this Statement, there is no effect on beginning fund balance. Amounts previously reported as reserved are now reported as either nonspendable or restricted and amounts previously reported in the general fund as unreserved are now reported as committed, assigned, or unassigned. Amounts previously

City of Texarkana, Arkansas
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December 31, 2011

reported as unreserved in special revenue funds are now reported as restricted, committed or assigned.

Note 2: Deposits and Investments

Deposits

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

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

At December 31, 2011, none of the City's bank balances were exposed to custodial credit risk.

Investments

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

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

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

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

Type	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 925,634	\$ 925,634	\$ -	\$ -	\$ -
U.S. government obligations	2,099,556	594,987	155,717	360,205	988,647
Corporate bonds	3,525,088	531,512	1,900,626	941,343	151,607
Money market mutual funds	1,371,981	1,371,981	-	-	-
Bond mutual funds	3,155,719	-	1,595,116	1,317,093	243,510
		<u>\$ 3,424,114</u>	<u>\$ 3,651,459</u>	<u>\$ 2,618,641</u>	<u>\$ 1,383,764</u>
Equity mutual funds	4,667,528				
Corporate stocks	<u>3,394,727</u>				
	<u>\$ 19,140,233</u>				

Interest Rate Risk – Statutes authorize the City along with its component units, the Greater Texarkana Retired and Senior Volunteer and the Arkansas Advertising and Promotion Commission, to invest in certificates of deposits, obligations of the U.S. Treasury and U.S. agencies, and obligations of the State of Arkansas and any political subdivision of the state. The City’s policy seeks to minimize the risk that the market value of securities will fall due to changes in general interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds primarily in shorter-term securities, money market mutual funds or similar investment pools. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s pension fund policies limit the percentages of each type of portfolio asset.

Credit Risk – Credit risk is the risk that the issuer or other counterparty will not fulfill its obligations. It is the City’s policy, excluding fiduciary funds, to limit investments to the safest types of securities and to pre-qualify the financial institutions, broker/dealers, intermediaries and advisers with which the City will do business. At December 31, 2011, the City’s and its component units’ investments not directly guaranteed by the U.S. government were rated as follows:

Investment Type	Rating Agency	Rating
Money Market Mutual Funds	S&P/Moody’s	AAAm/Aaa
U.S. Agency Obligations	S&P/Moody’s	AAAf/Aaa
Corporate Bonds	S&P/Moody’s	Baa1 to Aa3/A- to AA+

Custodial Credit Risk – For an investment, 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. Excluding fiduciary funds, at December 31, 2011, the City’s investments are fully collateralized or are fully guaranteed by the

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

full faith and credit of the U.S. government. The City’s collateral is held in an account with the Federal Reserve. Monthly “Collateral Reports” are sent to the City’s accounting department.

Concentration of Credit Risk – The City’s policy is to diversify the investment portfolio so that potential losses on individual securities will be minimized.

Summary of Carrying Values

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

	Primary Government	Component Units
Carrying value		
Deposits	\$ 12,769,293	\$ 1,127,243
Cash on hand	3,490	200
Investments	19,140,233	-
	<u>\$ 31,913,016</u>	<u>\$ 1,127,443</u>
Included in the following statement of net assets captions		
Cash	\$ 8,922,348	\$ 855,216
Investments	1,583,490	272,227
Restricted cash	3,324,208	-
Restricted investments	164,894	-
Included in the following fiduciary net asset captions		
Cash and cash equivalents - Agency Funds	176,662	-
Cash and cash equivalents - Pension Trust Funds	846,129	-
Investments-Pension Trust Funds		
Equities	3,394,727	-
U.S. government obligations	2,099,556	-
Corporate bonds and notes	3,525,090	-
Mutual funds and other investments	7,823,247	-
Investments-Agency Funds	52,665	-
	<u>\$ 31,913,016</u>	<u>\$ 1,127,443</u>

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

Note 3: Capital Assets

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

Governmental Activities	Balance, December 31, 2010	Additions and Transfers, Net	Retirements and Transfers, Net	Balance December 31, 2011
Capital assets, non-depreciable:				
Land	\$ 2,563,907	\$ -	\$ -	\$ 2,563,907
Construction in progress	5,869,002	1,253,747	(4,716,543)	2,406,206
Total capital assets, non-depreciable	<u>8,432,909</u>	<u>1,253,747</u>	<u>(4,716,543)</u>	<u>4,970,113</u>
Capital assets, depreciable				
Buildings	20,940,926	89,490	-	21,030,416
Improvements other than buildings	5,619,895	89,797	-	5,709,692
Machinery and equipment	6,602,869	511,898	(291,362)	6,823,405
Infrastructure	28,639,116	4,733,010	-	33,372,126
Total capital assets, depreciable	<u>61,802,806</u>	<u>5,424,195</u>	<u>(291,362)</u>	<u>66,935,639</u>
Less accumulated depreciation				
Buildings	12,900,328	541,010	-	13,441,338
Improvements other than buildings	4,801,974	52,620	-	4,854,594
Machinery and equipment	4,407,234	535,758	(271,782)	4,671,210
Infrastructure	21,785,206	979,805	-	22,765,011
Total accumulated depreciation	<u>43,894,742</u>	<u>2,109,193</u>	<u>(271,782)</u>	<u>45,732,153</u>
Total capital assets, depreciable	<u>17,908,064</u>	<u>3,315,002</u>	<u>(19,580)</u>	<u>21,203,486</u>
Total governmental activities, net	<u>\$ 26,340,973</u>	<u>\$ 4,568,749</u>	<u>\$ (4,736,123)</u>	<u>\$ 26,173,599</u>

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

Capital asset activity in the business-type activities for the year ended September 30, 2011, was as follows:

Business-Type Activities	Balance September 30, 2010	Additions and Transfers, Net	Retirements and Transfers, Net	Balance September 30, 2011
Capital Assets, non-depreciable				
Land	\$ 795,037	\$ 3,548	\$ -	\$ 798,585
Construction in progress	<u>254,537</u>	<u>793,280</u>	<u>768,508</u>	<u>279,309</u>
Total capital assets, non-depreciable	<u>1,049,574</u>	<u>796,828</u>	<u>768,508</u>	<u>1,077,894</u>
Capital assets, depreciable				
Buildings and improvements	3,458,487	-	-	3,458,487
Improvements other than buildings	62,900,123	456,066	-	63,356,189
Machinery and equipment	6,013,324	323,084	54,086	6,282,322
Water rights	<u>336,936</u>	<u>-</u>	<u>-</u>	<u>336,936</u>
Total capital assets, depreciable	<u>72,708,870</u>	<u>779,150</u>	<u>54,086</u>	<u>73,433,934</u>
Less accumulated depreciation				
Buildings and improvements	1,786,039	67,559	-	1,853,598
Improvements other than buildings	23,051,695	1,480,685	-	24,532,380
Machinery and equipment	4,346,746	255,814	44,978	4,557,582
Water rights	<u>322,897</u>	<u>14,039</u>	<u>-</u>	<u>336,936</u>
Total accumulated depreciation	<u>29,507,377</u>	<u>1,818,097</u>	<u>44,978</u>	<u>31,280,496</u>
Total capital assets, depreciable	<u>43,201,493</u>	<u>(1,038,947)</u>	<u>9,108</u>	<u>42,153,438</u>
Total business-type activities, net	<u>\$ 44,251,067</u>	<u>\$ (242,119)</u>	<u>\$ 777,616</u>	<u>\$ 43,231,332</u>

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

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

Governmental Activities

General government	
General government	\$ 74,833
Police department	637,804
Fire department	181,728
Public inspection	10,170
Public works	1,101,220
Health	18,601
Culture and recreation	84,837
	<hr/>
Total depreciation expense – governmental activities	<u><u>\$ 2,109,193</u></u>

Business-Type Activities

Water and sewer	<u>\$ 1,818,097</u>
Total depreciation expense - business-type activities	<u><u>\$ 1,818,097</u></u>

Note 4: Construction Projects

At December 31, 2011, the City had the following commitments with respect to unfinished capital projects. These projects are being funded with grant funds, bond proceeds and franchise fees.

Governmental fund construction projects

	Project Authorization	Expended Through December 31, 2011	Required Future Financing
Bobby Ferguson Park Pavilion	\$ 200,000	\$ 19,849	\$ 180,151
Bramble Park Improvements	63,200	18,111	45,089
Convention Plaza Drive	577,641	372,702	204,939
Cooper Tire Improvements	1,333,333	317,986	1,015,347
Nix Creek Dredging - Drainage Improvements	137,586	5,940	131,646
Tyler Technologies Court Software	80,714	48,267	32,447
Park Pl/Kniffin Drainage Improvement	135,875	10,246	125,629
	<hr/>	<hr/>	<hr/>
Total	<u><u>\$ 2,528,349</u></u>	<u><u>\$ 793,101</u></u>	<u><u>\$ 1,735,248</u></u>

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

Note 5: Long-term Liabilities

Changes in long-term liabilities in the governmental activities for the year ended December 31, 2011 and for the business-type activities for the year ended September 30, 2011, were as follows:

Governmental Activities	Balance December 31, 2010	Increases	Decreases	Balance December 31, 2011	Amounts Due in One Year
Bonds payable					
Revenue bonds	\$ 13,700,000	\$ -	\$ 190,000	\$ 13,510,000	\$ 195,000
General obligation bonds	<u>2,230,000</u>	<u>-</u>	<u>570,000</u>	<u>1,660,000</u>	<u>630,000</u>
Bonds payable, net	15,930,000	-	760,000	15,170,000	825,000
Notes payable	54,022	-	54,022	-	-
Capital lease obligation	16,315	-	16,315	-	-
Compensated absences	2,058,136	944,591	910,587	2,092,140	58,899
Net pension and other post-employment obligations	<u>8,278,761</u>	<u>1,284,622</u>	<u>-</u>	<u>9,563,383</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 26,337,234</u>	<u>\$ 2,229,213</u>	<u>\$ 1,740,924</u>	<u>\$ 26,825,523</u>	<u>\$ 883,899</u>

Business-Type Activities	Balance September 30, 2010	Increases	Decreases	Balance September 30, 2011	Amounts Due in One Year
Bonds payable					
Revenue bonds	\$ 16,516,501	\$ -	\$ 937,840	\$ 15,578,661	\$ 971,668
Less deferred issuance discounts	<u>(419,994)</u>	<u>-</u>	<u>(86,790)</u>	<u>(333,204)</u>	<u>-</u>
Bonds payable, net	16,096,507	-	851,050	15,245,457	971,668
Capital lease obligation	125,077	51,551	73,070	103,558	43,495
Compensated absences	196,381	201,806	202,976	195,211	12,810
Net pension obligation	<u>204,647</u>	<u>485,571</u>	<u>361,403</u>	<u>328,815</u>	<u>-</u>
Total business-type activities long-term liabilities	<u>\$ 16,622,612</u>	<u>\$ 738,928</u>	<u>\$ 1,488,499</u>	<u>\$ 15,873,041</u>	<u>\$ 1,027,973</u>

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

Governmental Activities

2000 Capital Improvement and Refunding Limited Tax General Obligation Bonds – Bonds in the amount of \$5,370,000 were issued with varying interest rates from 4.75% to 6.00% for capital improvements including police apparatus and facilities, firefighting apparatus and facilities, streets and street lighting, alleys, sidewalks, roads, bridges and viaducts. The Series 2000 bonds are direct obligations and pledge the full faith and credit of the City. Principal payments are due annually on February 1. Interest payments are due semiannually on February 1 and August 1.

2008 Franchise Fee Secured Capital Improvement and Refunding Revenue Bonds – Bonds in the amount of \$10,290,000 were issued with varying interest rates from 2.50% to 5.00% for capital improvements of public infrastructure related to the Crossroads Business Park and various streets and to refund the 1999 Franchise Fee Secured Capital Improvement Bonds and 2002 Franchise Fee Secured Capital Improvement and Refunding Bonds. Principal payments are due annually on September 1. Interest payments are due semiannually on March 1 and September 1.

2010 Franchise Fee Secured Capital Improvement Revenue Bonds – Bonds in the amount of \$3,775,000 were issued with varying interest rates from 2.45% to 4.70% for capital improvements consisting generally of acquisition of land in the Crossroads Business Park and construction and equipping of public parking thereon. Principal payments are due annually on April 1. Interest payments are due semiannually on April 1 and October 1.

Business-type Activities

Revenue Bonds - Revenue bonds are comprised of various issues for the purpose of acquiring, constructing, equipping, renovating, expanding, and refurbishing additions and improvements of City facilities.

1998 City of Texarkana, Arkansas Sewer Facilities Construction Revenue Bonds – Bonds in the amount of \$4,100,000 were issued with an interest rate of 3.75%.

1998B City of Texarkana, Arkansas Sewer Facilities Construction Revenue Bonds – Bonds in the amount of \$750,000 were issued with an interest rate of 3.75%.

2001 City of Texarkana, Arkansas Sewer Facilities Construction Revenue Bonds – Bonds in the amount of \$1,000,000 were issued with an interest rate of 3.75%.

2004A City of Texarkana, Arkansas Public Facilities Board Water Facilities Mandeville and Union Acquisition Revenue Bonds – Bonds in the amount of \$2,170,000 were issued with an interest rate of 3.25%.

2004B City of Texarkana, Arkansas Public Facilities Board Water Facilities Mandeville and Union Acquisition Revenue Bonds – Bonds in the amount of \$3,830,000 were issued with an interest rate of 3.25%.

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

2007 City of Texarkana, Arkansas Public Facilities Board Waterworks and Sewer Facilities Revenue Refunding Bonds – Bonds in the amount of \$9,085,000 were issued with a variable interest rate from 4.00% to 4.15%.

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements (net of deferred issuance costs) to pay principal and interest on revenue bonds, outstanding at December 31, 2011 for governmental activities and September 30, 2011 for business-type activities.

Year	Primary Government			
	Governmental Activities		Business-Type Activities	
	General Obligation Bonds and Revenue Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2012	\$ 825,000	\$ 709,783	\$ 884,880	\$ 575,230
2013	350,000	680,640	919,367	539,140
2014	365,000	664,987	954,546	501,763
2015	465,000	647,015	1,002,720	463,077
2016	490,000	626,530	1,124,516	422,856
2017-2021	2,150,000	2,823,031	6,106,124	1,455,335
2022-2026	2,165,000	2,382,303	4,253,304	394,189
2027-2031	2,745,000	1,806,068	-	-
2032-2036	3,490,000	1,049,250	-	-
2037-2040	2,125,000	185,625	-	-
	<u>\$ 15,170,000</u>	<u>\$ 11,575,232</u>	<u>\$ 15,245,457</u>	<u>\$ 4,351,590</u>

There are a number of limitation and restrictions contained in the various bond indentures. The City is in substantial compliance with all significant limitations and requirements. The City is also subject to a statutory limitation by the State of Arkansas for general bonded indebtedness. The limitation is twenty-five percent of the total assessed valuation of all real and personal property within the municipality subject to taxation. At December 31, 2011, the City met the statutory limitation for its general bonded indebtedness, leaving a sufficient legal debt margin. Also, for the governmental activities, net pension obligations and other post-employment obligations have historically been the responsibility of the General Fund.

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

Note 6: Interfund Balances and Transfers

Interfund receivables and payables as of December 31, 2011, are as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 44,183	\$ 875,277
Public Works	22,262	24,248
Non-major governmental funds	154,035	43,561
Total governmental funds	<u>220,480</u>	<u>943,086</u>
Texarkana, Arkansas Water Utilities	22,790	161
Texarkana, Arkansas Union Water Utilities	126	15,734
Non-major proprietary funds	34	7,055
Total proprietary funds	<u>22,950</u>	<u>22,950</u>
Fiduciary Funds	<u>722,606</u>	-
Total fiduciary funds	<u>722,606</u>	-
Total	<u><u>\$ 966,036</u></u>	<u><u>\$ 966,036</u></u>

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

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

Due to/from the primary government and component units are as follows:

	Receivables	Payables
Primary Government		
General Fund	\$ 14	\$ 78,303
Other Governmental Funds	-	200
	<u>14</u>	<u>78,503</u>
Total primary government		
Component Units		
Arkansas Advertising & Promotion	78,503	-
RSVP	-	14
	<u>78,503</u>	<u>14</u>
Total component units		
	<u>\$ 78,517</u>	<u>\$ 78,517</u>
Total		

Transfers are used to move revenues from funds with collection authorization to debt service and pension funds and to move unrestricted revenues to 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 as of December 31, 2011, are as follows:

Fund	Transfer In	Transfer Out
General	\$ 309,630	\$ 925,543
Public Works	47,073	289,675
Other Nonmajor Governmental Funds	878,919	20,404
	<u>\$ 1,235,622</u>	<u>\$ 1,235,622</u>

Transfers recorded in the Statement of Revenues, Expenditures and Changes in Net Assets Proprietary Funds as of September 30, 2011, are as follows:

Fund	Transfer In	Transfer Out
Texarkana, Arkansas Water Utilities	\$ -	\$ 255,035

The difference in the transfer out of \$255,035 is due to the different year end of Texarkana, Arkansas Water Utilities.

City of Texarkana, Arkansas
Notes to Financial Statements
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Note 7: Water Supply Contract Between Cities of Texarkana, Texas and Texarkana, Arkansas

Under a contract dated August 5, 1948 as subsequently amended, the Texarkana, Texas system supplies water to the City of Texarkana, Arkansas and disposes of sewage collected by that City. Charges to Texarkana, Arkansas for these services are computed by prorating certain expenses of the System, plus a set monthly fee. A revised agreement was executed between the Cities of Texarkana, Texas and Texarkana, Arkansas on May 20, 1969.

This revised agreement relates to the matter of supplying treated water only and does not amend the prior agreement relating to sewerage service. The terms of the revised contract provide that Texarkana, Arkansas will pay the same amount per one thousand gallons of water supplied to it as shall be computed to be the cost to Texarkana, Texas under its contractual arrangements with other area cities. The Arkansas Utilities made total transfers to the Texas Utilities for water purchases of \$699,653 for 2011.

The agreement further provides that, when the indebtedness of the Lake Texarkana Water Supply Corporation incurred in connection with the acquisition and construction of the system facilities has been discharged, the City of Texarkana, Texas will convey to the City of Texarkana, Arkansas an undivided interest in the system facilities used to serve Arkansas. Texarkana, Arkansas' undivided interest in the facilities shall be a pro rata portion of the total capital payments made on the system by both Texarkana, Texas and Texarkana, Arkansas. Capital payments are defined as payments made or to be made on the principal for the bond obligations of Texarkana Water Supply Corporation and Lake Texarkana Water Supply Corporation. The effective transfer of assets pursuant to this agreement has been recorded as a capital lease transaction between the Cities. The Arkansas Utilities has made no transfers to the Texas Utilities debt service since 2001 when the capital lease debt was retired.

A water system agreement entered into on December 1, 1982 and amended on October 15, 1985 between the two Cities provides for the sale of water taken from the Millwood Reservoir and processed in the Millwood Water Treatment Facilities. The agreement provides that the previous existing contract shall remain in full force as it relates to water taken from the Texarkana Reservoir. The agreement further provides that the City of Texarkana, Arkansas will sell treated water to the City of Texarkana, Texas at the cost per one thousand gallons of water supplied to it as shall be computed to be the cost to Texarkana, Arkansas. The Texas Utilities made total transfers to the Arkansas Utilities for water purchases of \$581,218 for 2011.

City of Texarkana, Arkansas
Notes to Financial Statements
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Additionally, when the indebtedness the City of Texarkana, Arkansas incurred in connection with the acquisition and construction of the water treatment and transmission facilities has been discharged, the City of Texarkana, Arkansas will convey to the City of Texarkana, Texas an undivided interest in the facilities used to serve Texas. Texarkana, Texas' undivided interest in the facilities shall be a pro rata portion of the total capital payments made on the system by both Texarkana, Arkansas and Texarkana, Texas. Capital payments are defined as payments made or to be made on the principal for the bond obligations of Texarkana, Arkansas. During 2011, the Texas Utilities made total transfers to the Arkansas Utilities for debt service of \$425,858. The effective transfer of assets pursuant to this agreement has been recorded as a capital lease transaction between the Cities.

Note 8: Wastewater Agreements Between Cities of Texarkana, Texas and Texarkana, Arkansas

South Regional Wastewater Facilities

A wastewater agreement dated March 1, 1983, was entered into between the City of Texarkana, Arkansas and the City of Texarkana, Texas. The agreement is a supplement to the previous agreement and provides that the City of Texarkana, Texas will process the wastewater from the City of Texarkana, Arkansas and charge the City of Texarkana, Arkansas the same amount per one thousand gallons as computed to be the cost to the City of Texarkana, Texas for wastewater treatment. The calculation of cost for retail customers billed on the City Rate Ordinance is based on the metered retail water sales of each City to the total retail water sales for both Cities. The contract wastewater treatment cost to the Cities is based on metered wastewater treated in combination with the retail customers for each City to the total for both Cities.

The agreement further provides that, when the indebtedness of the City of Texarkana, Texas incurred in connection with the acquisition and construction of the wastewater treatment facilities has been discharged, the City of Texarkana, Texas will convey to the City of Texarkana, Arkansas an undivided interest in the system facilities used to serve Arkansas. Texarkana, Arkansas' undivided interest in the facilities shall be a pro rata portion of the total payments on bond obligations made on the system by both Texarkana, Texas and Texarkana, Arkansas. In 2011, the Arkansas Utilities made transfers to the Texas Utilities for debt service in the amounts of \$32,800. The effective transfer of assets pursuant to this agreement has been recorded as a capital lease between the Utilities.

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

McKinney Bayou Wastewater Facilities

A wastewater agreement dated December 15, 1997, was entered into between the City of Texarkana, Arkansas and the City of Texarkana, Texas. The agreement relates to the operation and maintenance of a wastewater treatment facility, known as the McKinney Bayou Wastewater Facilities (the facilities), and related transmission lines located within the City of Texarkana, Arkansas to be used for the collection and treatment of a portion of the two cities' wastewater. The agreement provides that the City of Texarkana, Arkansas will process a portion of the wastewater from the City of Texarkana, Texas. The City of Texarkana, Texas will pay the City of Texarkana, Arkansas the same amount per one thousand gallons as computed to be the cost to the City of Texarkana, Arkansas for wastewater treatment. The calculation of cost for retail customers billed is based on the metered retail water sales of each City, whose wastewater is treated in the facilities, to the total retail water sales for both Cities, whose wastewater is being treated in the facilities.

The agreement further provides that, when the indebtedness of the City of Texarkana, Arkansas incurred in connection with the acquisition and construction of the wastewater treatment facilities has been discharged, the City of Texarkana, Arkansas will convey to the City of Texarkana, Texas an undivided interest in the system facilities used to serve Texas. Texarkana, Texas' undivided interest in the facilities shall be a pro rata portion of the total payments on bond obligations made on the system by both Texarkana, Arkansas and Texarkana, Texas. In 2011, the Texas Utilities made transfers to the Arkansas Utilities for debt service in the amounts of \$109,638. The effective transfer of assets pursuant to this agreement has been recorded as a capital lease between the Utilities.

Note 9: Water Supply

Texarkana Reservoir

In 1953, the Cities of Texarkana, Texas and Arkansas entered into a contract with the U. S. Government for the right to withdraw up to 13 million gallons of water per day from Texarkana Reservoir. The term of the agreement is for fifty years from the effective date. Annual payments of \$7,000 are required. The U. S. Government has extended the contract pending execution of a new agreement expected to be completed in the near future.

In 1968, the City of Texarkana, Texas entered into two agreements with the U. S. Government for water rights in the Texarkana Reservoir. The first agreement dated April 16, 1968, provides for the reallocation of an additional 120,000 acre-feet of water storage in Texarkana Reservoir to the City of Texarkana after the completion of Cooper Reservoir. This space will become available to Texarkana effective with the later of 1) the date Cooper Reservoir becomes operative for storage of water for flood control or 2) the date of completion of modification to Texarkana Reservoir which is required to affect the conversion of storage space therein from flood control use to municipal and industrial water supply use. The term of contract is for as long as the Government continues to operate Texarkana Reservoir. Payments of \$269,308 per year for 50 years are estimated beginning upon the effective date of water withdrawal.

City of Texarkana, Arkansas

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December 31, 2011

The second contract is for the purpose of providing the City of Texarkana, Texas an additional water supply until Cooper Reservoir is completed and modifications are made to Texarkana Reservoir to convert additional storage to municipal and industrial use. This contract dated September 16, 1968, provides for 84 million gallons per day in addition to the 13 million gallons provided in the 1953 contract. The terms of this contract is fifty years and the annual payment is \$55,300.

Millwood Reservoir

The City of Texarkana, Arkansas has entered into a contract with the Southwest Arkansas Water District (Water District) to reserve storage space sufficient to provide 50 million gallons of water per day (MGD) from the Millwood Reservoir. The reservation of storage space ensures that the City will have the contracted quantity of water available when needed. Payments to the Water District of \$639,048 prior to September 30, 1985 have been capitalized as deferred charges and are allocated 55% to Arkansas and 45% to Texas pursuant to an agreement between the two cities. Total deferred charges were fully amortized at September 30, 2011.

Payments were made to the water district for water used from the reservoir totaling \$183,642 for fiscal year 2011. These amounts are included in Water Production costs of the Arkansas Utilities and Texas Utilities based on the contract percentages of 55% and 45%, respectively.

Note 10: Mandeville and Union Acquisitions

Since 1994, the City of Texarkana, Arkansas through its water department, Texarkana Water Utilities, has operated the Mandeville and Union water corporations under terms of operating agreements with the corporations. The non-profit corporations were initially established to provide water to mostly rural customers located east of the city limits of Texarkana, Arkansas. The Mandeville system serves approximately 336 customers and Union serves about 1,087 customers. In the late 1990's, Texarkana, Arkansas annexed areas east of the City that encompassed large portions of both corporation's service areas. In part, because of this, the board of directors for each corporation expressed interest in selling their water systems to the City. During 2004, the City was able to obtain low interest loans from the Arkansas Soil and Water conservation Commission to assist in the acquisition and rehabilitation costs of the two systems. The loans were structured in the form of revenue bonds issued by the City of Texarkana, Arkansas Public Facilities Board (PFB). On February 9, 2004, the PFB issued the City of Texarkana, Arkansas Public Facilities Board Water Facilities Acquisition Revenue Bond, Series 2004A, in the amount of \$2,170,000 to provide funds to pay off the existing balances of the corporations' USDA Rural Development loans and to pay related engineering and issuance costs. For this, the City obtained all the assets and liabilities of the corporations.

City of Texarkana, Arkansas
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December 31, 2011

On November 10, 2004, the PFB issued the City of Texarkana, Arkansas Public Facilities Board Water Facilities Improvement Revenue Bond, Series 2004B, in the amount of \$3,830,000, to finance the costs of improvements to the recently acquired Mandeville and Union systems and to pay costs of issuance of the bond. The City will continue to utilize the existing water rates used in the respective corporation service areas and will maintain separate accounting funds for each system. The existing rates, which are slightly higher than the City's regular water rates, are necessary to adequately fund the operations and debt service of the respective improved systems.

Note 11: Pension Plans

Pension Trust Funds

Substantially all of the City's employees receive retirement benefits. The City sponsors 4 single employer defined benefit plans. The City also contributes to the Local Police and Fire Retirement System, a statewide agent multiple-employer defined benefit pension plan and the District Judges' division of Arkansas Public Employees Retirement System (APERS), a statewide cost-sharing multiple-employer public retirement system. The assets of the plans are maintained in legally separate trusts and each plan's assets may be used only for the payment of benefits to the members of that plan or their beneficiaries in accordance with the terms of the plan.

A. *Summary of Significant Accounting Policies*

Basis of Accounting

The City of Texarkana's financial statements for its defined benefit plans are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. City contributions to each plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Determine Fair Value of Investments

The fair value of investments other than mutual funds is determined using quoted market prices. The fair value of investments in mutual funds is determined using the fund's current per share price.

City of Texarkana, Arkansas
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B. Membership Information

Membership of each plan consisted of the following at December 31, 2011:

	City Employee Retirement System	Utility Employee Retirement System	Firemen's Relief and Pension	Policemen's Relief and Pension
Retirees and beneficiaries receiving benefits	30	14	36	47
Active plan members	67	55	-	-
Terminated members	48	14	-	-
Members on Deferred Retirement Option Plan (DROP)	-	-	1	1
Total	<u>145</u>	<u>83</u>	<u>37</u>	<u>48</u>

City of Texarkana, Arkansas
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C. Financial Information

Separate financial reports are not issued on each plan; however, complete financial information, which has been subjected to auditing procedures, has been included in the supplementary information. The following is the condensed financial information of the pension trust funds:

	City Employee Retirement System	Utility Employee Retirement System	Firemen's Relief and Pension	Policemen's Relief and Pension	Total
Assets					
Cash and cash equivalents	\$ 97,214	\$ 109,798	\$ 285,569	\$ 353,548	\$ 846,129
Investments	4,390,424	2,429,800	5,348,053	4,674,343	16,842,620
Receivables	22,842	12,814	15,902	16,526	68,084
Due from other funds	-	-	361,303	361,303	722,606
Total assets	<u>4,510,480</u>	<u>2,552,412</u>	<u>6,010,827</u>	<u>5,405,720</u>	<u>18,479,439</u>
Liabilities					
Accounts payable	<u>3,475</u>	<u>1,198</u>	<u>9,744</u>	<u>8,702</u>	<u>23,119</u>
Total liabilities	<u>3,475</u>	<u>1,198</u>	<u>9,744</u>	<u>8,702</u>	<u>23,119</u>
Net Assets					
Net assets held in trust for pension benefits	<u>\$ 4,507,005</u>	<u>\$ 2,551,214</u>	<u>\$ 6,001,083</u>	<u>\$ 5,397,018</u>	<u>\$ 18,456,320</u>
Statement of Changes in Fiduciary Net Assets					
Additions					
Contributions	\$ 149,973	\$ 479	\$ 439,085	\$ 827,133	\$ 1,416,670
Net investment income (loss)	<u>48,288</u>	<u>27,295</u>	<u>(82,924)</u>	<u>(103,520)</u>	<u>(110,861)</u>
Total additions	<u>198,261</u>	<u>27,774</u>	<u>356,161</u>	<u>723,613</u>	<u>1,305,809</u>
Deductions					
Benefits paid directly to participants	365,177	50,942	598,189	1,199,468	2,213,776
Administrative expenses and other	<u>75,922</u>	<u>26,921</u>	<u>4,500</u>	<u>4,500</u>	<u>111,843</u>
Total deductions	<u>441,099</u>	<u>77,863</u>	<u>602,689</u>	<u>1,203,968</u>	<u>2,325,619</u>
Change in Net Assets	(242,838)	(50,089)	(246,528)	(480,355)	(1,019,810)
Net Assets Held in Trust For Pension Benefits, Beginning of Year	<u>4,749,843</u>	<u>2,601,303</u>	<u>6,247,611</u>	<u>5,877,373</u>	<u>19,476,130</u>
Net Assets Held in Trust For Pension Benefits, End of Year	<u>\$ 4,507,005</u>	<u>\$ 2,551,214</u>	<u>\$ 6,001,083</u>	<u>\$ 5,397,018</u>	<u>\$ 18,456,320</u>

City of Texarkana, Arkansas
Notes to Financial Statements
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D. Plan Descriptions and Funding Information

The *Texarkana, Arkansas Public Employees Retirement System (TAPERS)* is a single-employer defined benefit pension plan administered by the Retirement Board of the City. All City employees not covered by one of the other City retirement plans are eligible to participate in the TAPERS. The plan funds are held by an independent trustee.

TAPERS provides retirement benefits as well as death and disability benefits. Benefits vest on a graded schedule of 0% after 5 years, 20% after 6 years with an additional 20% added each year after that. Benefits are 100% vested after 10 years. Employees who retire at age 65 are entitled to a benefit of 1.8% of average annual compensation for each year of service. Average compensation is the average at the 5 consecutive years which give the highest result. Employees may retire early at or after age 55 with ten years of service. The benefit is computed as for normal retirement, but for participants who retire prior to age 60 with less than 20 years of vesting service, the benefit is reduced by 1/360th for each month preceding normal retirement date. Participants who are 60 years of age and have completed 20 years of vesting service or who are 55 year of age and have completed 30 years of vesting service have no reduction of their accrued benefits. The benefit is paid as a monthly life annuity. Other options may be elected. Late retirement, pre-retirement death benefits and disability benefits are also available in an amount actuarially equivalent to the present value of accrued benefits. There are no automatic Cost of Living Adjustments (COLAs) in this plan. No ad hoc COLAs have been given in the past.

Contributions to the TAPERS are funded by the City of Texarkana, Arkansas. The annual contribution is guided by an annual cost valuation based on the frozen entry age cost method. However, since there is no longer any initial unfunded accrued liability, it is equivalent to the aggregate method. The Annual Required Contribution (ARC) is defined based on the aggregate cost method. Because this method does not identify or separately amortize unfunded actuarial accrued liabilities, information about funded status and funding progress is presented using the entry age actuarial cost method and the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan. Administrative costs are financed from the trust. There are no employee contributions. Employer contributions for the year ended December 31, 2011, were \$146,262.

The asset concentrations of over 5% are as follows:

MFS Value Fund	\$ 466,514
Growth Fund of America (F2)	430,692
I Shares S + P 500	269,582

As of June 30, 2011, the most recent actuarial valuation date, the TAPERS was 56% funded. The actuarial accrued liability for benefits was \$8,610,000, and the actuarial value of assets was \$4,796,000, resulting in an unfunded entry age accrued liability (UEAAL) of \$3,814,000. The covered payroll (annual payroll of active employees covered by the plan) was \$2,167,045 and the ratio of the UEAAL to the covered payroll was 176%.

City of Texarkana, 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. 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 whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The ***Police Relief and Pension Fund (PRPF)*** is a single-employer defined benefit pension plan administered by a Board of Trustees, established in accordance with legislation enacted by the Arkansas General Assembly. Benefit provisions are established by State of Arkansas Act #16, as amended. Policemen’s Fund assets are administered by a Board of Trustees.

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

Contributions to the Policemen’s Fund are set forth in Arkansas statute. The City’s contribution to the Policemen’s Fund consists of a one mill real and personal property tax collection, an insurance premium tax turnback collected by the State Insurance Commissioner, and a percentage of fines and forfeitures collected. Additionally, the City contributes a percentage of the policemen’s salaries, which amounted to 7% during 2011. The participants contributed 7% of their salaries in 2011. Participant contributions are returned without interest if the participant terminates covered employment. Administrative costs are financed by the Policemen’s Fund. Total 2011 contributions to the Policemen’s Fund were \$827,133. The City’s share of contributions was \$826,192 and included \$377,030 in property taxes and \$141,427 in state insurance premium taxes and other supplements received from the state. On behalf payments (state insurance premium taxes and other supplements received from the state) are recognized as revenues and expenditures in the appropriate fund.

The asset concentrations of over 5% are as follows:

Federated Auto Cash Management TR#75	\$ 353,548
Merrill Lynch & Co. MTN	252,343
Ishares Russell 1000 Growth Index Fund	322,468

As of December 31, 2010, the most recent actuarial valuation date, the PPRF was 31% funded. The actuarial accrued liability for benefits was \$18,073,059, and the actuarial value of assets was \$5,559,288, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,513,771. There is no covered payroll as there are no active employees.

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

The *Firefighter's Relief and Pension Fund (FRPF)* is a single-employer defined benefit pension plan administered by a Board of Trustees, established in accordance with legislation enacted by the Arkansas General Assembly. Benefit provisions are established by State of Arkansas Act #14, as amended. Fund assets are administered by a Board of Trustees.

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

Contributions to the FRPF are set forth in Arkansas statute. The City's contribution to the FRPF consists of a one mill real and personal property tax collection and an insurance premium tax turnback collected by the State Insurance Commissioner. Additionally, the City contributes a percentage of the firemen's salaries which amounted to 7% during 2011. The participants contributed 7% of their salaries in 2011. Participant contributions are returned without interest if the participant terminates covered employment. Administrative costs are financed through Fund assets approved by the Board of Trustees. Total 2011 contributions to the FRPF were \$439,085. The City's share of contributions was \$431,559 and included \$287,047 in property taxes and \$86,243 in state insurance premium taxes and other supplements received from the state. On behalf payments (state insurance premium taxes and other supplements received from the state) are recognized as revenues and expenditures in the appropriate fund.

The asset concentrations of over 5% are as follows:

Federated Auto Cash Management TR#75	\$ 284,489
Blackrock Low Duration Bond Fund	520,019
Goldman Sachs Strategic Income Fd 3716	285,337
Ishares Russell Midcap Value Index Fund	318,990
Ishares Russell Midcap Growth Index Fund	444,254
Ishares Russell 1000 Growth Index Fund	399,907

As of December 31, 2010, the most recent actuarial valuation date, the FRPF was 70% funded. The actuarial accrued liability for benefits was \$8,425,810, and the actuarial value of assets was \$5,929,525 resulting in an unfunded actuarial accrued liability (UAAL) of \$2,496,285. There is no covered payroll as there are no active employees.

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

The *Texarkana, Arkansas Water Utilities Employee Retirement System (TWAUERS)* is a single-employer, defined benefit pension plan established under Arkansas state law. Plan assets are administered by a committee appointed by the Texarkana, Arkansas Board of Directors. The plan funds are held by an independent trustee.

The TWAUERS Plan provides retirement, disability, and survivor benefits to participating employees and/or their beneficiaries or dependents who have met eligibility requirements set forth in the Plan's benefit provisions.

The TWAUERS Plan was frozen as of November 15, 2000. The annual contribution is guided by an annual cost valuation based on the frozen entry age cost method. However, since there is no longer any initial unfunded accrued liability, it is equivalent to the aggregate cost method. The Annual Required Contribution (ARC) is defined based on the aggregate cost method. Because this method does not identify or separately amortize unfunded actuarial accrued liabilities, information about funded status and funding progress is presented using the entry age actuarial cost method and the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan. Administrative costs are financed from the trust. There are no contributions to the plan for the year ended December 31, 2011.

The asset concentrations of over 5% are as follows:

MFS Value Fund	\$ 257,866
Growth Fund of America Class F2	238,245
I Shares S + P 500	148,687
US Treasury	137,369

As of December 31, 2010, the most recent actuarial valuation date, the TWAUERS Plan was 206% funded. The actuarial accrued liability for benefits was \$1,283,000, and the actuarial value of assets was \$2,643,000.

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

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	2011 Annual Pension Cost and Net Pension Obligation (Asset)				
	Firefighters Fund	Police Fund	TAPERS Plan	TWAUERS Plan	TMRS Plan
Annual required contributions	\$ 562,851	\$ 2,821,547	\$ 621,000	\$ -	\$ 412,302
Interest on net pension obligation (asset)	(25,890)	364,946	110,618	22,142	11,326
Adjustment to annual required contribution	(116,753)	1,645,728	162,745	34,722	9,388
Annual pension cost	653,714	1,540,765	568,873	(12,580)	414,240
Contributions made	400,675	750,289	141,522	-	339,930
Increase (decrease) in net pension obligation (asset)	(253,039)	(790,476)	(427,351)	(12,580)	(74,310)
Net pension obligation(asset), beginning of the year	(517,809)	7,298,925	931,028	(65,930)	141,010
Net pension obligation (asset), end of the year	<u>\$ (264,770)</u>	<u>\$ 8,089,401</u>	<u>\$ 1,358,379</u>	<u>\$ (53,350)</u>	<u>\$ 215,320</u>

Actuarial Assumptions

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

The State of Arkansas Fire and Police Pension Review Board is responsible for the coordination of the actuarial valuations performed on the Police and Firefighters Relief and Pension Funds. Actuarial evaluations are performed biennially and the last evaluation was for the year ended 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, and amortization period of 5 years for active participants and 5 years for retirees, investment rate of return decreased from 7% to 5%, 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 2010 was 29 years.

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Three-Year Trend Information

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Police Fund	12/31/2009	\$ 1,429,723	38%	\$ 5,992,591
	12/31/2010	1,857,993	30%	7,298,925
	12/31/2011	1,540,765	49%	8,089,401
Firefighters Fund	12/31/2009	\$ 365,230	96%	\$ (1,002,868)
	12/31/2010	802,462	40%	(517,809)
	12/31/2011	653,714	61%	(264,770)
TAPERS	12/31/2009	\$ 272,945	50%	\$ 650,644
	12/31/2010	415,418	33%	931,028
	12/31/2011	568,873	25%	1,358,379

The *Arkansas District Judges Retirement System* (ADJRS) provides pension benefits for the City's municipal judges. In accordance with Act 1374 of 2003, the ADJRS was established effective January 1, 2005 and the City's local plan was abolished. A deferred benefit was established for all district judges and court clerks in the local plans that were active on December 31, 2004. These deferred annuities will be eligible for benefits when the eligibility requirements for their previous local plans are met. Acct 177 of the 86th General Assembly abolished the ADJRS and transferred all powers, duties and plan liabilities to the Arkansas Public Retirement System (APERS) effective July 1, 2007. The APERS plan, which includes the District Judges' division, is a cost-sharing multiple-employer public retirement systems. All current members in the former ADJRS system maintain the same benefit package.

APERS issues a stand-alone financial report which may be obtained by writing to 124 West Capitol Avenue, Suite 400, Little Rock, AR 72201. However, the actuarial information specifically for the City is not available because ADJRS only has an actuarial valuation for the system as a whole.

The City's contributions to APERS for the District Judges division for the years ending December 31, 2011, 2010 and 2009, were \$41,492, \$39,624, and 40,100, respectively, equal to the required contributions for each year.

Agent Multiple-Employer Defined Benefit Pension Plans

The *Local Police and Fire Retirement System (LOPFI)* is a statewide agent multiple-employer retirement program that provides retirement, disability, and survivor benefits to police and fire employees of political subdivisions of the State of Arkansas. LOPFI was created by Act 364 of the 1981 General Assembly. The authority to establish and amend benefit provisions is set forth in Arkansas state statutes and is vested in the Arkansas Legislature with the concurrence of the Governor. Employees hired after January 1, 1983, whose political subdivision had a retirement

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system in effect at July 1, 1981, are eligible to participate in the Plan. LOPFI issues a publicly available financial report that includes financial statements and required supplementary information of the Plan, which may be obtained by contacting the following:

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

Contribution requirements are set forth in Arkansas statute. LOPFI members were required to contribute 8.5% of their annual covered salary. The City is required to contribute at an actuarially determined rate, which was 11.13% for participating policemen and 16.01% for participating firemen.

For 2011, the City's annual pension cost was \$446,122 for policemen and \$438,083 for firemen, which was equal to the required and actual contributions. Neither Plan has a net pension obligation (NPO). The required contributions were determined as part of the December 31, 2010, actuarial valuation using the entry age actuarial cost method.

Actuarial assumptions used were 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% salary increases, 3% postretirement annual increases, and 4% inflation. The actuarial value of assets was determined using techniques that smooth 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, 2010 was 27 years.

Covered payroll refers to all recurring compensation paid by the City to active employees covered by the Arkansas Local Police and Fire Retirement System.

As of December 31, 2010, the most recent actuarial valuation date, the Police plan was 72% funded. The actuarial accrued liability for benefits was \$18,138,224 and the actuarial value of assets was \$13,076,437 resulting in an unfunded actuarial accrued liability (UAAL) of \$5,061,787. The covered payroll (annual payroll of active police employees covered by the plan) was \$4,427,960 and the ratio of the UAAL to the covered payroll was 114%.

As of December 31, 2010, the most recent actuarial valuation date, the Fire plan was 84% funded. The actuarial accrued liability for benefits was \$12,388,012 and the actuarial value of assets was \$10,460,005 resulting in an unfunded actuarial accrued liability (UAAL) of \$1,928,007. The covered payroll (annual payroll of active police employees covered by the plan) was \$2,927,443 and the ratio of the UAAL to the covered payroll was 66%.

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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.

The *Texas Municipal Retirement System* (TMRS) provides pension benefits for all of the Utilities full-time employees through a non-traditional, joint contributory, defined benefit plan in the state-wide TMRS, an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the Utilities are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS at P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

Using the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually, the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the Utility. Both the normal cost contribution rate and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The Utility contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the Utility make contributions monthly. Since the Utility needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuations that serves as the basis of the rate and the calendar year when the rate goes into effect.

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

As of December 31, 2010, the most recent actuarial valuation date, the Plan was 59.1% funded based on the actuarial valuation performed under the original fund structure. The actuarial accrued liability for benefits was \$22,047,441 and the actuarial value of assets was \$13,035,637 resulting in an unfunded actuarial accrued liability (UAAL) of \$9,011,804. The covered payroll (annual payroll of active employees covered by the plan) was \$5,992,610 and the ratio of the UAAL to the covered payroll was 150%. Based on the actuarial valuation performed under the new fund

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structure, the Plan was 72.8% funded. The actuarial accrued liability for benefits was \$28,429,377 and the actuarial value of assets was \$20,704,900 resulting in an unfunded actuarial accrued liability (UAAL) of \$7,724,477. The covered payroll (annual payroll of active employees covered by the plan) was \$5,992,610 and the ratio of the UAAL to the covered payroll was 129%.

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.

Three-Year Trend Information

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
LOPFI – Policemen	12/31/2008	\$ 401,727	100%	\$ -
	12/31/2009	403,893	100%	-
	12/31/2010	446,122	100%	-
LOPFI – Firemen	12/31/2008	\$ 398,354	100%	\$ -
	12/31/2009	418,789	100%	-
	12/31/2010	438,083	100%	-
TMRS	9/30/2009	\$ 335,862	82%	\$ 60,569
	9/30/2010	391,649	79%	143,777
	9/30/2011	420,623	82%	219,246

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Actuarial Assumptions

The information presented was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation (actuarial valuations are performed bi-annually) follows:

	Police Relief and Pension Fund	Firefighters Relief and Pension Fund	Texarkana, Arkansas Public Employee Retirement System	Texarkana, Arkansas Water Utility Employee Retirement System	Local Police and Fire Retirement System – Firemen	Texas Municipal Retirement System
Actuarial valuation date	12/31/2010	12/31/2010	6/30/2011	6/30/2011	12/31/2010	12/31/2010
Actuarial cost method	Entry age normal	Entry age normal	Aggregate	Aggregate	Entry age normal	Projected unit credit
Amortization method	Level percent closed	Level percent closed	Not applicable	Not applicable	Level percent open	Level percent open
Remaining amortization period	5 years	5 years	Not applicable	Not applicable	30 years	30 years
Asset valuation method	Market	Market	Market	Market	5-year smoothed market	10-year smoothed market
Actuarial assumptions: Investment rate of return*	5%	5%	6%	6%	8%	(1)
Projected salary increases*	4.2-8.0%	4.2-8.0%	3.0%	N/A	4%	Varies by age and service
*Includes inflation at	4%	4%	2%	2%	4%	3%
Cost-of-living adjustments	None	None	None	None	None	2.1%

(1) Investment rate of return 7.5% before restructuring and 7.0% after restructuring

Note 12: Other Post-employment Benefits

Governmental Activities

Plan Description: The City of Texarkana sponsors and administers an informal single-employer defined benefit healthcare plan. Arkansas statute provides that any municipal city official or employee vested in any of the City’s retirement plans with 20 years of service and attains 55 years of age 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.

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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. Currently, retired employees who retire under age 55 and employees retiring who are under age 55 are eligible to continue medical coverage only with a lifetime maximum benefit of \$250,000 provided they have participated in the Fund for at least five years. Such retired employees and their dependents shall not have benefit of the stop-loss provision or have dental and vision benefits. Retired employees who retired at age 55 and over are eligible to continue medical, dental and vision coverage only. All retired employees shall be entitled to \$5,000 annual reinstatement of benefits. Retired employees may remain covered provided the City remains in the Municipal Health Benefit Fund.

As of December 31, 2011, there are 13 retirees participating in the post-employment health benefit program. Participant contributions totaled \$60,147 in 2011.

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 of the employer (ARC), 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 (or funding excess) 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	\$ 127,593
Interest on net OPEB obligation	2,675
Adjustment to annual required contribution	<u>(3,164)</u>
Annual OPEB Cost	127,104
Total annual contribution	<u>(60,147)</u>
Increase in net OPEB obligation	66,957
Net OPEB obligation – beginning of year	<u>48,645</u>
Net OPEB obligation – end of year	<u>\$ 115,602</u>

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

Normal cost	\$ 40,120
Interest	6,652
Amortization cost	<u>80,821</u>
Annual required contribution (ARC)	<u>\$ 127,593</u>

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/11	\$ 127,104	47.3%	\$ 115,602
12/31/10	\$ 85,324	43.0%	\$ 48,645
12/31/09	N/A	N/A	N/A

Funded Status and Funding Progress: As of December 31, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,239,234, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,239,234.

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 projected unit credit actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 10.0% initially, reduced by decrements to an ultimate rate of 5.0% after nine years. Both rates include a 5.5 percent inflation assumption. The UAAL is being amortized using a level percent of payroll on an open basis over 30 years.

Proprietary funds

In addition to the retirement benefits described in *Note 11*, eligible employees hired before January 1, 2010 receive upon retirement 1) a lump sum payment of their sick leave balance at retirement which is equal to their sick leave hours (limited to 720 for non-Civil Service) valued at their hourly pay rate, and 2) an additional amount equal to their sick leave balance used to pay future monthly healthcare contributions. Since the sick leave balance in item two can only be used for healthcare, it is included as another post-employment benefit (OPEB).

Funding Policy: The annual required contribution (ARC) is the periodic required contribution to fund the post employment healthcare benefits of both active and inactive participants.

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

Annual OPEB Cost and Net OPEB Obligation: The TWU’s annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), 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 30 years. The following table shows the components of the TWU’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the TWU’s net OPEB obligation:

Normal costs	\$ 25,655
Amortization of UAAL	<u>27,814</u>
Annual required contribution	53,469
Interest on prior year net OPEB obligation	2,579
Annual required contribution adjustment	<u>(3,729)</u>
Annual OPEB cost	52,319
Total annual contribution	<u>(3,620)</u>
Increase in net OPEB obligation	48,699
Net OPEB obligation – beginning of year	<u>60,870</u>
Net OPEB obligation – end of year	<u>\$ 109,569</u>

The TWU’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/11	\$ 52,319	6.92%	\$ 109,569
9/30/10	\$ 47,529	22.05%	\$ 60,870
9/30/09	\$ 43,958	45.80%	\$ 23,823

Funded Status and Funding Progress: As of October 1, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$109,569, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$109,569.

City of Texarkana, Arkansas

Notes to Financial Statements

December 31, 2011

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 October 1, 2010, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 5% after eleven years and salary increases of 4%. Both healthcare cost trend rates include a 2.75% inflation assumption. The actuarial value of assets was determined using the market value of assets as of the valuation date, if any. The UAAL is being amortized using a level percent of payroll on an open basis over thirty years.

Note 13: Risk Management

Insurance Coverage

The City and its component units have various insurance policies to cover their potential liability risk areas (*i.e.*, automobile, personal property, contents and outside structures and workers' compensation). The type of coverage and the liability limits vary with each entity. Coverage is provided through the Arkansas Public Entities Risk Management Association (APERMA), which is an association of local governments. APERMA provides the City with property coverage. The City shall pay into the program each year a charge established annually by the Risk Management Fund Board for covered City property.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors.

City of Texarkana, Arkansas

Notes to Financial Statements

December 31, 2011

The city provides statutory workmen's compensation benefits under an insured plan of the Arkansas Municipal League Workers Compensation Trust. Costs of the program are charged to the appropriate fund. Contributions are made by members and the funds are deposited in the Trust account managed by the Arkansas Municipal League and used to pay claims. Depending on the status of the fund at the end of the year, assessments are made or dividends are declared. Unpaid claims reserve represents Arkansas Municipal League's estimation of the amount to be paid for the claims submitted.

There have been no significant reductions in coverage from 2010 to 2011; nor have settlement amounts exceeded insurance coverage for each of the past three years.

Note 14: Property Taxes

City property taxes are levied each November on the assessed value listed as of January 1 for all real and personal property located in the City. The property tax is considered due the first Monday in January (the lien date) after the levy; however, the tax is not considered delinquent until October 16 of that year. As a result, the majority of the tax is not collected within the time frame necessary to finance the liabilities of the current period. Property taxes, which remain delinquent for a period of three years, are certified to the land commissioner where a lien is recorded and held on file. If property taxes remain delinquent for a period of seven years, the property will be subsequently sold by the land commissioner. If proceeds from the sale are sufficient to cover all claims, the City will collect on the past due property taxes. Miller County is the collecting agent and remits collections to the City, net of a collection fee, on a monthly basis.

In the governmental funds, property taxes are measurable when levied even though not available. As a result, at December 31, 2011, property taxes receivable and related deferred revenues of \$3,388,942 have been recorded in the governmental funds. In the government-wide statement of net assets, property taxes are considered earned at the time levied. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible. The appraised value of taxable property upon which the property tax is levied is determined by the county assessor. The assessor estimates full market value of the property and applies the statutory rate of 20% to arrive at assessed value.

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

Note 15: Other Required Disclosures

The following governmental fund has a deficit fund balance as of December 31, 2011:

Fund	Fund Type	Amount
Community Development Block Grant (CDBG)	Nonmajor special revenue	\$ 3,994
		<u>\$ 3,994</u>

CDBG revenues are deferred as they were not received within 60 days of year end and therefore not available for current year expenditures and are not recognized in the fund financials.

Note 16: Contingencies

The City participates in several federal financial assistance programs. The City's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996, and are subject to resolution of questioned costs, if any. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time.

The City is a member of the Arkansas Public Entities Risk Management Association (APERMA). The program shall provide legal defense in civil rights suits against the City government of a participating City and pay judgments imposed on City officials and employees and the City government and city-formed boards and commissions. Coverage is limited to \$350,000 per case with an annual aggregate of \$350,000. The City shall pay into the program each year a charge established annually by the Risk Management Fund Board for this coverage. In the opinion of the City Attorney, the amount of financial exposure to the City as a result of litigation matters handled by the Program is not significant to the City.

In a federal court action, the City sought to compel the City of Texarkana, Texas to arbitrate various issues relating to the operation and management of Texarkana Water Utilities, a jointly-operated partnership between the two cities. The U.S. District Judge has recently rendered a decision in this action denying in part and granting in part the arbitration relief sought by the City. No provision has been made in the financial statements for any adverse outcome that might ultimately result from the potential arbitration, as the amount of loss, if any, is not reasonably estimable.

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

City of Texarkana, Arkansas
Notes to Financial Statements
December 31, 2011

However, events could occur in the near term that would cause these estimates to change materially.

Note 17: Current Economic Conditions

The current protracted economic decline continues to present local governments with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, declines in tax revenue, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the City.

Current economic conditions have made it difficult for some taxpayers to continue supporting the local economy through the purchasing of goods and services. The result could cause a decline in tax revenue that could have a negative impact on the City's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change in the near term, resulting in future adjustments in investment values, allowances for accounts receivable, etc. that could negatively impact the City's ability to meet debt covenants or maintain sufficient liquidity.

Note 18: Subsequent Events

In the first quarter of 2012, the City initiated the process for the sale of Franchise Fee Secured Refunding Revenue Bonds, Series 2012 in an amount not to exceed \$10,300,000. The proceeds from the bonds will be used to refund the City's \$9,735,000 outstanding principal amount of the City's Franchise Fee Secured Capital Improvement and Refunding Revenue Bonds, Series 2008 and paying the costs of issuing the Series 2012 Bonds. The expected savings from the refunding is approximately \$830,000 spread over 29 years. Issuance was finalized in May 2012.

In the second quarter of 2012, the City initiated the process of refunding the 2000 General Obligation debt with a maximum amount of \$1,100,000 and the issuance of Street Improvement Bonds not to exceed \$9,800,000. The City obtained voter approval in June 2012 with a special election.

Required Supplementary Information

City of Texarkana, Arkansas
Defined Benefit Pension Plans – Required Supplementary Information
Schedules of Employer Contributions
Year Ended December 31, 2011

	Year Ended	Annual Required Contribution	Percentage Contributed
Police Relief and Pension Fund	12/31/06	\$ 1,879,402	25%
	12/31/07	1,830,576	28%
	12/31/08	1,800,760	28%
	12/31/09	2,189,169	24%
	12/31/10	2,909,545	19%
	12/31/11	2,821,547	27%
	Firefighters Relief and Pension Fund	12/31/06	253,610
12/31/07		34,201	1119%
12/31/08		7,937	4732%
12/31/09		213,452	164%
12/31/10		626,483	51%
12/31/11		562,851	71%
Texarkana, Arkansas Public Employee Retirement System	12/31/06	243,000	51%
	12/31/07	280,000	45%
	12/31/08	225,000	67%
	12/31/09	310,000	44%
	12/31/10	462,000	29%
	12/31/11	621,000	23%

City of Texarkana, Arkansas
Defined Benefit Pension Plans – Required Supplementary Information
Schedules of Funding Progress
Year Ended December 31, 2011

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
Police Relief and Pension Fund	12/31/03	\$ 8,236,742	\$ 14,939,286	\$ 6,702,544	55%	\$ 48,408	13846%
	12/31/05	7,372,044	16,143,306	8,771,262	46%	52,189	16807%
	12/31/07	7,434,152	15,610,359	8,176,207	48%	52,189	15667%
	12/31/08	5,669,212	15,611,712	9,942,500	36%	52,189	19051%
	12/31/09	5,667,804	18,473,524	12,805,720	31%	54,778	23378%
	12/31/10	5,559,288	18,073,059	12,513,771	31%	-	N/A
Firefighters Relief and Pension Fund	12/31/03	5,528,471	5,634,284	105,813	98%	117,764	90%
	12/31/05	5,936,040	6,963,764	1,027,724	85%	130,112	790%
	12/31/07	6,336,648	6,372,901	36,253	99%	130,112	28%
	12/31/08	5,279,707	6,254,651	974,944	84%	130,112	749%
	12/31/09	5,945,122	8,723,621	2,778,499	68%	-	N/A
	12/31/10	5,929,525	8,425,810	2,496,285	70%	-	N/A
Local Police and Fire Retirement System - Policemen	12/31/05	9,645,610	8,635,165	(1,010,445)	112%	3,192,482	-32%
	12/31/06	10,951,879	9,935,373	(1,016,506)	110%	3,398,819	-30%
	12/31/07	12,394,343	11,293,814	(1,100,529)	110%	3,669,851	-30%
	12/31/08	12,774,566	13,421,624	647,058	95%	4,068,509	16%
	12/31/09	12,728,124	16,077,956	3,349,832	79%	4,103,468	82%
	12/31/10	13,076,437	18,138,224	5,061,787	72%	4,427,960	114%
Local Police and Fire Retirement System - Firemen	12/31/05	6,142,347	5,603,397	(538,950)	110%	2,107,103	-26%
	12/31/06	7,422,413	7,093,954	(328,459)	105%	2,441,447	-13%
	12/31/07	7,990,805	8,040,549	49,744	99%	2,549,145	2%
	12/31/08	9,005,833	10,251,223	1,245,390	88%	2,835,422	44%
	12/31/09	9,365,600	11,117,082	1,751,482	84%	2,793,788	63%
	12/31/10	10,460,005	12,388,012	1,928,007	84%	2,927,443	66%
Texarkana, Arkansas Public Employees Retirement System (TAPERS)	6/30/06	5,418,000	6,307,000	889,000	86%	1,677,358	53%
	6/30/07	5,740,000	6,375,000	635,000	90%	1,476,744	43%
	6/30/08	5,026,000	6,488,000	1,462,000	78%	1,447,525	101%
	6/30/09	4,393,000	6,888,000	2,495,000	64%	1,549,689	161%
	6/30/10	4,342,000	8,180,000	3,838,000	53%	1,541,365	249%
	6/30/11	4,796,000	8,610,000	3,814,000	56%	2,167,045	176%
Texarkana, Arkansas Water Utilities Employees Retirement System (TWAUERS)	6/30/06	2,687,000	1,421,000	(1,266,000)	189%	-	N/A
	6/30/07	2,827,000	1,366,000	(1,461,000)	207%	-	N/A
	6/30/08	2,602,000	1,268,000	(1,334,000)	205%	-	N/A
	6/30/09	2,266,000	1,275,000	(991,000)	178%	-	N/A
	6/30/10	2,396,000	1,363,000	(1,033,000)	176%	-	N/A
	6/30/11	2,643,000	1,283,000	(1,360,000)	206%	-	N/A
Texas Municipal Retirement System (TMRS)	12/31/06	9,124,356	13,738,077	4,613,721	66%	5,297,108	87%
	12/31/07	9,530,929	17,461,093	7,930,164	55%	5,770,038	137%
	12/31/08	10,554,367	18,830,089	8,275,722	56%	6,203,946	133%
	12/31/09	12,032,748	20,663,402	8,630,654	58%	6,242,307	138%
	(1) 12/31/10	13,035,637	22,047,441	9,011,804	59%	5,992,610	150%
	(2) 12/31/10	20,704,900	28,429,377	7,724,477	73%	5,992,610	129%

Note: The TAPERS and TWAUERS Plans use the aggregate cost method in calculating the annual actuarially required contribution. This method does not identify or separately amortize unfunded actuarial accrued liabilities. Information about funding status and funding progress has been prepared using the entry age actuarial cost method and is intended to serve as a surrogate for funded status and funding progress of the plan.

- (1) Actuarial valuation performed under the original fund structure.
(2) Actuarial valuation performed under the new fund structure.

City of Texarkana, Arkansas
Required Supplemental Information
Other Postemployment Benefit Plans
Schedule of Funding Progress
Year Ended December 31, 2011

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Governmental Activities						
12/31/2009	N/A	N/A	N/A	N/A	N/A	N/A
12/31/2010	-0-	\$ 667,765	\$ 667,765	0%	N/A	N/A
12/31/2011	-0-	\$ 1,239,234	\$ 1,239,234	0%	N/A	N/A
Proprietary Funds						
10/1/2009	-0-	\$ 23,823	\$ 23,823	0%	\$ 6,203,946*	6.25%
10/1/2010	-0-	\$ 60,870	\$ 60,870	0%	\$ 6,242,307*	6.83%
10/1/2011	-0-	\$ 109,569	\$ 109,569	0%	\$ 6,101,086*	7.88%

*TWU combined covered payroll

For the governmental activities, the required contribution was determined as part of the latest actuarial evaluation using the projected unit credit actuarial cost method. The actuarial assumptions used included (a) 4.0% rate of return on investments, (b) an annual healthcare cost trend rate of 10.0% initially reduced by decrements to an ultimate rate of 5.0% after nine years, and (c) mortality rates based on the 1994 Uninsured Pensioners Mortality Table. The unfunded actuarial accrued liability is being amortized using level dollar amount over 30 years on an open basis.

For the proprietary funds, the required contribution was determined as part of the latest actuarial evaluation using the projected unit credit actuarial cost method. The actuarial assumptions used included (a) an annual healthcare cost trend rate of 10.0% initially reduced by decrements to an ultimate rate of 5.0% after eleven years, and (b) mortality rates based on the RP-2000 Combined Male/Female Mortality, projected to 2017 using scale AA and (c) salary increases of 4.0%. The unfunded actuarial accrued liability is being amortized using level dollar amount over 30 years on an open basis.

Nonmajor Governmental Funds

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NONMAJOR GOVERNMENTAL FUNDS

The **Special Revenue Funds** account for resources which are designated by law or contractual agreement for particular functions or activities and are legally required to be accounted for in separate funds. Such resources are derived from specific taxes, federal grant and entitlement monies, and multi-year appropriations.

Community Development Fund (CDBG) – Accounts for CDBG and other funds received from the U.S. Department of Housing and Urban Development. These monies are expended to provide housing or housing assistance to qualifying citizens, to improve neighborhood streets and drainage and to operate community health and recreation facilities.

Police Donations – This fund is established to account for private donations to the City’s Police Department and is used to purchase materials and supplies.

Kline Park Monument – This fund is established to account for private donations to the Kline Park Monument Project and is used to maintain the monument.

Front Street Project – This fund is established to account for private donations to the Front Street Project and is used to improve the Front Street area.

Domestic Violence - This fund is established to account for the revenues and expenditures of the fines and forfeitures dedicated to domestic violence prevention.

Bail Bond – This fund is established to account for the revenues and expenditures related to bail bond fees.

Library – This fund is established to account for the revenues and expenditures related to the Texarkana Public Library. Funding is primarily from property taxes and grants.

Court Automation – This fund is established to set aside a portion of a service fee charged on installment payment of fines and is to be used to fund future court related technology as part of a statewide project with a goal of connecting all Circuit courts and District courts to an automated court system.

North Texarkana Redevelopment District – This fund is established to set aside property tax from the North Texarkana Redevelopment Tax Increment Financing District solely for the purpose of development within that district.

YouthBuild – This fund is established to account for the revenues and expenditures of the Department of Housing and Urban Development – YouthBuild Grant Funds.

Public Safety – This fund is established to set aside a portion of fines and forfeitures to be used solely for the promotion of public safety.

NONMAJOR GOVERNMENTAL FUNDS

The **Debt Service Funds** are used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

2000 Capital Improvement and Refunding Limited Tax General Obligation Bonds – This fund is used to account for the accumulation of revenues and payment of principal and interest on the 2000 Capital Improvement and Refunding Limited Tax General Obligation Bonds. Funding is primarily from property taxes and interest earned from investments.

2008 Franchise Fee Revenue – This fund is used to account for the accumulation of revenues and payment of principal and interest on the 2008 Franchise Fee Secured Capital Improvement and Refunding Revenue Bonds. Funding is primarily from franchise fees charged to public utilities for the privilege of using the City's streets and rights-of-way.

2010 Franchise Fee Revenue – This fund is used to account for the accumulation of revenues and payment of principal and interest on the 2010 Franchise Fee Secured Capital Improvement Revenue Bonds. Funding is primarily from franchise fees charged to public utilities for the privilege of using the City's streets and rights-of-way.

The **Capital Projects Funds** account for the acquisition or construction of major capital assets from the proceeds from general obligation bond issues and other financing sources.

Capital Improvement – This fund is used to account for the purchase of capital assets, including infrastructure acquisitions and construction from general government resources and intergovernmental grants.

2002 Franchise Fee Project – This fund is established to account for the receipt and disbursement of the proceeds from the 2002 Franchise Fee Secured Capital Improvement Revenue Bonds. The funds are to be used to finance capital improvements consisting generally of police facilities and apparatus; firefighting facilities and apparatus; drainage improvements and street improvements.

2008 Franchise Fee Project – This fund is established to account for the receipt and disbursement of the proceeds from the 2008 Franchise Fee Secured Capital Improvement Revenue Bonds. The funds are to be used to finance capital improvements consisting generally of public infrastructure improvements related to the Crossroads Business Park and other street improvements and to refund the 1999 and the 2002 Franchise Fee Secured Capital Improvement Revenue Bonds.

2010 Franchise Fee Project – This fund is established to account for the receipt and disbursement of the proceeds from the 2010 Franchise Fee Secured Capital Improvement Revenue Bonds. The funds are to be used to finance capital improvements consisting generally of acquisition of land in the Crossroads Business Park and construction and equipping of public parking thereon.

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

	Special Revenue				
	Community Development Block Grant	Police Donations	Kline Park Monument	Front Street Project	Domestic Violence
Assets					
Cash	\$ 8,742	\$ 6,271	\$ 2,557	\$ 10,503	\$ -
Receivables (net of allowance)					
Property taxes	-	-	-	-	-
Other government agencies	7,907	-	-	-	-
Other	-	-	-	-	-
Due from other funds	65	-	-	-	-
Prepaid items	396	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 17,110</u>	<u>\$ 6,271</u>	<u>\$ 2,557</u>	<u>\$ 10,503</u>	<u>\$ -</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 5,992	\$ -	\$ 33	7,945	\$ -
Accrued liabilities	926	-	-	-	-
Due to other funds	14,186	-	-	-	-
Due to component units	-	-	-	200	-
Deferred revenue	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>21,104</u>	<u>-</u>	<u>33</u>	<u>8,145</u>	<u>-</u>
Fund Balances					
Nonspendable					
Prepaid items	396	-	-	-	-
Restricted					
General administration	-	-	2,524	-	-
Police department	-	6,271	-	-	-
Fire department	-	-	-	-	-
Public works	-	-	-	-	-
Debt Service	-	-	-	-	-
Culture and recreation	-	-	-	2,358	-
Assigned					
General administration	-	-	-	-	-
Police department	-	-	-	-	-
Fire department	-	-	-	-	-
Public works	-	-	-	-	-
Unassigned	(4,390)	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances (deficits)	<u>(3,994)</u>	<u>6,271</u>	<u>2,524</u>	<u>2,358</u>	<u>-</u>
Total liabilities and fund balances (deficits)	<u>\$ 17,110</u>	<u>\$ 6,271</u>	<u>\$ 2,557</u>	<u>\$ 10,503</u>	<u>\$ -</u>

Special Revenue						
North						
Texarkana						
Bail Bond	Library	Court Automation	Redevelopment District	Youth- Build	Public Safety	Total
\$ -	\$ 50,979	\$ 84,483	\$ 59,306	\$ -	\$ 1,941	\$ 224,782
-	333,162	-	106	-	-	333,268
-	-	-	-	-	-	7,907
980	-	-	-	-	-	980
-	26,180	50	-	-	-	26,295
-	-	-	-	-	-	396
<u>\$ 980</u>	<u>\$ 410,321</u>	<u>\$ 84,533</u>	<u>\$ 59,412</u>	<u>\$ -</u>	<u>\$ 1,941</u>	<u>\$ 593,628</u>
\$ -	\$ 26,180	\$ -	\$ -	\$ -	\$ -	\$ 40,150
-	-	-	-	-	-	926
-	-	-	-	-	-	14,186
-	-	-	-	-	-	200
-	317,818	-	-	-	-	317,818
-	343,998	-	-	-	-	373,280
-	-	-	-	-	-	396
-	-	84,533	-	-	-	87,057
980	-	-	-	-	1,941	9,192
-	-	-	-	-	-	-
-	66,323	-	59,412	-	-	125,735
-	-	-	-	-	-	-
-	-	-	-	-	-	2,358
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	(4,390)
<u>980</u>	<u>66,323</u>	<u>84,533</u>	<u>59,412</u>	<u>-</u>	<u>1,941</u>	<u>220,348</u>
<u>\$ 980</u>	<u>\$ 410,321</u>	<u>\$ 84,533</u>	<u>\$ 59,412</u>	<u>\$ -</u>	<u>\$ 1,941</u>	<u>\$ 593,628</u>

City of Texarkana, Arkansas
Combining Balance Sheet – Nonmajor (Continued)
December 31, 2011

	<u>Debt Service</u>			<u>Total</u>
	<u>Cap Imp & Refunding Limited Tax GO Bonds 2000</u>	<u>2008 Franchise Fee Revenue</u>	<u>2010 Franchise Fee Revenue</u>	
Assets				
Cash	\$ 729,826	\$ 548,444	\$ 185,502	\$ 1,463,772
Receivables (net of allowance)				
Property taxes	832,902	-	-	832,902
Other government agencies	-	-	-	-
Other	-	-	-	-
Due from other funds	65,449	-	-	65,449
Prepaid items	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,628,177</u>	<u>\$ 548,444</u>	<u>\$ 185,502</u>	<u>\$ 2,362,123</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-
Due to other funds	-	-	-	-
Due to component units	-	-	-	-
Deferred revenue	794,544	-	-	794,544
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>794,544</u>	<u>-</u>	<u>-</u>	<u>794,544</u>
Fund Balances				
Nonspendable				
Prepaid items	-	-	-	-
Restricted				
General administration	-	-	-	-
Police department	-	-	-	-
Fire department	-	-	-	-
Public works	-	-	-	-
Debt service	833,633	548,444	185,502	1,567,579
Culture and recreation	-	-	-	-
Assigned				
General administration	-	-	-	-
Police department	-	-	-	-
Fire department	-	-	-	-
Public works	-	-	-	-
Unassigned	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances (deficits)	<u>833,633</u>	<u>548,444</u>	<u>185,502</u>	<u>1,567,579</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances (deficits)	<u>\$ 1,628,177</u>	<u>\$ 548,444</u>	<u>\$ 185,502</u>	<u>\$ 2,362,123</u>

Capital Projects Funds

Capital Improvement Fund	2002 Franchise Fee Projects	2008 Franchise Fee Projects	2010 Franchise Fee Projects	Total	Total Nonmajor Governmental Funds
\$ 573,589	\$ 227,624	\$ 94,346	\$ 2,079,506	\$ 2,975,065	\$ 4,663,619
-	-	-	-	-	1,166,170
315,854	-	-	-	315,854	323,761
-	-	-	-	-	980
52,916	-	9,375	-	62,291	154,035
-	-	-	-	-	396
<u>\$ 942,359</u>	<u>\$ 227,624</u>	<u>\$ 103,721</u>	<u>\$ 2,079,506</u>	<u>\$ 3,353,210</u>	<u>\$ 6,308,961</u>
\$ 66,437	\$ 134,578	\$ -	\$ -	\$ 201,015	\$ 241,165
-	-	-	-	-	926
20,000	9,375	-	-	29,375	43,561
-	-	-	-	-	200
<u>223,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>223,075</u>	<u>1,335,437</u>
<u>309,512</u>	<u>143,953</u>	<u>-</u>	<u>-</u>	<u>453,465</u>	<u>1,621,289</u>
-	-	-	-	-	396
4,993	-	-	-	4,993	92,050
-	-	-	-	-	9,192
110,312	-	-	-	110,312	110,312
497	83,671	103,721	2,079,506	2,267,395	2,393,130
-	-	-	-	-	1,567,579
-	-	-	-	-	2,358
156,683	-	-	-	156,683	156,683
287,796	-	-	-	287,796	287,796
10,000	-	-	-	10,000	10,000
62,566	-	-	-	62,566	62,566
-	-	-	-	-	(4,390)
<u>632,847</u>	<u>83,671</u>	<u>103,721</u>	<u>2,079,506</u>	<u>2,899,745</u>	<u>4,687,672</u>
<u>\$ 942,359</u>	<u>\$ 227,624</u>	<u>\$ 103,721</u>	<u>\$ 2,079,506</u>	<u>\$ 3,353,210</u>	<u>\$ 6,308,961</u>

City of Texarkana, Arkansas
Combining Statement of Revenues, Expenditures and Changes in Fund Balances -
Nonmajor
Year Ended December 31, 2011

	Special Revenue				
	Community Development Block Grant	Police Donations	Kline Park Monument	Front Street Project	Domestic Violence
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Fines, forfeitures and penalties	-	-	-	-	3,125
Grants and entitlements	214,344	4,222	-	-	-
Intergovernmental	-	-	-	-	-
Investment income	-	-	5	-	-
Miscellaneous	7,005	2,051	-	39,755	-
Total revenues	<u>221,349</u>	<u>6,273</u>	<u>5</u>	<u>39,755</u>	<u>3,125</u>
Expenditures					
Current					
General government	82,806	-	-	-	-
Other public safety	-	-	-	-	-
Public works	50,475	4,086	-	-	-
Public services	14,869	-	-	-	-
Cultural and recreation	5,231	-	400	21,370	3,125
Capital outlay	50,529	-	-	16,027	-
Debt service					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>203,910</u>	<u>4,086</u>	<u>400</u>	<u>37,397</u>	<u>3,125</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>17,439</u>	<u>2,187</u>	<u>(395)</u>	<u>2,358</u>	<u>-</u>
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances (Deficits)	17,439	2,187	(395)	2,358	-
Fund Balances (Deficits), Beginning of Year	<u>(21,433)</u>	<u>4,084</u>	<u>2,919</u>	<u>-</u>	<u>-</u>
Fund Balances (Deficits), End of Year	<u>\$ (3,994)</u>	<u>\$ 6,271</u>	<u>\$ 2,524</u>	<u>\$ 2,358</u>	<u>\$ -</u>

Special Revenue

Special Revenue						
			North Texarkana Redevelopment District			
Bail Bond	Library	Court Automation		Youth- Build	Public Safety	Total
\$ -	\$ 287,315	\$ -	\$ 25,393	\$ -	\$ -	\$ 312,708
9,395	-	31,489	-	-	516	44,525
-	60,112	-	-	-	-	278,678
-	-	-	-	-	-	-
-	123	50	10	-	-	188
-	-	-	-	-	-	48,811
<u>9,395</u>	<u>347,550</u>	<u>31,539</u>	<u>25,403</u>	<u>-</u>	<u>516</u>	<u>684,910</u>
-	-	14,838	-	-	-	97,644
-	-	-	-	-	-	-
-	-	-	-	15,811	-	70,372
-	-	-	-	-	-	14,869
-	337,485	-	-	-	-	367,611
-	-	48,267	-	-	-	114,823
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>337,485</u>	<u>63,105</u>	<u>-</u>	<u>15,811</u>	<u>-</u>	<u>665,319</u>
<u>9,395</u>	<u>10,065</u>	<u>(31,566)</u>	<u>25,403</u>	<u>(15,811)</u>	<u>516</u>	<u>19,591</u>
-	30,000	-	-	18,491	-	48,491
(8,955)	-	-	-	-	-	(8,955)
<u>(8,955)</u>	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>18,491</u>	<u>-</u>	<u>39,536</u>
440	40,065	(31,566)	25,403	2,680	516	59,127
<u>540</u>	<u>26,258</u>	<u>116,099</u>	<u>34,009</u>	<u>(2,680)</u>	<u>1,425</u>	<u>161,221</u>
<u>\$ 980</u>	<u>\$ 66,323</u>	<u>\$ 84,533</u>	<u>\$ 59,412</u>	<u>\$ -</u>	<u>\$ 1,941</u>	<u>\$ 220,348</u>

City of Texarkana, Arkansas
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
– Nonmajor (Continued)
Year Ended December 31, 2011

	Debt Service			Total
	Cap Imp & Refunding Limited Tax GO Bonds 2000	2008 Franchise Fee Revenue	2010 Franchise Fee Revenue	
Revenues				
Property taxes	\$ 718,286	\$ -	\$ -	\$ 718,286
Fines, forfeitures and penalties	-	-	-	-
Grants and entitlements	-	-	-	-
Intergovernmental	-	-	-	-
Investment income	195	53	19	267
Miscellaneous	-	-	-	-
	<u>718,481</u>	<u>53</u>	<u>19</u>	<u>718,553</u>
Total revenues				
Expenditures				
Current				
General government	-	-	-	-
Other public safety	-	-	-	-
Public works	-	-	-	-
Public services	-	-	-	-
Cultural and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal retirement	570,000	190,000	-	760,000
Interest and fiscal charges	116,410	469,031	173,058	758,499
	<u>686,410</u>	<u>659,031</u>	<u>173,058</u>	<u>1,518,499</u>
Total expenditures				
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>32,071</u>	<u>(658,978)</u>	<u>(173,039)</u>	<u>(799,946)</u>
Other Financing Sources (Uses)				
Transfers in	-	658,502	171,926	830,428
Transfers out	-	(449)	-	(449)
	<u>-</u>	<u>658,053</u>	<u>171,926</u>	<u>829,979</u>
Total other financing sources (uses)				
Net Change in Fund Balances (Deficits)	32,071	(925)	(1,113)	30,033
Fund Balances (Deficits), Beginning of Year	<u>801,562</u>	<u>549,369</u>	<u>186,615</u>	<u>1,537,546</u>
Fund Balances (Deficits), End of Year	<u>\$ 833,633</u>	<u>\$ 548,444</u>	<u>\$ 185,502</u>	<u>\$ 1,567,579</u>

Capital Projects Funds					
Capital Improvement Fund	2002 Franchise Fee Projects	2008 Franchise Fee Projects	2010 Franchise Fee Projects	Total	Total Nonmajor Governmental Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,030,994
-	-	-	-	-	44,525
634,032	-	-	-	634,032	912,710
60,603	-	-	-	60,603	60,603
1,261	125	124	4,701	6,211	6,666
90,947	-	-	-	90,947	139,758
<u>786,843</u>	<u>125</u>	<u>124</u>	<u>4,701</u>	<u>791,793</u>	<u>2,195,256</u>
142,978	-	-	-	142,978	240,622
210,000	-	-	-	210,000	210,000
-	-	-	-	-	70,372
-	-	-	-	-	14,869
-	-	-	-	-	367,611
613,635	372,701	-	52,018	1,038,354	1,153,177
-	-	-	-	-	760,000
-	-	-	-	-	758,499
<u>966,613</u>	<u>372,701</u>	<u>-</u>	<u>52,018</u>	<u>1,391,332</u>	<u>3,575,150</u>
<u>(179,770)</u>	<u>(372,576)</u>	<u>124</u>	<u>(47,317)</u>	<u>(599,539)</u>	<u>(1,379,894)</u>
-	-	-	-	-	878,919
<u>(11,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,000)</u>	<u>(20,404)</u>
<u>(11,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,000)</u>	<u>858,515</u>
<u>(190,770)</u>	<u>(372,576)</u>	<u>124</u>	<u>(47,317)</u>	<u>(610,539)</u>	<u>(521,379)</u>
<u>823,617</u>	<u>456,247</u>	<u>103,597</u>	<u>2,126,823</u>	<u>3,510,284</u>	<u>5,209,051</u>
<u>\$ 632,847</u>	<u>\$ 83,671</u>	<u>\$ 103,721</u>	<u>\$ 2,079,506</u>	<u>\$ 2,899,745</u>	<u>\$ 4,687,672</u>

City of Texarkana, Arkansas
Budgetary Comparison Schedule
Community Development Block Grant Fund
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Grants and entitlements	\$ 344,093	\$ 542,949	\$ 214,344	\$ (328,605)
Miscellaneous	-	-	7,005	7,005
Total revenues	<u>344,093</u>	<u>542,949</u>	<u>221,349</u>	<u>(321,600)</u>
Expenditures				
Current:				
General government	102,200	99,000	82,806	16,194
Public works	56,193	34,263	50,475	(16,212)
Public services	185,700	156,101	14,869	141,232
Culture and recreation	-	-	5,231	(5,231)
Capital outlay	-	253,585	50,529	203,056
Total expenditures	<u>344,093</u>	<u>542,949</u>	<u>203,910</u>	<u>339,039</u>
Net Change in Fund Balances (Deficits)	-	-	17,439	17,439
Fund Balances (Deficits), Beginning of Year	<u>(21,433)</u>	<u>(21,433)</u>	<u>(21,433)</u>	<u>-</u>
Fund Balances (Deficits), End of Year	<u>\$ (21,433)</u>	<u>\$ (21,433)</u>	<u>\$ (3,994)</u>	<u>\$ 17,439</u>

City of Texarkana, Arkansas
Budgetary Comparison Schedule
Police Donations Fund
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Grants and entitlements	\$ 4,200	\$ 4,200	\$ 4,222	\$ 22
Miscellaneous	2,200	2,200	2,051	(149)
Total revenues	<u>6,400</u>	<u>6,400</u>	<u>6,273</u>	<u>(127)</u>
Expenditures				
Current:				
Public works	<u>6,400</u>	<u>6,400</u>	<u>4,086</u>	<u>2,314</u>
Total expenditures	<u>6,400</u>	<u>6,400</u>	<u>4,086</u>	<u>2,314</u>
Net Change in Fund Balances	-	-	2,187	2,187
Fund Balances, Beginning of Year	<u>4,084</u>	<u>4,084</u>	<u>4,084</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 4,084</u>	<u>\$ 4,084</u>	<u>\$ 6,271</u>	<u>\$ 2,187</u>

City of Texarkana, Arkansas
Budgetary Comparison Schedule
Kline Park Monument Fund
Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Investment income	\$ 10	\$ 10	\$ 5	\$ (5)
Total revenues	<u>10</u>	<u>10</u>	<u>5</u>	<u>(5)</u>
Expenditures				
Current:				
Culture and recreation	<u>400</u>	<u>400</u>	<u>400</u>	<u>-</u>
Total expenditures	<u>400</u>	<u>400</u>	<u>400</u>	<u>-</u>
Net Change in Fund Balances	(390)	(390)	(395)	(5)
Fund Balances, Beginning of Year	<u>2,919</u>	<u>2,919</u>	<u>2,919</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 2,529</u>	<u>\$ 2,529</u>	<u>\$ 2,524</u>	<u>\$ (5)</u>

City of Texarkana, Arkansas
Budgetary Comparison Schedule
Domestic Violence Fund
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Fines, forfeitures and penalties	\$ 3,055	\$ 3,055	\$ 3,125	\$ 70
Total revenues	<u>3,055</u>	<u>3,055</u>	<u>3,125</u>	<u>70</u>
Expenditures				
Current:				
Culture and recreation	<u>3,055</u>	<u>3,055</u>	<u>3,125</u>	<u>(70)</u>
Total expenditures	<u>3,055</u>	<u>3,055</u>	<u>3,125</u>	<u>(70)</u>
Net Change in Fund Balances	-	-	-	-
Fund Balances, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Texarkana, Arkansas
Budgetary Comparison Schedule
Bail Bond Fund
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Fines, forfeitures and penalties	\$ 8,895	\$ 8,895	\$ 9,395	\$ 500
Total revenues	<u>8,895</u>	<u>8,895</u>	<u>9,395</u>	<u>500</u>
Expenditures				
Current:				
General government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over Expenditures	<u>8,895</u>	<u>8,895</u>	<u>9,395</u>	<u>500</u>
Other Financing Sources (Uses)				
Transfers out	<u>(13,686)</u>	<u>(13,686)</u>	<u>(8,955)</u>	<u>4,731</u>
Total other financing sources (uses)	<u>(13,686)</u>	<u>(13,686)</u>	<u>(8,955)</u>	<u>4,731</u>
Net Change in Fund Balances	(4,791)	(4,791)	440	5,231
Fund Balances, Beginning of Year	<u>540</u>	<u>540</u>	<u>540</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ (4,251)</u>	<u>\$ (4,251)</u>	<u>\$ 980</u>	<u>\$ 5,231</u>

City of Texarkana, Arkansas
Budgetary Comparison Schedule
Court Automation Fund
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Fines, forfeitures and penalties	\$ 29,300	\$ 29,300	\$ 31,489	\$ 2,189
Investment income	50	50	50	-
Total revenues	<u>29,350</u>	<u>29,350</u>	<u>31,539</u>	<u>2,189</u>
Expenditures				
Current:				
General government	71,804	71,804	14,838	56,966
Capital outlay	<u>80,714</u>	<u>80,714</u>	<u>48,267</u>	<u>32,447</u>
Total expenditures	<u>152,518</u>	<u>152,518</u>	<u>63,105</u>	<u>89,413</u>
Net Change in Fund Balances	(123,168)	(123,168)	(31,566)	91,602
Fund Balances, Beginning of Year	<u>116,099</u>	<u>116,099</u>	<u>116,099</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ (7,069)</u></u>	<u><u>\$ (7,069)</u></u>	<u><u>\$ 84,533</u></u>	<u><u>\$ 91,602</u></u>

City of Texarkana, Arkansas
Budgetary Comparison Schedule
North Texarkana Redevelopment District
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 9,715	\$ 9,715	\$ 25,393	\$ 15,678
Investment income	25	25	10	(15)
Total revenues	<u>9,740</u>	<u>9,740</u>	<u>25,403</u>	<u>15,663</u>
Expenditures				
Current:				
Culture and recreation	<u>38,001</u>	<u>38,001</u>	<u>-</u>	<u>38,001</u>
Total expenditures	<u>38,001</u>	<u>38,001</u>	<u>-</u>	<u>38,001</u>
Net Change in Fund Balances	(28,261)	(28,261)	25,403	53,664
Fund Balances, Beginning of Year	<u>34,009</u>	<u>34,009</u>	<u>34,009</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ 5,748</u></u>	<u><u>\$ 5,748</u></u>	<u><u>\$ 59,412</u></u>	<u><u>\$ 53,664</u></u>

City of Texarkana, Arkansas
Budgetary Comparison Schedule
YouthBuild Fund
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Grants and entitlement	\$ -	\$ -	\$ -	\$ -
Investment income	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Current:				
Public works	<u>35,015</u>	<u>15,962</u>	<u>15,811</u>	<u>151</u>
Total expenditures	<u>35,015</u>	<u>15,962</u>	<u>15,811</u>	<u>151</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(35,015)</u>	<u>(15,962)</u>	<u>(15,811)</u>	<u>151</u>
Other Financing Sources				
Transfers in	<u>35,000</u>	<u>15,947</u>	<u>18,491</u>	<u>2,544</u>
Total other financing sources	<u>35,000</u>	<u>15,947</u>	<u>18,491</u>	<u>2,544</u>
Net Change in Fund Balances	(15)	(15)	2,680	2,695
Fund Balances, Beginning of Year	<u>(2,680)</u>	<u>(2,680)</u>	<u>(2,680)</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ (2,695)</u></u>	<u><u>\$ (2,695)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,695</u></u>

City of Texarkana, Arkansas
Budgetary Comparison Schedule
Public Safety Fund
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Fines, forfeitures and penalties	\$ 371	\$ 371	\$ 516	\$ 145
Total revenues	<u>371</u>	<u>371</u>	<u>516</u>	<u>145</u>
Expenditures				
Current:				
Culture and recreation	<u>1,860</u>	<u>1,860</u>	<u>-</u>	<u>1,860</u>
Total expenditures	<u>1,860</u>	<u>1,860</u>	<u>-</u>	<u>1,860</u>
Net Change in Fund Balances	(1,489)	(1,489)	516	2,005
Fund Balances, Beginning of Year	<u>1,425</u>	<u>1,425</u>	<u>1,425</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ (64)</u></u>	<u><u>\$ (64)</u></u>	<u><u>\$ 1,941</u></u>	<u><u>\$ 2,005</u></u>

Fiduciary Funds

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FIDUCIARY FUNDS

Fiduciary Funds are established to account for assets held by the City in a trust capacity, or as an agent for individuals, other governmental units, and/or other funds.

TRUST FUNDS

Trust Funds account for assets held in the City Employee Retirement System, Water Utilities Employee Retirement System, the Firemen's Relief and Pension Fund, and the Policemen's Relief and Pension Fund. Fund trustees must act in accordance with the specific purposes and terms of these retirement plans.

AGENCY FUNDS

The **Agency Funds** account for monies collected and held by the courts until they are disbursed to various governmental agencies and include the police bond, drug seizure and operations cash out funds.

City of Texarkana, Arkansas
Combining Statement of Fiduciary Net Assets
Pension Trust Funds
December 31, 2011

	City Employee Retirement System	Water Utilities Employee Retirement System	Firemen's Relief and Pension	Policemen's Relief and Pension	Total
Assets					
Cash and cash equivalents	\$ 97,214	\$ 109,798	\$ 285,569	\$ 353,548	\$ 846,129
Investments					
Equities	-	-	2,029,085	1,365,642	3,394,727
U. S. government obligations	1,364,744	734,812	-	-	2,099,556
Corporate bonds and notes	1,085,288	624,193	839,301	976,308	3,525,090
Mutual funds and other investments	1,940,392	1,070,795	2,479,667	2,332,393	7,823,247
Interest receivable	22,842	12,814	15,902	16,526	68,084
Due from other funds	-	-	361,303	361,303	722,606
	<u>4,510,480</u>	<u>2,552,412</u>	<u>6,010,827</u>	<u>5,405,720</u>	<u>18,479,439</u>
Liabilities					
Accounts payable	<u>3,475</u>	<u>1,198</u>	<u>9,744</u>	<u>8,702</u>	<u>23,119</u>
Total liabilities	<u>3,475</u>	<u>1,198</u>	<u>9,744</u>	<u>8,702</u>	<u>23,119</u>
Net Assets					
Net assets held in trust	<u>\$ 4,507,005</u>	<u>\$ 2,551,214</u>	<u>\$ 6,001,083</u>	<u>\$ 5,397,018</u>	<u>\$ 18,456,320</u>

City of Texarkana, Arkansas
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
Year Ended December 31, 2011

	City Employee Retirement System	Water Utilities Employee Retirement System	Firemen's Relief and Pension	Policemen's Relief and Pension	Total
Additions					
Contributions					
Employer	\$ 146,262	\$ -	\$ 314,737	\$ 587,971	\$ 1,048,970
Employee	-	-	7,526	941	8,467
Intergovernmental	-	-	86,287	204,877	291,164
Other	3,711	479	30,535	33,344	68,069
Total contributions	<u>149,973</u>	<u>479</u>	<u>439,085</u>	<u>827,133</u>	<u>1,416,670</u>
Investment income (loss)					
Net decrease in fair value of investments	(74,509)	(39,449)	(198,649)	(220,385)	(532,992)
Interest and dividends	122,797	66,744	155,580	152,878	497,999
Less investment expense	48,288	27,295	(43,069)	(67,507)	(34,993)
	<u>-</u>	<u>-</u>	<u>39,855</u>	<u>36,013</u>	<u>75,868</u>
Net investment income (loss)	<u>48,288</u>	<u>27,295</u>	<u>(82,924)</u>	<u>(103,520)</u>	<u>(110,861)</u>
Total additions	<u>198,261</u>	<u>27,774</u>	<u>356,161</u>	<u>723,613</u>	<u>1,305,809</u>
Deductions					
Benefits paid directly to participants	365,177	50,942	598,189	1,199,468	2,213,776
Administrative expenses	75,922	26,921	4,500	4,500	111,843
Total deductions	<u>441,099</u>	<u>77,863</u>	<u>602,689</u>	<u>1,203,968</u>	<u>2,325,619</u>
Change in Net Assets	(242,838)	(50,089)	(246,528)	(480,355)	(1,019,810)
Net Assets Held in Trust, Beginning of Year	<u>4,749,843</u>	<u>2,601,303</u>	<u>6,247,611</u>	<u>5,877,373</u>	<u>19,476,130</u>
Net Assets Held in Trust, End of Year	<u>\$ 4,507,005</u>	<u>\$ 2,551,214</u>	<u>\$ 6,001,083</u>	<u>\$ 5,397,018</u>	<u>\$ 18,456,320</u>

City of Texarkana, Arkansas
Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended December 31, 2011

	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
Police Bond Fund				
Assets				
Cash and cash equivalents	\$ 138,240	\$ 3,449,713	\$ 3,451,883	\$ 136,070
Interest receivable	3,556	-	-	3,556
Due from other governments	1,800	2,550	1,800	2,550
Total assets	<u>143,596</u>	<u>3,452,263</u>	<u>3,453,683</u>	<u>142,176</u>
Liabilities				
Accounts payable	95	-	95	-
Escrow deposits	143,501	1,401,412	1,402,737	142,176
Total liabilities	<u>143,596</u>	<u>1,401,412</u>	<u>1,402,832</u>	<u>142,176</u>
Net assets	<u>\$ -</u>	<u>\$ 2,050,851</u>	<u>\$ 2,050,851</u>	<u>\$ -</u>
Drug Seizure Fund				
Assets				
Cash and cash equivalents	\$ 40,575	\$ 17	\$ -	\$ 40,592
Total assets	<u>40,575</u>	<u>17</u>	<u>-</u>	<u>40,592</u>
Liabilities				
Escrow deposits	40,575	17	-	40,592
Total liabilities	<u>40,575</u>	<u>17</u>	<u>-</u>	<u>40,592</u>
Net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Operations Cash Outfunds				
Assets				
Certificates of Deposit	\$ 52,262	\$ 403	\$ -	\$ 52,665
Total assets	<u>52,262</u>	<u>403</u>	<u>-</u>	<u>52,665</u>
Liabilities				
Accounts payable	52,262	403	-	52,665
Total liabilities	<u>52,262</u>	<u>403</u>	<u>-</u>	<u>52,665</u>
Net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Agency Funds				
Assets				
Cash and cash equivalents	\$ 178,815	\$ 3,449,730	\$ 3,451,883	\$ 176,662
Certificates of Deposit	52,262	403	-	52,665
Interest receivable	3,556	-	-	3,556
Due from other governments	1,800	2,550	1,800	2,550
Total assets	<u>236,433</u>	<u>3,452,683</u>	<u>3,453,683</u>	<u>235,433</u>
Liabilities				
Accounts payable	52,357	403	95	52,665
Escrow deposits	184,076	1,401,429	1,402,737	182,768
Total liabilities	<u>236,433</u>	<u>1,401,832</u>	<u>1,402,832</u>	<u>235,433</u>
Net assets	<u>\$ -</u>	<u>\$ 2,050,851</u>	<u>\$ 2,050,851</u>	<u>\$ -</u>

Statistical Section

City of Texarkana, Arkansas

Statistical Section

This section of the City of Texarkana, Arkansas comprehensive annual financial report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information reflects about the City’s overall financial health.

Contents	Page
Financial Trends (Tables 1-6)	
These schedules contain trend information to assist the reader in understanding how the City’s financial performance and well-being have changed over time.	93
Revenue Capacity (Tables 7-11)	
These schedules contain information to help the reader assess the City’s most significant revenue sources, local sales taxes and property taxes.	99
Debt Capacity (Tables 12-16)	
These schedules present information to help the reader assess the affordability of the City’s current levels of outstanding debt and the City’s ability to issue additional debt in the future.	105
Demographic and Economic Information (Tables 17-18)	
These schedules offer demographic and economic indicators to assist the reader in understanding the environment within which the City’s financial activities take place.	110
Operating Information (Tables 19-21)	
These schedules contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to services the City provides and the activities it performs.	112

City of Texarkana, Arkansas
Net Assets by Component
Last Nine Years
(Accrual Basis of Accounting)

Table 1

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities:									
Invested in capital assets, net of related debt	\$ 9,575,862	\$ 11,953,431	\$ 11,043,566	\$ 10,714,377	\$ 12,150,105	\$ 12,628,280	\$ 13,412,023	\$ 12,850,864	\$ 13,405,075
Restricted	-	1,440,802	2,450,392	1,475,048	1,702,413	1,553,237	1,669,627	2,225,926	2,406,273
Unrestricted	<u>12,533,831</u>	<u>9,313,438</u>	<u>7,619,885</u>	<u>8,346,737</u>	<u>6,787,161</u>	<u>8,574,892</u>	<u>9,379,180</u>	<u>10,485,576</u>	<u>9,204,239</u>
Total governmental activities net assets	<u>22,109,693</u>	<u>22,707,671</u>	<u>21,113,843</u>	<u>20,536,162</u>	<u>20,639,679</u>	<u>22,756,409</u>	<u>24,460,830</u>	<u>25,562,366</u>	<u>25,015,587</u>
Business-type activities:									
Invested in capital assets, net of related debt	19,829,959	21,185,202	22,168,781	23,687,992	25,562,213	26,459,527	27,822,325	28,029,483	27,882,314
Restricted	2,858,957	3,677,998	4,017,436	3,643,673	2,738,995	2,758,082	2,381,952	2,442,605	3,322,117
Unrestricted (deficit)	<u>10,029,232</u>	<u>8,329,109</u>	<u>8,889,937</u>	<u>8,856,493</u>	<u>8,644,045</u>	<u>8,175,084</u>	<u>7,752,605</u>	<u>9,212,553</u>	<u>10,050,575</u>
Total business-type activities net assets	<u>32,718,148</u>	<u>33,192,309</u>	<u>35,076,154</u>	<u>36,188,158</u>	<u>36,945,253</u>	<u>37,392,693</u>	<u>37,956,882</u>	<u>39,684,641</u>	<u>41,255,006</u>
Primary government									
Invested in capital assets, net of related debt	29,405,821	33,138,633	33,212,347	34,402,369	37,712,318	39,087,807	41,234,348	40,880,347	41,287,389
Restricted	2,858,957	5,118,800	6,467,828	5,118,721	4,441,408	4,311,319	4,051,579	4,668,531	5,728,390
Unrestricted	<u>22,563,063</u>	<u>17,642,547</u>	<u>16,509,822</u>	<u>17,203,230</u>	<u>15,431,206</u>	<u>16,749,976</u>	<u>17,131,785</u>	<u>19,698,129</u>	<u>19,254,814</u>
Total primary government net assets	<u>\$ 54,827,841</u>	<u>\$ 55,899,980</u>	<u>\$ 56,189,997</u>	<u>\$ 56,724,320</u>	<u>\$ 57,584,932</u>	<u>\$ 60,149,102</u>	<u>\$ 62,417,712</u>	<u>\$ 65,247,007</u>	<u>\$ 66,270,593</u>

Note: The City began to report accrual information when it implemented GASB Statement 34 in year 2003.

City of Texarkana, Arkansas
Change in Net Assets
Last Nine Years
(Accrual Basis of Accounting)

Table 2

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses									
Governmental activities:									
Current:									
General administration	\$ 1,114,891	\$ 1,059,023	\$ 1,407,079	\$ 1,255,727	\$ 1,739,355	\$ 1,450,206	\$ 1,512,480	\$ 2,085,755	\$ 2,619,263
Police department	7,396,277	7,063,610	8,867,001	7,971,429	9,895,008	9,019,326	8,710,432	12,410,163	7,644,104
Fire department	3,047,468	3,214,346	3,287,670	3,886,301	4,115,477	4,024,467	4,291,551	5,626,796	4,493,231
Other public safety	-	-	-	-	-	-	-	-	3,869,368
Protective inspection	280,188	294,775	307,023	342,576	5,094	417,558	368,400	467,872	467,210
Public works	4,431,518	4,638,902	4,660,574	4,908,533	1,867,201	5,856,532	5,208,513	5,723,499	5,697,414
Public services	209,431	306,248	133,339	853,754	4,213,906	120,566	117,720	6,518	15,381
Health	103,093	94,290	102,336	95,579	99,395	241,428	286,166	347,763	361,460
Culture and recreation	633,945	721,617	433,470	642,139	389,957	672,415	693,057	895,119	825,434
Administrative and general	1,256,411	1,329,263	1,196,944	1,147,060	1,624,299	1,320,080	1,384,283	-	-
Interest on long-term debt	683,880	745,223	715,427	686,043	662,566	669,030	672,631	1,172,912	678,252
Total governmental activities expenses	19,157,102	19,467,297	21,110,763	21,789,141	24,612,258	23,791,608	23,245,233	28,736,397	26,671,117
Business-type activities:									
Water and sewer	6,674,616	7,214,089	7,477,816	7,786,552	8,206,231	8,791,428	8,881,682	8,631,993	8,828,758
Total business-type activities expenses	6,674,616	7,214,089	7,477,816	7,786,552	8,206,231	8,791,428	8,881,682	8,631,993	8,828,758
Total primary government expenses	25,831,718	26,681,386	28,588,579	29,575,693	32,818,489	32,583,036	32,126,915	37,368,390	35,499,875
Program Revenues									
Governmental activities:									
Charges for services	4,133,020	4,286,983	4,742,018	4,985,729	5,223,203	5,638,025	5,525,130	5,416,351	5,444,642
Operating grants and contributions	3,155,249	3,354,223	3,491,860	3,709,035	3,490,318	5,216,175	4,749,140	4,423,291	4,722,269
Capital grants and contributions	14,366	195,484	226,431	589,867	929,494	531,767	336,363	2,246,130	1,028,843
Total governmental activities program revenues	7,302,635	7,836,690	8,460,309	9,284,631	9,643,015	11,385,967	10,610,633	12,085,772	11,195,754
Business-type activities:									
Charges for services	6,190,113	7,062,424	7,861,937	8,196,268	7,979,139	8,513,068	8,933,472	10,141,700	10,264,791
Capital grants and contributions	16,045	-	785,122	53,553	502,690	532,005	450,021	43,157	78,337
Total business-type activities program revenues	6,206,158	7,062,424	8,647,059	8,249,821	8,481,829	9,045,073	9,383,493	10,184,857	10,343,128
Total primary government program revenues	\$ 13,508,793	\$ 14,899,114	\$ 17,107,368	\$ 17,534,452	\$ 18,124,844	\$ 20,431,040	\$ 19,994,126	\$ 22,270,629	\$ 21,538,882

City of Texarkana, Arkansas
Change in Net Assets (Continued)
Last Nine Years
(Accrual Basis of Accounting)

Table 2

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net (Expense)/Revenue									
Governmental activities	\$ (11,854,467)	\$ (11,630,607)	\$ (12,650,454)	\$ (12,504,510)	\$ (14,969,243)	\$ (12,405,641)	\$ (12,634,600)	\$ (16,650,625)	\$ (15,475,363)
Business-type activities	(468,458)	(151,665)	1,169,243	463,269	275,598	253,645	501,811	1,552,864	1,514,370
Total primary government net expense	<u>(12,322,925)</u>	<u>(11,782,272)</u>	<u>(11,481,211)</u>	<u>(12,041,241)</u>	<u>(14,693,645)</u>	<u>(12,151,996)</u>	<u>(12,132,789)</u>	<u>(15,097,761)</u>	<u>(13,960,993)</u>
General Revenues and Other Changes in Net Assets									
Governmental activities:									
Property taxes	2,634,328	1,894,876	2,161,145	2,681,575	3,082,134	2,666,864	3,025,209	3,453,940	3,102,615
Sales taxes	6,444,674	6,261,789	6,643,321	6,742,640	6,983,665	8,505,726	8,229,227	8,417,648	8,751,952
Franchise taxes	1,440,786	1,481,445	1,813,993	2,067,971	2,327,790	2,694,776	2,568,201	2,726,391	2,688,227
Other taxes	59,254	33,971	51,893	54,301	68,339	52,032	125,195	136,636	76,338
Unrestricted investment earnings	49,111	48,931	64,596	66,608	112,427	75,282	35,744	27,651	14,105
Gain(loss) on sale of capital assets	161,593	(5,743)	-	-	-	-	25,936	-	47,145
Miscellaneous	30,013	561,485	17,561	187,815	54,864	310,036	102,837	153,869	248,202
Transfers	-	-	109,425	125,919	198,466	217,655	226,672	-	-
Total governmental activities	<u>10,819,759</u>	<u>10,276,754</u>	<u>10,861,934</u>	<u>11,926,829</u>	<u>12,827,685</u>	<u>14,522,371</u>	<u>14,339,021</u>	<u>14,916,135</u>	<u>14,928,584</u>
Business-type activities:									
Unrestricted investment earnings	405,871	620,497	646,300	772,782	658,790	403,158	282,956	414,316	318,080
Gain on sale of capital assets	9,357	5,329	1,339	-	-	-	-	1,178	(7,050)
Miscellaneous	580,721	-	-	-	-	737	-	-	-
Transfers	-	-	(89,483)	(124,047)	(177,293)	(210,100)	(220,578)	(240,599)	(255,035)
Total business-type activities	<u>995,949</u>	<u>625,826</u>	<u>558,156</u>	<u>648,735</u>	<u>481,497</u>	<u>193,795</u>	<u>62,378</u>	<u>174,895</u>	<u>55,995</u>
Total primary government general revenues and other changes in net assets	<u>11,815,708</u>	<u>10,902,580</u>	<u>11,420,090</u>	<u>12,575,564</u>	<u>13,309,182</u>	<u>14,716,166</u>	<u>14,401,399</u>	<u>15,091,030</u>	<u>14,984,579</u>
Change in Net Assets									
Governmental activities	(1,034,708)	(1,353,853)	(1,788,520)	(577,681)	(2,141,558)	2,116,730	1,704,421	(1,734,490)	(546,779)
Business-type activities	527,491	474,161	1,727,399	1,112,004	757,095	447,440	564,189	1,727,759	1,570,365
Total primary government changes in net assets	<u>\$ (507,217)</u>	<u>\$ (879,692)</u>	<u>\$ (61,121)</u>	<u>\$ 534,323</u>	<u>\$ (1,384,463)</u>	<u>\$ 2,564,170</u>	<u>\$ 2,268,610</u>	<u>\$ (6,731)</u>	<u>\$ 1,023,586</u>

Note: The City began to report accrual information when it implemented GASB Statement 34 in year 2003.

City of Texarkana, Arkansas
Program Revenues by Function/ Program
Last Nine Years
(Accrual Basis of Accounting)

Table 3

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Function/ Program									
Governmental activities:									
General administration	\$ 1,844,845	\$ 1,994,100	\$ 1,177,415	\$ 1,266,513	\$ 1,890,416	\$ 2,190,034	\$ 2,148,483	\$ 3,566,739	\$ 2,625,764
Police department	1,790,412	1,879,942	1,975,257	1,974,700	1,722,870	1,606,344	1,536,513	1,105,987	1,501,591
Fire department	47,792	121,792	55,640	75,861	82,524	14,942	16,416	3,981	7,782
Other public safety	-	-	-	-	-	-	-	-	1,501
Public works	2,963,719	3,088,254	4,705,044	5,138,254	5,212,358	6,221,028	5,062,825	5,405,150	5,656,598
Public services	593,531	668,239	441,066	662,462	542,406	1,270,098	1,747,617	962,988	1,334,235
Health and welfare	-	-	105,887	-	-	-	-	-	-
Culture and recreation	62,336	84,363	-	166,841	192,441	83,521	98,779	80,254	68,283
Subtotal governmental activities	<u>7,302,635</u>	<u>7,836,690</u>	<u>8,460,309</u>	<u>9,284,631</u>	<u>9,643,015</u>	<u>11,385,967</u>	<u>10,610,633</u>	<u>11,125,099</u>	<u>11,195,754</u>
Business-type activities:									
Water and sewer	<u>6,206,158</u>	<u>7,062,424</u>	<u>8,647,059</u>	<u>8,249,821</u>	<u>8,481,829</u>	<u>9,045,073</u>	<u>9,383,493</u>	<u>10,184,857</u>	<u>10,343,128</u>
Subtotal business-type activities	<u>6,206,158</u>	<u>7,062,424</u>	<u>8,647,059</u>	<u>8,249,821</u>	<u>8,481,829</u>	<u>9,045,073</u>	<u>9,383,493</u>	<u>10,184,857</u>	<u>10,343,128</u>
Total primary government	<u>\$ 13,508,793</u>	<u>\$ 14,899,114</u>	<u>\$ 17,107,368</u>	<u>\$ 17,534,452</u>	<u>\$ 18,124,844</u>	<u>\$ 20,431,040</u>	<u>\$ 19,994,126</u>	<u>\$ 21,309,956</u>	<u>\$ 21,538,882</u>

Note: The City began to report accrual information when it implemented GASB Statement 34 in year 2003.

(1) Effective January 1, 2003, the City implemented GASB 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (as amended by Statement No. 37). This table will ultimately contain information for ten fiscal years.

City of Texarkana, Arkansas
Fund Balances of Governmental Funds
Last Nine Years
(Modified Accrual Basis of Accounting)

Table 4

	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund									
Nonspendable									
Prepaid items									\$ 276,177
Committed									
Culture and recreation									13,855
Assigned									
Police department									164,470
Public works									194,394
Unassigned									2,991,764
Reserved	\$ 58,302	\$ 58,302	\$ -	\$ -	\$ -	\$ -	\$ 20,837	\$ 291,361	
Unreserved, designated						876,277	1,691,943	1,744,280	
Unreserved	1,360,257	950,865	1,720,984	2,155,175	2,744,213	2,941,100	3,142,175	2,000,819	
Total general fund	<u>\$ 1,418,559</u>	<u>\$ 1,009,167</u>	<u>\$ 1,720,984</u>	<u>\$ 2,155,175</u>	<u>\$ 2,744,213</u>	<u>\$ 3,817,377</u>	<u>\$ 4,854,955</u>	<u>\$ 4,036,460</u>	<u>\$ 3,640,660</u>
All Other Governmental Funds									
Nonspendable									
Prepaid items									\$ 36,249
Restricted									
General administration									92,050
Police department									9,192
Fire department									110,312
Public works									2,326,807
Debt service									1,567,579
Culture and recreation									2,358
Committed									
Public works									260,346
Assigned									
General administration									156,683
Police department									287,796
Fire department									10,000
Public works									256,227
Unassigned									(4,390)
Reserved	\$ 262,185	\$ 262,185	\$ 250,746	\$ -	\$ -	\$ -	\$ 6,428	\$ 30,738	
Unreserved, reported in:									
Special revenue fund	425,974	412,697	459,832	665,935	263,715	245,982	399,160	367,851	
Debt service fund	1,290,738	1,296,545	1,372,923	1,377,347	1,404,969	1,335,009	1,368,202	1,537,546	
Capital projects fund	3,183,782	1,127,518	896,821	1,169,144	1,283,652	3,013,168	(7,244)	3,510,284	
Unreserved, designated for, reported in:									
Special revenue fund	-	-	-	-	80,639	108,775	147,625	139,042	
Total all other governmental funds	<u>\$ 5,162,679</u>	<u>\$ 3,098,945</u>	<u>\$ 2,980,322</u>	<u>\$ 3,212,426</u>	<u>\$ 3,032,975</u>	<u>\$ 4,702,934</u>	<u>\$ 1,914,171</u>	<u>\$ 5,585,461</u>	<u>\$ 5,111,209</u>

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 Texarkana, Arkansas
Changes in Fund Balances, Governmental Funds
Last Nine Years
(Modified Accrual Basis of Accounting)

Table 5

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues									
Property taxes	\$ 2,502,845	\$ 2,605,255	\$ 2,811,427	\$ 2,775,689	\$ 2,677,534	\$ 2,662,211	\$ 2,967,244	\$ 3,076,924	\$ 3,132,808
Sales taxes	6,444,674	6,261,789	6,643,321	6,742,640	6,983,665	8,505,726	8,229,227	8,417,648	8,751,952
Other taxes	59,254	33,971	51,893	54,301	68,339	52,032	125,194	136,636	76,338
Utility franchise	1,440,786	1,481,445	1,813,993	2,067,971	2,327,790	2,694,776	2,568,201	2,726,391	2,688,227
Licenses and permits	181,420	155,810	154,079	190,145	202,439	333,753	199,428	184,973	183,504
Fines, forfeitures and penalties	844,704	1,013,059	850,669	864,732	858,745	950,226	837,383	753,442	774,149
Charges for services	3,106,895	3,118,235	3,587,105	3,771,373	3,917,320	4,048,377	4,129,069	4,187,783	4,217,443
Grants and entitlements	905,600	1,424,618	1,253,651	1,931,897	1,537,728	2,237,208	1,539,456	2,722,402	1,669,181
Intergovernmental	2,067,804	2,239,541	2,507,032	2,678,653	3,104,345	2,647,534	2,735,212	2,891,491	2,962,420
Investment income	49,111	48,932	64,620	66,619	112,428	74,683	35,384	27,651	14,105
Miscellaneous	191,605	64,538	34,647	160,095	54,863	342,153	172,285	446,488	493,117
Total revenues	17,794,698	18,447,193	19,772,437	21,304,115	21,845,196	24,548,679	23,538,083	25,571,829	24,963,244
Expenditures									
Current:									
General government	1,006,337	988,717	1,332,817	1,168,885	1,658,606	1,352,128	1,417,749	1,885,204	2,444,686
Police department	5,916,935	6,386,147	6,729,259	7,248,114	7,275,671	7,883,830	7,922,633	9,469,492	6,967,050
Fire department	2,858,912	3,011,863	3,194,086	3,598,544	3,804,405	4,014,694	4,074,334	4,843,559	4,303,165
Other public safety	-	-	-	-	-	-	-	-	2,817,739
Protective inspection	276,697	289,220	301,381	337,179	395,301	415,423	368,400	433,139	428,681
Public works	3,862,929	3,967,649	4,366,197	4,111,168	4,124,504	4,291,986	4,184,913	4,536,705	4,335,336
Public services	205,887	300,781	98,691	508,881	194,040	124,860	126,444	6,856	14,869
Health and welfare	82,896	74,064	82,144	80,838	84,449	226,482	271,220	312,181	321,430
Culture and recreation	461,886	535,075	257,371	509,286	250,754	536,355	629,001	777,069	713,788
Administrative and general	1,186,008	1,344,388	1,236,504	1,094,650	1,297,117	1,264,712	1,237,304	-	-
Capital outlay	1,863,032	2,661,691	524,543	1,035,608	1,785,138	2,535,651	3,861,897	2,600,254	1,894,667
Debt service:									
Principal retirement	480,181	615,501	569,543	634,543	732,307	742,874	749,414	822,448	830,337
Interest and fiscal charges	683,880	745,223	715,427	686,043	662,566	669,030	672,631	723,961	761,548
Bond issuance costs	-	-	-	-	-	415,186	-	129,073	-
Total expenditures	18,885,580	20,920,319	19,407,963	21,013,739	22,264,858	24,473,211	25,515,940	26,539,941	25,833,296
Excess (deficiency) of revenues over expenditures	(1,090,882)	(2,473,126)	364,474	290,376	(419,662)	75,468	(1,977,857)	(968,112)	(870,052)

City of Texarkana, Arkansas
Changes in Fund Balances, Governmental Funds (Continued)
Last Nine Years
(Modified Accrual Basis of Accounting)

Table 5

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Other Financing Sources (Uses)									
Transfers in	\$ 902,951	\$ 808,656	\$ 1,226,533	\$ 1,490,421	\$ 1,648,093	\$ 11,010,122	\$ 1,326,554	\$ 5,848,062	\$ 1,235,622
Transfers out	(902,951)	(808,656)	(1,117,108)	(1,364,502)	(1,449,627)	(10,792,467)	(1,099,882)	(5,848,062)	(1,235,622)
Proceeds from issuance of debt	-	-	-	250,000	-	-	-	3,820,907	-
Refunding bonds issued	-	-	-	-	-	10,290,000	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	(7,840,000)	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>109,425</u>	<u>375,919</u>	<u>198,466</u>	<u>2,667,655</u>	<u>226,672</u>	<u>3,820,907</u>	<u>-</u>
Net change in fund balances	<u>\$ (1,090,882)</u>	<u>\$ (2,473,126)</u>	<u>\$ 473,899</u>	<u>\$ 666,295</u>	<u>\$ (221,196)</u>	<u>\$ 2,743,123</u>	<u>\$ (1,751,185)</u>	<u>\$ 2,852,795</u>	<u>\$ (870,052)</u>
Debt Service as a percentage of noncapital expenditures	6.8%	7.5%	6.8%	6.6%	6.8%	6.4%	6.6%	6.5%	6.6%

City of Texarkana, Arkansas
General Government Tax Revenues by Source
Last Nine Years
(Modified Accrual Basis of Accounting)

Table 6

Fiscal Year	Property	Sales and Use	Other	Utility Franchise	Total
2003	\$ 2,502,845	\$ 6,444,674	\$ 59,254	\$ 1,440,786	\$ 10,447,559
2004	2,605,255	6,261,789	33,971	1,481,445	10,382,460
2005	2,811,427	6,643,321	51,893	1,813,993	11,320,634
2006	2,775,689	6,742,640	54,301	2,067,971	11,640,601
2007	2,677,534	6,983,665	68,339	2,327,790	12,057,328
2008	2,662,211	8,505,726	52,032	2,694,776	13,914,745
2009	2,967,244	8,229,227	125,194	2,568,201	13,889,866
2010	3,076,924	8,417,648	136,636	2,726,391	14,357,599
2011	3,132,808	8,751,952	76,338	2,688,227	14,649,325
Percentage change from 2003 to current year	25.17%	35.80%	28.83%	86.58%	40.22%

City of Texarkana, Arkansas
Assessed and Appraised Value of Taxable Property
Last Ten Years

Table 7

Year	Tax Roll Year	Real Property Assessed Value	Personal Property Assessed Value	Total Property Assessed Value	Tax Rate (1)	Total Tax Levy	Tax Distribution				
							General Fund	Debt Service	Firemen's Pension	Policemen's Pension	Library Fund
2003	2002	\$ 141,302,304	\$ 81,810,350	\$ 223,112,654	0.1050	\$ 2,342,683	\$ 1,115,563	\$ 557,782	\$ 223,113	\$ 223,113	\$ 223,113
2004	2003	143,501,127	83,661,385	227,162,512	0.1050	2,385,206	1,135,813	567,906	227,163	227,163	227,163
2005	2004	151,657,956	84,992,218	236,650,174	0.1050	2,484,827	1,183,251	591,625	236,650	236,650	236,650
2006	2005	156,740,998	87,477,142	244,218,140	0.1050	2,564,290	1,221,091	610,545	244,218	244,218	244,218
2007	2006	162,582,912	87,983,284	250,566,196	0.1050	2,630,945	1,252,831	626,415	250,566	250,566	250,566
2008	2007	179,393,386	92,575,725	271,969,111	0.1050	2,855,676	1,359,846	679,923	271,969	271,969	271,969
2009	2008	192,542,695	98,702,928	291,245,623	0.1050	3,058,079	1,456,228	728,114	291,246	291,246	291,246
2010	2009	203,015,854	81,297,514	284,313,368	0.1050	2,985,290	1,421,567	710,783	284,313	284,313	284,313
2011	2010	216,916,045	93,647,265	310,563,310	0.1050	3,260,915	1,552,817	776,408	310,563	310,563	310,563
2012	2011	224,208,563	83,418,536	307,627,099	0.1050	3,230,085	1,538,135	769,068	307,627	307,627	307,627

Note:

(1) Tax rate per \$100 of assessed value.

Source - Miller County Tax Records per the Assessor's Office.

City of Texarkana, Arkansas
Property Tax Rates and Tax Levies of Direct and Overlapping Government
Last Ten Years
Local Tax Rates – Per \$100 of Assessed Value

Table 8

Year	City of Texarkana, Arkansas						County School District	County	Total	
	General Fund	Debt Service Fund	Firemen's Pension	Policemen's Pension	Library	Total				
Real Property Tax Rates:										
2002	\$ 5.00	\$ 2.50	\$ 1.00	\$ 1.00	\$ 1.00	\$ 10.50	\$ 38.90	\$ 5.50	\$ 54.90	
2003	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2004	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2005	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2006	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2007	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2008	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2009	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2010	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2011	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
Personal Property Tax Rates:										
2002	\$ 5.00	\$ 2.50	\$ 1.00	\$ 1.00	\$ 1.00	\$ 10.50	\$ 38.90	\$ 5.50	\$ 54.90	
2003	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2004	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2005	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2006	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2007	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2008	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2009	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2010	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	
2011	5.00	2.50	1.00	1.00	1.00	10.50	38.90	5.50	54.90	

Source - Miller County Tax Records.

Notes: Overlapping rates are those of local and county governments that apply to the property owners within the City of Texarkana, Arkansas. Not all overlapping rates apply to all City property owners.

City of Texarkana, Arkansas
Principal Sales Taxpayers
December 31, 2011

The City of Texarkana, Arkansas's largest own-source revenue is sales taxes. Sales taxes primarily come from two separate taxes; a two and one-half cent city tax based on point of sale, and a portion of the county's one and one-half cent tax based on an Interlocal Cooperation Agreement between Miller County, Arkansas and the municipal corporations of the State of Arkansas located within the county. Per the agreement, the City of Texarkana receives forty-five percent of the county sales tax collections. In 2011, the city sales tax generated revenue of \$6,470,876. The City's portion of the county sales tax generated revenue of \$2,281,076.

According to Arkansas State Statutes, the City is required to keep the identity of individual tax payers confidential. Therefore, the City of Texarkana is not able to identify the top 10 tax payers. However, Texarkana enjoys a diverse economic sales tax base.

City of Texarkana, Arkansas
Principal Property Taxpayers
Current Year and Nine Years Ago

Table 9

Taxpayer	2011			2002		
	Rank	2011 Assessed Valuation (1) (2)	Percentage of Total Assessed Valuation	Rank	2001 Assessed Valuation (1) (3)	Percentage of Total Assessed Valuation
Southwest AR Electric CO-OP	1	\$ 7,724,680	3.45%			
Union Pacific System	2	5,722,830	2.55%			
Natural Gas Pipeline Co.	3	4,639,630	2.07%			
Southwestern Electric Power Co.	4	4,191,600	1.87%	2	\$ 3,243,750	1.50%
Wal-Mart Stores Inc. #04-0468	5	3,962,100	1.77%	6	1,886,950	0.87%
Valor Telecommunications	6	3,465,000	1.55%	3	3,136,520	1.45%
Southwest Ark Telephone CO-OP	7	2,902,242	1.29%			
Links @ Texarkana Apartments	8	2,675,492	1.19%	7	1,690,040	0.78%
AT&T Mobility LLC	9	2,545,160	1.14%			
Tyson Foods, Inc.	10	2,515,875	1.12%			
Cooper Tire & Rubber Co.				1	23,527,200	10.91%
Truman Arnold				4	2,809,870	1.30%
Groach Associates				8	1,447,150	0.67%
M&FC Property, Inc. / Smith Blair, Inc.				5	1,967,570	0.91%
Amerigold				9	1,421,990	0.66%
Martin Marietta Materials				10	1,242,300	0.58%
Total principal taxpayers		<u>\$ 40,344,609</u>	<u>17.99%</u>		<u>\$ 42,373,340</u>	<u>19.63%</u>

Notes:

- (1) Net of exemptions
- (2) Source - Miller County Tax Records per the Collector's office
- (3) Source - City of Texarkana AR CAFR statistical section for fiscal year December 31, 2002

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

Table 10

Fiscal Year	Tax Roll Year	Total Tax Levy(2)(3)	Current Taxes Collected(1)	Percent of Current Taxes Collected	Delinquent Taxes Collected(1)	Total Tax Collections	Percent Total Tax Collections to Tax Levy(3)	Outstanding Delinquent Taxes	Percent Delinquent Taxes to Tax Levy
2002	2001	\$ 2,264,396	\$ 1,886,510	83.31%	\$ 280,489	\$ 2,166,999	95.70%	\$ 12,155	0.54%
2003	2002	2,342,683	2,031,106	86.70%	298,378	2,329,484	99.44%	13,199	0.56%
2004	2003	2,385,206	2,145,264	89.94%	226,580	2,371,844	99.44%	13,362	0.56%
2005	2004	2,484,827	2,216,262	89.19%	254,919	2,471,181	99.45%	13,646	0.55%
2006	2005	2,564,290	2,237,887	87.27%	309,954	2,547,841	99.36%	16,449	0.64%
2007	2006	2,630,945	2,320,724	88.21%	64,586	2,385,310	90.66%	245,635	9.34%
2008	2007	2,855,676	2,300,836	80.57%	301,010	2,601,846	91.11%	251,830	8.82%
2009	2008	3,058,079	2,566,653	83.93%	185,297	2,751,950	89.99%	306,129	10.01%
2010	2009	2,985,290	2,594,276	86.90%	73,925	2,668,201	89.38%	317,089	10.62%
2011	2010	3,260,915	2,673,814	82.00%	228,175	2,901,989	88.99%	358,926	11.01%
2012	2011	3,230,085	-	0.00%	-	-	0.00%	-	0.00%

(1) Excludes City portion of county road taxes shown in Special Revenue Fund.

(2) Tax levies include separate assessment shown on Utilities.

(3) Source - Miller County Tax Records per the Collector's Office.

City of Texarkana, Arkansas
Direct and Overlapping Sales Tax Rates
Last Ten Years

Table 11

Year	City Direct Rate	Miller County Rate
2002	1.50%	1.50%
2003	1.50%	1.50%
2004	1.50%	1.50%
2005	1.50%	1.50%
2006	1.50%	1.50%
2007	1.5%/2.5% (1)	1.50%
2008	2.50% (2)	1.50%
2009	2.50%	1.50%
2010	2.50%	1.50%
2011	2.50%	1.50%

Source: Arkansas Department of Finance and Administration

- (1) The rate changed effective 07/01/2007.
- (2) The rate changed effective 01/01/2008.

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

Table 12

Fiscal Year	Governmental Activities			Business-type Activities		Total Primary Government	Percentage of Personal Income(1)	Per Capita(1)
	General Obligation Bonds	Revenue Bonds	Installment loans	Water Revenue Bonds	Capital Leases			
2002	\$ 5,120,000	\$ 9,390,000	\$ 316,354	\$ 20,976,609	\$ 1,831,073	\$ 37,634,036	8.31%	\$ 1,423
2003	4,910,000	9,220,000	216,173	20,226,056	1,816,009	36,388,238	8.03%	1,376
2004	4,635,000	8,980,000	115,672	21,027,180	1,425,119	36,182,971	7.99%	1,368
2005	4,355,000	8,730,000	76,017	22,428,153	1,009,798	36,598,968	8.08%	1,384
2006	4,020,000	8,470,000	286,474	21,480,301	705,230	34,962,005	7.72%	1,322
2007	3,645,000	8,195,000	204,167	19,165,798	511,414	31,721,379	6.20%	1,062
2008	3,235,000	10,360,000	156,293	18,148,484	315,969	32,215,746	6.25%	1,071
2009	2,765,000	10,145,000	137,817	16,909,366	115,638	30,072,821	5.83%	1,000
2010	2,230,000	13,700,000	70,337	16,096,507	125,077	32,221,921	5.39%	1,077
2011	1,660,000	13,510,000	-	15,245,457	103,558	30,519,015	5.01%	1,020

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

(1) See Demographic and Economic Statistics Schedule for personal income and population data.

City of Texarkana, Arkansas
Ratios of General Bonded Debt Outstanding
Last Ten Years

Table 13

Fiscal Year	Population (1)	Assessed Value (2)	Gross Bonded Debt (3)	Debt Service Monies Available	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2002	26,448	\$ 215,656,787	\$ 5,120,000	\$ 602,127	\$ 4,517,873	2.09%	\$ 171
2003	26,448	223,112,654	4,910,000	635,112	4,274,888	1.92%	162
2004	26,448	227,162,512	4,635,000	633,180	4,001,820	1.76%	151
2005	26,448	236,650,174	4,355,000	688,535	3,666,465	1.55%	139
2006	26,448	244,218,140	4,020,000	-	4,020,000	1.65%	152
2007	29,856	250,566,196	3,645,000	733,385	2,911,615	1.16%	98
2008	30,087	271,969,111	3,235,000	739,275	2,495,725	0.92%	83
2009	30,087	291,245,623	2,765,000	776,213	1,988,787	0.68%	66
2010	29,919	284,313,368	2,230,000	801,562	1,428,438	0.50%	48
2011	29,919	310,563,310	1,660,000	833,633	826,367	0.27%	28

Notes:

- (1) Source - Bureau of Census
- (2) Source - Miller County Tax Records
- (3) Gross bonded debt consists of General Obligation bonds only

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

Table 14

<u>Jurisdiction</u>	<u>Gross Bonded Debt</u>	<u>Percentage of Debt Applicable to City of Texarkana</u>	<u>Amount Applicable to City of Texarkana</u>
Direct:			
City of Texarkana, Arkansas	\$ 1,660,000 (1)	100.00%	<u>\$ 1,660,000</u>
Overlapping:			
Miller County	885,000 (2)	69.62%	616,137
Texarkana, Arkansas School District	21,207,137 (3)	79.39%	<u>16,836,346</u>
Subtotal - Overlapping debt			<u>17,452,483</u>
Total direct and overlapping			<u><u>\$ 19,112,483</u></u>
Per capita overlapping debt			<u><u>\$ 638.81</u></u>

Notes:

Source-City and County tax records. The percentage of overlapping debt applicable is estimated using taxable assessed property values within the City.

- (1) Includes Governmental Fund bonds only
- (2) Source - Miller County Treasurer's Office
- (3) Source - Texarkana Arkansas School District

City of Texarkana, Arkansas
Legal Debt Margin Information
Last Ten Years

Table 15

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt limit	\$ 53,914,197	\$ 55,778,164	\$ 56,790,628	\$ 59,162,544	\$ 62,793,666	\$ 55,778,086	\$ 61,244,469	\$ 64,788,565	\$ 71,078,342	\$ 76,906,774
Total net debt applicable to limit	<u>4,517,873</u>	<u>4,274,888</u>	<u>4,001,820</u>	<u>3,666,465</u>	<u>3,305,264</u>	<u>2,911,615</u>	<u>2,795,725</u>	<u>1,988,787</u>	<u>1,428,438</u>	<u>826,367</u>
Legal debt margin	<u>\$ 49,396,324</u>	<u>\$ 51,503,276</u>	<u>\$ 52,788,808</u>	<u>\$ 55,496,079</u>	<u>\$ 59,488,402</u>	<u>\$ 52,866,471</u>	<u>\$ 58,448,744</u>	<u>\$ 62,799,778</u>	<u>\$ 69,649,904</u>	<u>\$ 76,080,407</u>
Total net debt applicable to the limit as a percentage of debt limit	9.15%	8.30%	7.58%	6.61%	5.56%	5.51%	4.78%	3.17%	2.05%	1.09%

Legal Debt Margin Calculation for 2011

Assessed value	\$ 307,627,099
Debt limit - 25% of assessed value:	
General obligation debt limitation	76,906,774
Debt applicable to limit:	
General obligation bonds	1,660,000
Less: Amount set aside for repayment in debt services funds	<u>(833,633)</u>
Total net debt applicable to limit	<u>826,367</u>
Legal debt margin	<u>\$ 76,080,407</u>

City of Texarkana, Arkansas
Pledged Revenue Coverage – Texarkana, Arkansas Water Utilities
Last Ten Years

Table 16

Fiscal Year Ended 30-Sep	Gross Revenue(1)	Operating Expenses (2)	Net Revenue Available For Debt Service	Debt Service Requirements (3)	Coverage
2002	\$ 7,599,669	\$ 4,263,933	\$ 3,335,736	\$ 2,353,831	1.42
2003	7,883,498	4,309,014	3,574,484	2,139,295	1.67
2004	7,819,971	4,528,171	3,291,800	2,391,470	1.38
2005	9,050,696	4,839,384	4,211,312	2,493,447	1.69
2006	9,426,514	5,166,488	4,260,026	2,603,884	1.64
2007	9,013,114	5,463,317	3,549,797	1,547,289	2.29
2008	9,209,957	6,142,251	3,067,706	1,908,030	1.61
2009	9,522,966	5,890,787	3,632,179	2,016,180	1.80
2010	10,749,699	6,134,724	4,614,975	1,543,099	2.99
2011	10,864,429	6,285,498	4,578,931	1,547,899	2.96

Notes:

- (1) Gross revenue includes interest income on investment and proceeds from sale of fixed assets. Gross revenue also includes payments received from Texarkana, Texas Water Utilities for debt service on revenue bonds issued for construction of Millwood Water Treatment Facilities and McKinney Bayou Wastewater Treatment Facilities.
- (2) Operating expenses exclude depreciation and amortization.
- (3) Principal and interest on revenue bonds only. Amounts do not include payments on obligations under capital leases.

City of Texarkana, Arkansas
Demographic and Economic Statistics
Last Ten Years

Table 17

Fiscal Year	Population (1)	Personal Income (3)	Median Age (1)	Per Capita Income(1)	Unemployment Rate(2)
2002	26,448	\$ 453,054,240	34.8	\$ 17,130	5.6%
2003	26,448	453,054,240	34.8	17,130	6.1%
2004	26,448	453,054,240	34.8	17,130	5.7%
2005	26,448	453,054,240	34.8	17,130	5.2%
2006	29,856	511,433,280	37.5	17,130	5.1%
2007	29,856	511,433,280	37.5	17,130	4.6%
2008	30,087	515,390,310	37.5	17,130	4.7%
2009	30,087	515,390,310	37.5	17,130	6.2%
2010	29,919	597,991,053	37.3	19,987	7.1%
2011	29,919	609,300,435	36.2	20,365	7.5%

Notes:

- (1) Source - U.S. Census Bureau
- (2) Source - U.S. Bureau of Labor Statistics
- (3) Personal Income is a calculation of per capita income multiplied by the population

City of Texarkana, Arkansas
Principal Employers, Metropolitan Statistical Area (MSA) –
Texarkana, Arkansas and Texarkana, Texas
Current Year and Nine Years Ago

Table 18

Employer	2011			2002		
	Employees	Rank	Percentage of Total MSA Employment (1)	Employees	Rank	Percentage of Total MSA Employment (2)
Red River Army Depot & Tenants	5,500	1	9.53%	2,700	1	5.28%
Christus St. Michael Health Care	2,055	2	3.56%	1,600	3	3.13%
Cooper Tire & Rubber	1,700	3	2.95%	1,890	2	3.70%
Texarkana Texas ISD	1,100	4	1.91%	800	9	1.56%
Wal-Mart/Sam's	1,100	4	1.91%	1,045	6	2.04%
Domtar/Georgia Pacific	940	5	1.63%	1,200	5	2.35%
Texarkana AR ISD	785	6	1.36%	1,008	7	1.97%
Wadley Regional Medical Ctr	778	7	1.35%	1,500	4	2.93%
International Paper	777	8	1.35%	970	8	1.90%
Southern Refrigerated Transport	750	9	1.30%	-		0.00%
City of Texarkana, Texas	600	10	1.04%	615	10	1.20%
Total	16,085		27.88%	13,328		26.06%

Source:
Chamber of Commerce
Texas Workforce Commission LMI Tracer

Notes:
(1) MSA employment for 2011 is 57,700
(2) MSA employment for 2002 is 51,150

City of Texarkana, Arkansas
Full-time Equivalent City Government Employees by Function
Last Seven Years

Table 19

	2005	2006	2007	2008	2009	2010	2011
General government							
Administration	6	6	2	3	3	4	4
Finance	7	5	7	8	8	8	8
City Clerk	0	0	3	3	3	3	3
Courts	5	5	5	4	4	4	5
Police department							
Police General	69	70	73	72	70	71	71
Police Housing	2	2	2	3	3	3	3
Cops in School	2	2	2	2	2	1	1
Police Narcotics	5	5	5	5	5	5	5
Police Support	9	9	9	9	10	10	11
Police Animal	2	2	1	2	2	2	2
Probation	3	3	3	3	3	3	4
Police CHRP	0	0	0	0	0	0	4
Fire department							
Fire	59	59	57	59	59	59	59
Public works							
Street	15	14	16	14	17	18	17
Environmental	5	4	5	3	3	3	4
Engineering	0	1	1	1	1	1	1
Planning	2	1	2	2	2	2	2
Code Enforcement	5	6	6	6	6	6	6
Parks and recreation	3	3	3	3	4	6	4
Building maintenance	2	1	2	2	2	2	2
ADC	0	0	0	0	0	0	3
Public services							
HCD	2	2	3	3	1	1	0
RSVP - Arkansas	1	1	1	1	1	1	1
RSVP - Texas	1	1	1	1	1	1	1
VISTA	1	0	0	0	0	0	0
Other							
Bi-State Maintenance	6	11	14	13	13	13	13
Bi-State CRC	1	1	1	1	1	1	1
Animal Shelter	0	0	0	11	7	8	8
Total	213	214	224	234	231	236	243

Notes: Information for years prior to 2004 not available. Table includes vacant positions but not frozen positions.

City of Texarkana, Arkansas
Operating Indicators by Function/Program
Last Ten Years

Table 20

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<u>Function/Program</u>										
Public safety										
Police										
Uniformed employees	78	78	82	82	82	90	91	89	90	90
Fire										
Firefighters	56	57	57	57	57	56	58	58	58	58
Public works										
Building permits issued	1,680	1,992	1,638	1,637	1,861	1,758	3,679	1,944	477	507
Building permits (\$)	\$ 22,379,985	\$ 13,125,809	\$ 32,743,147	\$ 23,924,752	\$ 25,890,212	\$ 20,074,686	\$ 29,546,718	\$ 16,535,562	\$ 20,492,129	\$ 20,275,238
Water										
Average daily consumption (millions of gallons)	4.110	4.300	4.380	3.987	5.063	6.728	5.147	4.846	3.675	4.016
Raw water production (millions of gallons)	4.430	4.330	4.415	4.088	5.254	7.010	5.373	5.056	4.056	6.430

Source: Various City Departments

City of Texarkana, Arkansas
Capital Asset Statistics by Function
Last Ten Years

Table 21

Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Total units	64	63	66	68	72	96	96	96	82	101
Fire										
Stations	5	5	5	5	5	5	5	5	5	5
Public works										
Streets (miles)	283	284	287	289	290	290	290	291	291	250 ⁽²⁾
Recreation										
Number of parks	12	13	13	13	16	16	16	16	20	24
Acres	356	238	238	238	361	280	280	280	281	288.3
Pools	1	1	1	1	1	1	1	1	1	1
Ball Fields	11	11	11	11	11	12	12	12	12	15
Tennis courts:										
Lighted	0	3	3	3	3	3	3	3	3	3
Unlighted	5	2	2	2	3	3	3	3	3	1
Community centers	4	4	4	4	4	4	4	4	4	4
Soccer fields	0	0	0	0	0	0	0	0	0	1
Walking/biking trails (miles)	0	2.3	2.3	2.3	3.65	3.65	3.65	3.65	5.2	7.5
Utilities										
Plant capacity										
(million gallon average per day)	15	15	15	15	15	15	15	15	15	15
Water mains (miles)	289	289	383	415	410	417	424	412	409	408
Number of water meters	10,021	10,419	10,195	9,942	10,095	10,167	10,217	10,203	10,184	10,103
Sewer mains (miles)	188	188	200	203	209	211	213	216	216	212
Number of fire hydrants	1,044	1,044	1,192	1,332	1,361	1,372	1,384	1,392	1,427	1,438
Number of Mandeville water meters	(1)	(1)	(1)	(1)	341	337	339	333	328	322
Number of Union water meters	(1)	(1)	(1)	(1)	1,053	1,080	1,088	1,107	1,129	1,135

⁽¹⁾ Information not available

⁽²⁾ 2011 is based on a GIS system which provides a more accurate estimate of miles.

Source: Various City Departments

Other Required Report

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Independent Accountants' Report on Compliance With Arkansas State Requirements

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

We have examined management's assertions that the City of Texarkana, 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 upon 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 Texarkana, 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 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

July 30, 2012

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Single Audit Section

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

Cluster/Program	Federal Agency/Pass Through Entity	CFDA Number	Grant Program/ Number	Grant Expenditures
Disaster Economic Adjustment, Industrial Access and Related Infrastructure Improvements	U.S. Department of Commerce	11.307	08-01-04164	\$ 241,677
Community Development Block Grant	U.S. Department of Housing and Urban Development	14.218	B11MC050007	130,349
Community Development Block Grant	U.S. Department of Housing and Urban Development	14.218	B10MC050007	57,326
Community Development Block Grant	U.S. Department of Housing and Urban Development	14.218	B09MC050007	16,220
	CDBG cluster total			203,895
Byrne Justice Assistance Grant (JAG) - 2009 ARRA	U.S. Department of Justice/Arkansas Department of Finance and Administration	16.804	JRA 10-307	58,951
Organized Crime/Narcotic Program (11-12)	U.S. Department of Justice/Arkansas Department of Finance and Administration	16.738	J11-007	70,331
Organized Crime/Narcotic Program (10-11)	U.S. Department of Justice/Arkansas Department of Finance and Administration	16.738	J10-007	74,598
Byrne Justice Assistance Grant(JAG)	U.S. Department of Justice	16.738	2011-DJ-BX-2412	32,050
Byrne Justice Assistance Grant(JAG)	U.S. Department of Justice	16.738	2010-DJ-BX-0474	66,755
Byrne Justice Assistance Grant(JAG)	U.S. Department of Justice	16.738	2009-DJ-BX-0220	19,814
Byrne Justice Assistance Grant(JAG)	U.S. Department of Justice	16.738	2008-DJ-BX-0633	161
	JAG cluster total			322,660
Victim Justice and Assistance Grants	U.S. Department of Justice/Arkansas Department of Finance and Administration	16.588	11702-11SL	10,373
Victim Justice and Assistance Grants	U.S. Department of Justice/Arkansas Department of Finance and Administration	16.588	10-702-9SL	39,378
2009 STOP Special Use Funds	U.S. Department of Justice/Arkansas Department of Finance and Administration	16.588	10-702-9SL	3,900
VOCA Crime Victim Assistance (11-12)	U.S. Department of Justice/Arkansas Department of Finance and Administration	16.575	11-178-9V	8,455
VOCA Crime Victim Assistance (10-11)	U.S. Department of Justice/Arkansas Department of Finance and Administration	16.575	10-178-10V	27,389
Bulletproof Vest Partnership Program Grant	U.S. Department of Justice	16.607		3,794
COPS Hiring Recovery Program Grant	U.S. Department of Justice	16.710	2009RKWX0066	211,864

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

Cluster/Program	Federal Agency/Pass Through Entity	CFDA Number	Grant Program/ Number	Grant Expenditures
Alcohol Traffic Safety & Drunk Driving Prevention Incentive Grant	U.S. Department of Transportation/Arkansas State Highway and Transportation Department	20.601	K8-2012-08-06-27	\$ 16,061
Alcohol Traffic Safety & Drunk Driving Prevention Incentive Grant	U.S. Department of Transportation/Arkansas State Highway and Transportation Department	20.601	K8-2011-08-06-31	43,157
State and Community Highway Safety	U.S. Department of Transportation/Arkansas State Highway and Transportation Department	20.600	OP-2012-03-02-27	6,631
State and Community Highway Safety	U.S. Department of Transportation/Arkansas State Highway and Transportation Department	20.600	OP-2011-03-02-31	<u>16,735</u>
	Highway Safety cluster total			82,584
Ernest Hill Pavilion Trail Grant	U.S. Department of Transportation/Arkansas State Highway and Transportation Department	20.219	30365	33,136
Nix Creek Trail Connector Grant	U.S. Department of Transportation/Arkansas State Highway and Transportation Department	20.219	30381	<u>10,900</u>
	Highway Planning and Construction cluster total			44,036
Retired Senior Volunteer Program-AR	Corporation for National and Community Service	94.002	09SRWAR-008	61,049
Syphilis Elimination Project	Center for Disease Control/Arkansas Department of Health	93.977	4600019085	12,022
Publication of Historic Records Grant	National Endowment for the Humanities/Arkansas Humanities Council	45.129	AHC-11-021	17,200
Energy Efficiency and Conservation Block Grant-ARRA	U.S. Department of Energy/Arkansas Energy Office	81.128	AEO-EECBG-WIN-10-030	100,001
Bramble Park Pond Pier - ADA Accessible Fishing Platform	U.S. Department of Interior Fish and Wildlife Service/Arkansas Game and Fish Commission	15.634	F-166-B	24,000
CLG/AHPP Certified Local Government Grant	National Parks Service	15.904	09-CLG-11	<u>3,909</u>
Total Federal Assistance				<u>\$ 1,418,186</u>

City of Texarkana, 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 Texarkana, 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. The City of Texarkana, Arkansas provided no federal awards to subrecipients during the year ended December 31, 2011.

**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 Texarkana, Arkansas
Texarkana, Arkansas

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Texarkana, 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 July 30, 2012, and contained an explanatory paragraph regarding a change in accounting principle and contained a reference to the reports of other accountants. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other accountants audited the financial statements of the Texarkana, Arkansas Water Utilities and the Texarkana Airport Authority, as described in our report on the City of Texarkana, Arkansas's financial statements. This report does not include the results of the other accountants' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those accountants.

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.

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

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

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*.

This report is intended solely for the information and use of the Mayor, City Council, management, others within the City and 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

July 30, 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 Texarkana, Arkansas
Texarkana, Arkansas

Compliance

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

Internal Control Over Compliance

The management of the City of Texarkana, 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

The Honorable Mayor and Members of the City Council
City of Texarkana, Arkansas
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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 Mayor, City Council, management, others within the City and 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

July 30, 2012

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

7. The City's major programs were:

Cluster/Program	CFDA Number
COPS Hiring Recovery Program Grant	16.710
Disaster Economic Adjustment, Industrial Access and Related Infrastructure Improvements	11.307
Edward Byrne Memorial Justice Assistance Grant Program Cluster	16.738,16.804

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 Texarkana, 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
	No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

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

Reference Number	Summary of Finding	Status
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No matters are reportable.