

City of Fort Smith, Arkansas

Comprehensive Annual Financial Report

Year Ended December 31, 2008

Prepared By the

**City of Fort Smith, Arkansas
Finance Department**

City Board of Directors

C. Ray Baker, Mayor

Steven Tyler
Andre' Good
Don Hutchings
Bill Maddox
Gary Campbell
Kevin Settle
Cole Goodman, M.D.

City Administrator
Dennis Kelly

Director of Finance
Kara Bushkuhl

City of Fort Smith, Arkansas
Year Ended December 31, 2008

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**INTRODUCTORY
SECTION**



June 26, 2009

To the Honorable Mayor, Members of the
Board of Directors, and Citizens of
the City of Fort Smith:

Arkansas law allows cities to choose to publish a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The City has exercised this option. Accordingly, we hereby issue the comprehensive annual financial report (CAFR) of the City of Fort Smith for the fiscal year ended December 31, 2008.

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

The City's financial statements have been audited by **BKD, LLP**, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the City's financial statements for the fiscal year ended December 31, 2008 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. **BKD, LLP** concluded, based upon the audit, that there was a reasonable basis for rendering unqualified ("clean") opinions on the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund and aggregate remaining fund information that collectively comprise the City's basic financial

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statements as of and for the fiscal year ended December 31, 2008. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the City's financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are presented in the City's Single Audit section included within this report.

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

Profile of the City

Fort Smith is located in western Arkansas on the border of Oklahoma and is the second largest city in the state. The City was incorporated in 1842 and is the county seat for Sebastian County. Fort Smith is 159 miles west of Little Rock and 145 miles southeast of Tulsa, Oklahoma. The City serves as the central focus for a six-county economic and trade region in the west central area of Arkansas and the east central area of Oklahoma. The City encompasses 92.4 square miles and has an estimated population of 84,375. The City is empowered by state statutes to levy real and personal property taxes within its limits and extend the corporate limit by annexation, which occurs periodically when deemed appropriate by the Board of Directors. State statutes also allow the City to levy local sales and use taxes.

Since 1967, the City has operated as a City Administrator form of government. The Mayor and the Board of Directors are elected to staggered, four-year terms. The Mayor and three directors are elected at large and the remaining four directors are elected in representative wards of the City. The Board of Directors is charged with setting policy and enacting laws for the City. The City Administrator is appointed by the Board of Directors and serves as the chief executive officer for the City.

The City provides a full range of services including public safety, construction and maintenance of streets and other infrastructure, parks and recreational activities, water and sewer services, solid waste collection and disposal, public transportation, and administrative services. The City also reports the financial activity for the Advertising and Promotion Commission, the Fort Smith Public Library, the Parking Authority, and the Fort Smith Airport Commission. These four entities are included in the financial statements as discretely presented component units. Additional information on these component units may be found in Note 1 in the notes to the basic financial statements.

The Board of Directors adopts an annual budget that serves as the City's financial planning document. Control over spending and allocation of resources are a main focus of the budget. The annual budget process begins in June of each year and is usually adopted each December. Appropriation requests by fund, division and department are submitted to the City Administrator and the Director of Finance. Resources are allocated based upon priorities established by the Board of Directors. The legal level of budgetary control is the departmental level. For example, the Police Department is reported as a Public Safety (division) expenditure in the General Fund budget to actual statement located in the required supplementary information in the financial section of this report. The City Administrator is authorized to transfer appropriated amounts within individual funds. However, additional appropriations during the year require approval by the Board of Directors.

Factors Affecting Financial Condition

The information presented in the financial statements may be better understood when considered from a broader perspective of the environment within which Fort Smith's municipal government operates.

Local Economy. The City continued to enjoy economic growth through the end of 2008 and only recently has realized a slow down in the local economy. The Fort Smith Regional Chamber of Commerce adopted a new economic development and marketing strategy for the region. The goal of the plan is to promote the City's quality of place to attract educated and talented residents to the region. This labor pool will then attract new, highly desirable jobs to the area.

Wal-Mart opened its third Supercenter in the City in January 2008. This store is the sixth Supercenter in the immediate area. An additional 300,000 square feet of retail space will be built adjacent to the new Wal-Mart Supercenter. Target opened its first store in the City in October 2008 as a part of a 300,000 square foot shopping center. Best Buy, Michaels, Books A Million, and Old Navy relocated to this center. New retailers were added at the center including Bed, Bath & Beyond, Ulta, and the Dress Barn and the Shoe Carnival opened its second store in Fort Smith. A barge manufacturer has constructed manufacturing facilities on the banks of the Arkansas River in the City. The manufacturer has initially employed 100 persons with potential growth of another 100 jobs. Two manufacturers announced plans to build 400,000 square feet of manufacturing and warehousing space at Chaffee Crossing. PRADCO Outdoor Brands, a manufacturer of fishing lures, will relocate to Chaffee Crossing from another location in the City during 2010. PRADCO is expected to increase its employment in the City by 75 jobs as a result of the move. UmarexUSA, a manufacturer of and distributor of air weapons and small caliber rifles, will build a distribution/manufacturing facility at Chaffee Crossing. The move will result in approximately 60 new jobs. QualServ, a manufacturer of retail counter areas and displays, has moved its corporate headquarters to the City and expanded its manufacturing operations. These changes have added approximately 65 jobs to QualServ's operations in the City. Mars Petcare has an \$80 million manufacturing facility under construction at Chaffee Crossing. This manufacturer will initially employ

200 persons with potential growth of another 200 jobs. Two new hotels on the City's east side near Interstate 540 and the Fort Smith Airport have opened recently. The 188th Fighter Wing of the Arkansas Air National Guard recently received a new flying mission through the Base Realignment and Closure Commission. The unit has replaced 14 obsolete F-16 fighter aircraft with 18 A-10 attack aircraft. This change preserves 1,000 full time and part-time jobs and adds 150 new positions. Sparks Regional Medical Center has completed a major expansion to its health care campus near downtown Fort Smith. Two large-scale residential subdivisions in and near the City are under development with lots being absorbed faster than expected. The recent acquisition by the City of the South Sebastian Water Users System is spurring further development in the City's southern edges.

Whirlpool Corp. recently laid off 500 employees at its plant in the City. This is the result of a shift in production capacity to Mexico which has been planned since 2003. In addition, Whirlpool laid off 700 employees due to the slowing demand for refrigerators due to economic conditions. Whirlpool hopes to be able to recall most or all of these 700 employees; however, it will likely take more than six months. These layoffs have dropped Whirlpool's Fort Smith employment to approximately 1,500 employees. Over the past 20 years, Whirlpool's Fort Smith employment has fluctuated from approximately 1,500 to more than 5,000 employees.

Long-Term Financial Planning. In 1985, the City began collecting a one-percent (1%) local sales and use tax to fund its neighborhood and major street improvements. This sales tax is authorized through 2015.

The City also levies an additional one-percent (1%) local sales and use tax which is pledged to redeem bonds issued for large construction projects. The current 2006 and 2008 Sales and Use Tax Bonds fund a new radio communication system for public safety and public service purposes as well as major wastewater improvements in accordance with an EPA administrative order. This has proven to be a very effective way to fund projects and the City saves on interest charges because Arkansas sales tax bond issues have mandatory redemption requirements. The 2006 and 2008 Bonds are expected to be redeemed prior to maturity.

The City's comprehensive plan includes development and planning in and around Fort Smith. Local developers of planned residential areas outside the City limits continue to request City services. This may provide future annexation that would increase the City's tax base.

Other Information

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2007. The Certificate of Achievement is the highest form of recognition for excellence in local government financial reporting. This was the twenty-third consecutive year that the City

has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

In addition, the City also received the GFOA Award for Distinguished Budget Presentation for its annual budget dated January 1, 2009. This was the twenty-first consecutive year that the City has received this award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial reporting, planning, and organization.

Acknowledgements. The preparation of the CAFR on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Special recognition is made to Jackie Joyce, Assistant Director of Finance, Jacinta Winstead, Accounting Manager, and Christy Deuster, Administrative Coordinator for their efforts. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

We also acknowledge the thorough, professional, and timely manner in which the annual audit was conducted by **BKD, LLP** as well as the efforts by the City's Internal Auditor, Mitzi Kimbrough.

In closing, we acknowledge the contributions of the Mayor, Board of Directors, and the Audit Advisory Committee members who have consistently supported the City's goal of excellence in all aspects of financial management. Their encouragement and support is greatly appreciated.

Respectfully submitted,



Dennis Kelly
City Administrator



Kara Bushkuhl
Director of Finance

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fort Smith
Arkansas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2007

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.

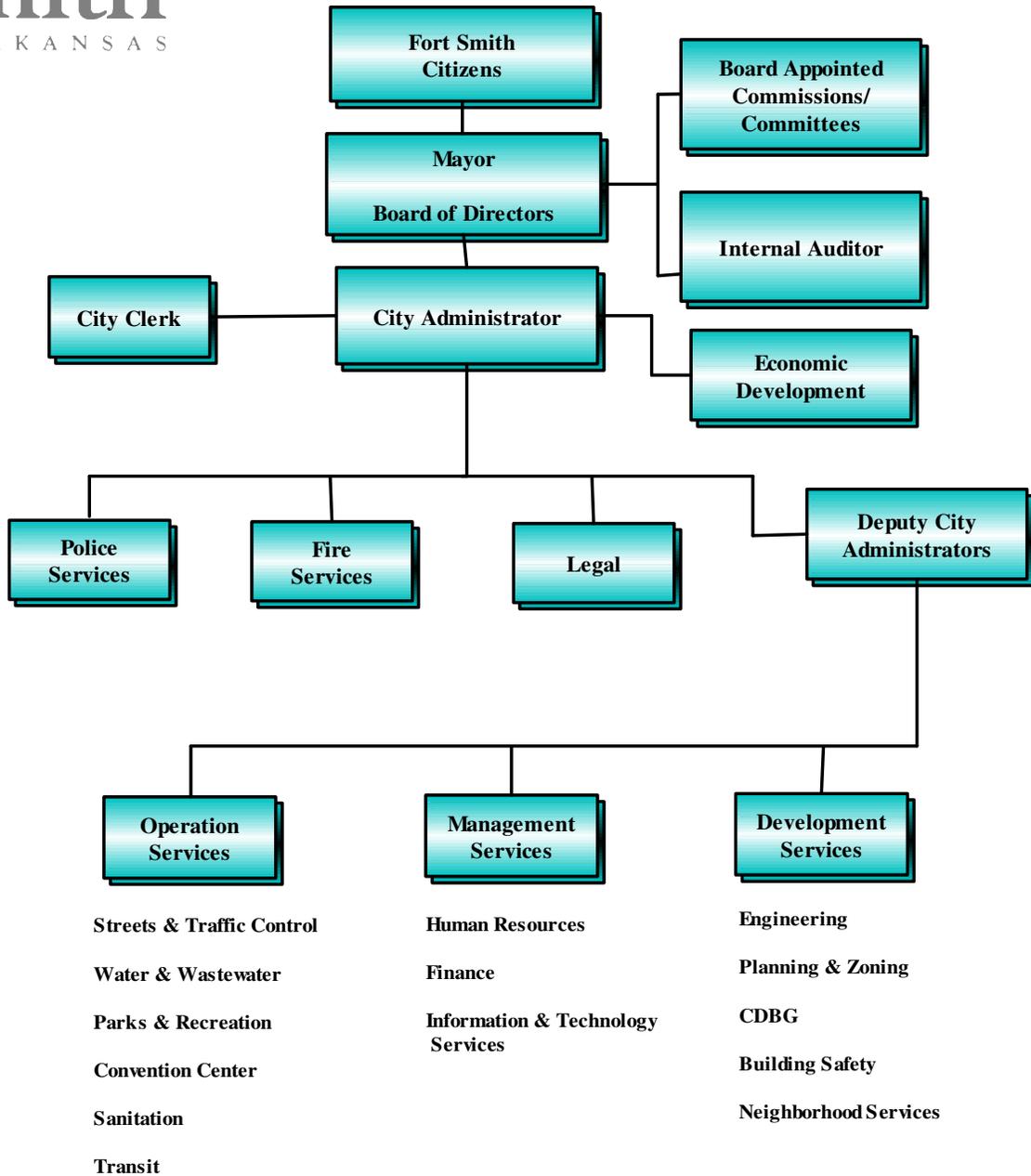


President

Executive Director



Plan of Organization



City of Fort Smith, Arkansas
List of Elected and Appointed Officials
December 31, 2008

Elected Officials

Mayor	C. Ray Baker
Director-Ward 1	Steven Tyler
Director-Ward 2	Andre' Good
Director-Ward 3	Don Hutchings
Director-Ward 4	Bill Maddox
Director at Large/Vice Mayor	Gary Campbell
Director at Large	Kevin Settle
Director at Large	Cole Goodman, M.D.
District Court Judge	David Saxon
District Court Judge	Ben Beland
District Court Judge	Claire Borengasser

Appointed Officials

City Administrator	Dennis Kelly
Deputy City Administrator	Ray Gosack
Advertising and Promotion	Claude Legris
Airport	John Parker
City Clerk	Cindy Remler
Development/Planning	Wally Bailey
Convention Center	Frankie Hamilton
District Court	Rachel Sims
Engineering	Stan Snodgrass
Finance	Kara Bushkuhl
Fire	Jerry Tomlin
Human Resources	Richard Jones
Information and Technology	Russell Gibson
Library	Jennifer Goodson
Parks and Recreation	Mike Alsup
Police	Kevin Lindsey
Sanitation	T. Baridi Nkokheli
Streets and Traffic Control	Bob Wright
Transit	Ken Savage
Utilities	Steve Parke

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FINANCIAL SECTION

Independent Accountants' Report on Financial Statements and Supplementary Information

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Fort Smith, Arkansas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fort Smith, Arkansas as of and for the year ended December 31, 2008, 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 the Fort Smith Public Library, a discretely presented component unit of the City, which statements reflect total assets and revenues of \$2,711,002 and \$2,931,953 respectively, and represents 86% and 78% of the aggregate discretely presented component units' (governmental activities) total assets and revenues at December 31, 2008 and for the year then ended, respectively. Those statements were audited by other accountants whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for the Fort Smith Public Library, is based solely on the report of the other accountants.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audits and the report of the other accountants provide a reasonable basis for our opinions.

In our opinion, based on our audits and the report 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 Fort Smith, Arkansas as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 1*, in 2008, the City changed its method of accounting for postemployment benefits other than pensions and its method of disclosures of pension information by implementing Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and Statement No. 50, *Pension Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2009, 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.

The accompanying management's discussion and analysis and budgetary and pension information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying supplementary information, including the 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, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying information in the introductory and statistical sections as listed in the table of contents has not been subjected to the procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

BKD, up

June 26, 2009

City of Fort Smith, Arkansas

Management's Discussion and Analysis

December 31, 2008

The following discussion and analysis of the City of Fort Smith's financial performance provides a narrative overview and analysis of its financial activities for the year ended December 31, 2008. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our letter of transmittal, which can be found on pages i-v of this report.

Financial Highlights

- Primary Government total assets exceeded total liabilities at the close of 2008 by \$640,564,161 (net assets). Of this amount, \$22,744,456 is considered unrestricted net assets and may be used to meet the City's ongoing obligations to its citizens and creditors in accordance with the City's fund designations and financial policies. The City's governmental activities have unrestricted net assets of \$27,130,241. The City's business-type activities have deficit unrestricted net assets of \$4,385,785.
- The City's total net assets increased by \$39,936,709 in 2008. Net assets of the governmental activities increased by \$14,688,799 in 2008 compared to a net increase of \$24.7 million in 2007 ending net assets. Net assets of the business-type activities increased by \$25,247,910 in 2008 that was a 152% increase over the 2007 change in assets.
- As of the close of 2008, the City's governmental funds reported combined ending fund balances of \$111,587,420 that was a decrease of \$4,867,215 from the prior year. The unreserved portion of the fund balances is \$16,117,023 that represents 14.4% of the total and is available for spending at the Board's discretion.
- At the end of 2008, the unreserved fund balance for the General Fund was \$7,052,220 or 18.4% of total General Fund expenditures. There was an increase of \$2,257,181 in total General Fund balance between years.
- The City's total bonded indebtedness increased by \$40.83 million during the current year. The increase includes the issuance of \$117.42 million Water and Sewer Revenue Refunding and Construction Bonds, Series 2008, and the issuance of \$15.815 million in Sales & Use Tax Bonds, Series 2008. The issuances were offset by the advance refunding of \$66.475 million Water and Sewer Revenue Construction Bonds, Series 2002A, the call and maturity of outstanding Sales and Use Tax Bonds, Series 2006 which totaled \$16.67 million, and the maturity of revenue bonds during the year of \$9.26 million.
- The City's governmental component units reported net assets of \$2,632,984 at December 31, 2008 that was an increase of \$235,487 over 2007.
- The City's business-type component units reported net assets of \$36,096,018 at December 31, 2008 that was a \$1,510,850 increase over 2007.

Overview of the Financial Statements

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

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 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 most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and community services. The business-type activities of the City include the water and sewer system and the solid waste disposal system.

The government-wide financial statements include not only the City itself (known as the primary government), but also the following legally separate entities for which the City is financially accountable:

- Parking Authority
- Fort Smith Public Library
- Advertising and Promotion Commission
- Airport Commission

Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 14-17 of this report.

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

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

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

The City maintains 12 individual 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, Street Maintenance Fund, Sales Tax Fund, Sales and Use Tax Construction Fund, and the Sales and Use Tax Bond Fund that are considered to be major funds. Data from the other seven (7) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 18-22 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for its water and sewer system and its solid waste system. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions for fuel and duplicating services, medical, dental and life insurance benefits, and workers' compensation claims. The services provided by the internal service funds predominantly benefit the governmental rather than the business-type functions. They have been included within the *governmental activities* in the government-wide financial statements exclusive of an allocation of services to business-type activities. 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 Water and Sewer Fund and the Sanitation Fund, both of which are considered to be major funds of the City. The Working Capital, Employee Insurance and Workers' Compensation Funds are the City's internal service funds and are reported in a single aggregated presentation.

The basic proprietary fund financial statements can be found on pages 24-29 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 30-82 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's General Fund budget, the City's Street Maintenance Fund budget and an analysis of funding progress for the City's fire and police pension plans. The City adopts an annual appropriation budget for its General Fund and its Street Maintenance Fund. Budgetary comparison schedules have been provided for the General Fund and the Street Maintenance Fund to demonstrate compliance with the annual budgets. *Required supplementary information* can be found on pages 83-86 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining statements and schedules can be found on pages 87-103 of this report.

Government-Wide Financial Analysis

City of Fort Smith Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 138,912,401	\$ 136,561,557	\$ 103,439,233	\$ 62,574,295	\$ 242,351,634	\$ 199,135,852
Capital assets	321,283,418	301,763,444	381,908,751	354,757,225	703,192,169	656,520,669
Total assets	<u>460,195,819</u>	<u>438,325,001</u>	<u>485,347,984</u>	<u>417,331,520</u>	<u>945,543,803</u>	<u>855,656,521</u>
Long-term liabilities	65,423,738	68,007,927	198,528,206	153,469,655	263,951,944	221,477,582
Other liabilities	27,025,807	17,259,600	14,001,891	16,291,887	41,027,698	33,551,487
Total liabilities	<u>92,449,545</u>	<u>85,267,527</u>	<u>212,530,097</u>	<u>169,761,542</u>	<u>304,979,642</u>	<u>255,029,069</u>
Net Assets:						
Invested in capital assets, net of related debt	293,634,375	275,722,692	249,818,159	225,664,963	543,452,534	501,387,655
Restricted	46,981,658	47,754,213	27,385,513	20,514,957	74,367,171	68,269,170
Unrestricted (deficit)	27,130,241	29,580,570	(4,385,785)	1,390,057	22,744,456	30,970,627
Total Net assets	<u>\$ 367,746,274</u>	<u>\$ 353,057,475</u>	<u>\$ 272,817,887</u>	<u>\$ 247,569,977</u>	<u>\$ 640,564,161</u>	<u>\$ 600,627,452</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$640,564,161 at the close of 2008.

The largest portion of the City's net assets (84.8%) reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, machinery and equipment, and infrastructure), plus unspent bond proceeds, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (11.6 %) represents resources that are subject to restrictions as to how they may be used. The remaining balance is unrestricted.

At the end of the current fiscal year, the City is able to report positive balances in unrestricted net assets for the government as a whole and for its separate governmental activities as was the case in the prior year. The business-type activities reported negative balances in unrestricted net assets at the end of 2008. However, in 2007, the business-type activities reported a positive balance in unrestricted net assets.

There was an increase of \$6,870,556 in restricted net assets reported in connection with the City's business-type activities. This increase resulted from the 2008 Water and Sewer Revenue Refunding and Construction Bonds issuance.

The City's net assets increased by \$39,936,709 during 2008. Total revenues increased by 8.5% between years. Revenues generated by fees and charges increased by 11.3% due primarily to rate increases. Sales tax revenue on a government-wide basis increased by 9.1%.

**City of Fort Smith
Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues						
Fees, fines, and charges for services	\$ 5,659,906	\$ 4,659,838	\$ 50,487,203	\$ 45,800,004	\$ 56,147,109	\$ 50,459,842
Operating grants and contributions	7,928,553	7,524,294	-	-	7,928,553	7,524,294
Capital grants and contributions	8,260,531	1,610,147	2,731,780	2,197,861	10,992,311	3,808,008
	21,848,990	13,794,279	53,218,983	47,997,865	75,067,973	61,792,144
General revenues						
Property taxes	9,360,659	8,821,508	-	-	9,360,659	8,821,508
Sales taxes	57,837,124	53,014,309	-	-	57,837,124	53,014,309
Utility franchise fees	7,366,814	6,760,463	-	-	7,366,814	6,760,463
Grants and contributions not restricted to specific programs	1,386,747	6,558,212	-	-	1,386,747	6,558,212
Unrestricted investment earnings	3,065,530	6,155,547	2,362,717	1,950,264	5,428,247	8,105,811
Other	309,447	251,941	1,247,516	504,328	1,556,963	756,269
Total revenues	101,175,311	95,356,259	56,829,216	50,452,457	158,004,527	145,808,716
Expenses						
General government	10,384,215	8,121,090	-	-	10,384,215	8,121,090
Public safety	28,634,055	29,635,609	-	-	28,634,055	29,635,609
Public works	12,091,319	10,862,082	-	-	12,091,319	10,862,082
Community services	9,637,947	10,559,736	-	-	9,637,947	10,559,736
Interest on long-term debt	4,109,187	3,757,618	-	-	4,109,187	3,757,618
Water and sewer	-	-	41,745,466	36,693,984	41,745,466	36,693,984
Sanitation	-	-	11,465,629	11,455,050	11,465,629	11,455,050
Total expenses	64,856,723	62,936,135	53,211,095	48,149,034	118,067,818	111,085,169
Increase in net assets before transfers	36,318,588	32,420,124	3,618,121	2,303,423	39,936,709	34,723,547
Transfers	(21,629,789)	(7,697,893)	21,629,789	7,697,893	-	-
Increase (decrease) in net assets	14,688,799	24,722,231	25,247,910	10,001,316	39,936,709	34,723,547
Net assets - January 1	353,057,475	328,335,244	247,569,977	237,568,661	600,627,452	565,903,905
Net assets - December 31	\$ 367,746,274	\$ 353,057,475	\$ 272,817,887	\$ 247,569,977	\$ 640,564,161	\$ 600,627,452

Governmental Activities. Governmental activities increased the City's net assets by \$14,688,799. Key elements of the net increase are as follows:

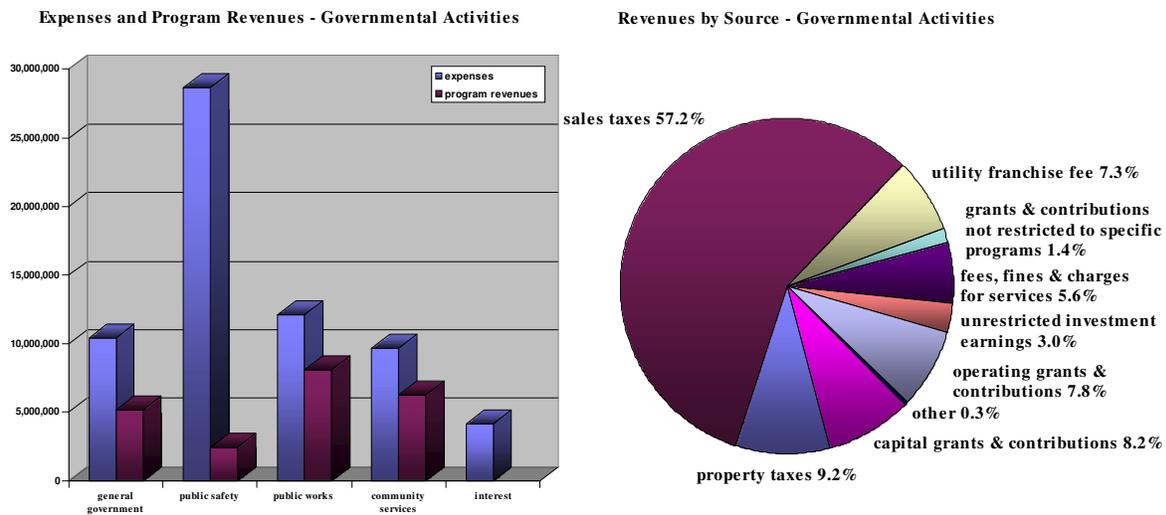
- Net capital asset acquisition exceeded depreciation by \$19,208,473.

- Deferred revenue at the fund level recognized at the government-wide level increased net assets by \$9,360,659.
- Issuance of \$15.815 million in Sales & Use Tax Bonds, Series 2008.
- A \$21,631,789 transfer to the Water and Sewer Fund for wastewater improvements provided by the Sales & Use Tax Construction Fund offset the increase.

Sales tax revenue allocated for governmental purposes reflects a 9.1% increase between years. The City's share of the county sales tax, accounted for in the General Fund, increased 9.6% in 2008 over 2007. The City's sales tax that is allocated for street projects and accounted for in the Sales Tax Fund increased 8.9% between 2007 and 2008, as did the city sales tax allocated for redemption of the Sales and Use Tax Bonds, Series 2006 and 2008.

Utility franchise fees increased by \$606,351 or 8.9% during 2008 primarily due to increased electric and natural gas rates during the year.

The reported 2008 expenses were \$1,934,051 more than in 2007. The increase is a result of the remaining charges for the City's share of courthouse construction, increased economic development activities, downtown streetscape costs, and additional interest due to the issuance of the 2008 Sales and Use Tax Bonds.

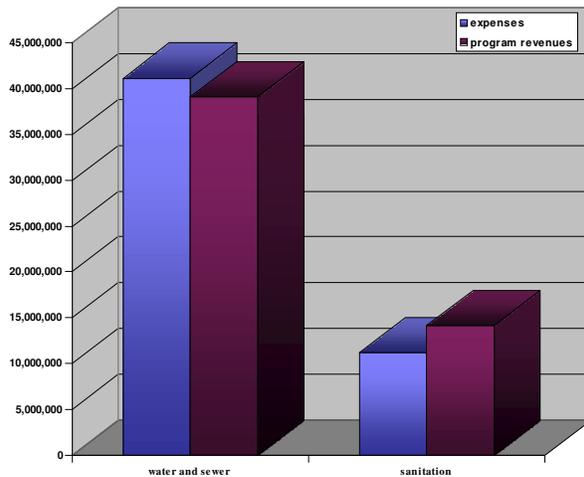


Business-Type Activities. Business-type activities increased the City's net assets by \$25,247,910. Key elements of the increase are as follows:

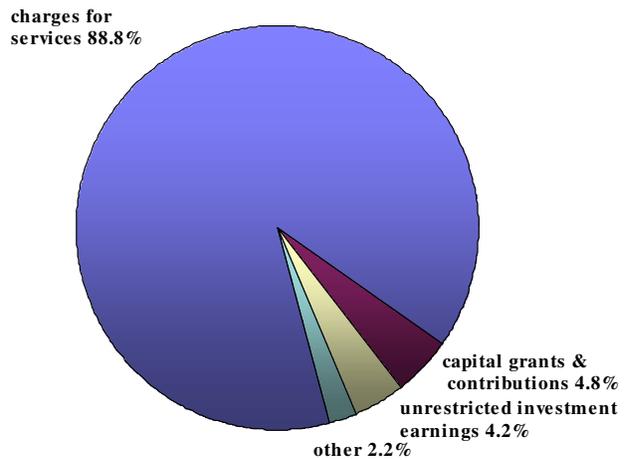
- The water and sewer system contributed \$21,731,541 to total net assets. The most significant increase in net assets was the \$21,631,789 transfer in from the Sales & Use Tax Construction Fund, a capital projects fund in the governmental activities, for wastewater improvements during the year. The operating income for the system totaled \$6,245,806 in 2008.
- The solid waste system added \$3,089,879 to total net assets. The operating income for the system in 2008 totaled \$2,746,897.

Water and sewer system service charges contribute 72% of the revenue to business-type activities. The solid waste system service charges accounted for 28% of the revenue to business-type activities. Current year expenses for the business-type activities were 80.1% of current revenues.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

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

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

As of December 31, 2008, the City's governmental funds reported combined ending fund balances of \$111,587,420 a decrease of \$4,867,215 in comparison with the prior year. Of this amount, \$16,117,023 represents *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balances is reserved to indicate that it is not available for new spending because it has already been committed for capital projects and other purposes.

The General Fund is the chief operating fund of the City. At December 31, 2008, unreserved fund balance of the General Fund was \$7,052,220, while the total fund balance was \$10,706,233. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balances and total fund balances to total fund expenditures, including transfers out. Unreserved fund balances represent 18.2% of total General Fund expenditures, including transfers out, while total fund balances represents 27.7% of that same amount. The fund balances of the City's General Fund increased by \$2,257,181 during 2008.

Key factors in this increase are as follows:

- Franchise fee revenue was \$606,351 more in 2008 compared to the 2007 revenue. The increase was due to the increased rates in electric and natural gas charges.
- The City's share of the Sebastian County sales tax increased \$1,455,459 or 9.6% that was mainly due to the increased construction within the City from the April 2008 hailstorms.

- Total expenditures were \$4.6 million less in 2008 compared to 2007 due to the significant reduction in capital outlay for 2008.

The Street Maintenance Fund and the Sales Tax Fund, both special revenue funds, are presented as major funds and account for 31.3% of the total governmental fund balances. Revenues include a one-percent (1%) local sales tax dedicated to streets, bridges and associated drainage, as well as gasoline tax turnback from the state and federal transportation grants. The decrease in fund balances for these two funds was \$2,122,815 between years. The decrease was due to an increase in street projects during the year.

The Sales & Use Tax Construction Fund is also presented as a major fund and accounts for 35.2% of the total governmental fund balances. This fund accounts for the capital projects approved by voters that include the purchase of a new radio communication system for public safety and utility purposes and the wastewater projects for improvements to the sewer system in response to an EPA administrative order. Even though the fund received \$15.686 million in additional bond proceeds, the fund balance decreased by \$7.1 million from the prior year as there were more wastewater projects in progress during 2008.

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

Net assets at the end of the year amounted to \$249,446,798 and \$21,891,871 for the Water and Sewer Fund and the Sanitation Fund, respectively. The increase in net assets was \$21,731,541 for the Water and Sewer Fund and \$3,089,879 for the Sanitation Fund. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

General Fund. The final amended General Fund budget had total appropriations of \$44,703,650 (total expenditures plus transfers out) compared to the original budget total of \$44,169,128. The increase in appropriations of \$534,522 is summarized briefly as follows:

- \$369,972 for equipment purchased with federally seized and forfeited funds in the police department; these funds are reserved for uses as outlined by federal guidelines.
- \$94,550 in additional legal fees and settlements.
- \$50,000 for additional workers' compensation costs.
- \$20,000 for storm damage repairs at the port facility.

Revenue estimates for the General Fund were increased from an original budget of \$37,485,257 to the final estimate of \$37,937,677. The \$452,420 increase was due to anticipated increases in county sales tax revenue of \$575,615, franchise fees of \$151,740, and licenses & permits of \$312,184. These increases were offset by a decrease in the amount of federal transit reimbursement due to the delay of the transfer station construction of \$750,000

Total actual revenue for the General Fund was \$1,016,306 more than the final budget estimates. The increased revenues were due to even more county sales tax revenue of \$337,169, additional license & permit revenue of \$241,233, fines and forfeiture revenue of \$199,724, and more intergovernmental revenue of \$199,731 than expected. Total actual expenditures were \$3,951,319 less than the final appropriated budget of the General Fund. Actual expenditures were lower due to: police and fire expenditures were \$2.2 million less than budget; parks operating costs were \$674,177 less than expected; and capital asset additions were \$894,900 less as expenditures were curtailed during the last half of 2008.

The budget and actual schedule for the General Fund may be found on page 84 in the required supplementary section of this document.

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for governmental and business-type activities as of December 31, 2008 amounts to \$703,192,169, net of accumulated depreciation. This investment in capital assets includes land, buildings, water and sewer systems, improvements other than buildings, machinery and equipment, park and library facilities, streets, and drainage systems. The total increase in the City's investment in capital assets was 7.1%, a 6.5% increase for governmental activities and a 7.7% increase for business-type activities.

City of Fort Smith Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 23,845,702	\$ 23,468,039	\$ 11,533,921	\$ 11,210,512	\$ 35,379,623	\$ 34,678,551
Buildings	58,479,861	58,758,920	1,205,175	1,266,390	59,685,036	60,025,310
Water System	-	-	242,029,692	241,907,062	242,029,692	241,907,062
Sewer System	-	-	79,787,260	75,196,826	79,787,260	75,196,826
Improvement other than buildings	5,621,552	5,959,328	8,733,074	8,807,225	14,354,626	14,766,553
Leasehold improvements	-	-	23,804	39,641	23,804	39,641
Infrastructure	190,778,997	178,176,778	-	-	190,778,997	178,176,778
Machinery and equipment	8,787,846	9,094,753	8,539,167	7,931,041	17,327,013	17,025,794
Construction in progress	33,769,460	26,305,626	30,056,658	8,398,528	63,826,118	34,704,154
Total	\$ 321,283,418	\$ 301,763,444	\$ 381,908,751	\$ 354,757,225	\$ 703,192,169	\$ 656,520,669

Major capital asset events during 2008 included the following:

- Net additions to construction in progress totaled \$29,202,215. Of this amount, \$21.6 million is attributable to wastewater improvements and \$5.5 million of this amount is attributable to street projects.
- Additions to infrastructure totaled \$12,602,219 due to the completion of several street projects during 2008.
- Depreciation expense totaled \$20,431,078.

Additional information on the City's capital assets can be found in Note 3 on pages 45-53 of this report.

Long-term debt. At December 31, 2008, the City had \$267,440,000 of long-term bonds outstanding, including \$197,290,000 of bonds secured solely by specified revenue sources, (i.e. revenue bonds).

City of Fort Smith's Outstanding Debt General Obligation and Revenue Bonds

	Governmental Activities		Business-Type Activities	
	2008	2007	2008	2007
Sales and Use Tax Bonds	\$ 70,150,000	\$ 71,005,000	\$ -	\$ -
Revenue Bonds	-	-	197,290,000	155,605,000
Total	\$ 70,150,000	\$ 71,005,000	\$ 197,290,000	\$ 155,605,000

The City's total bonded debt increased by \$40,830,000 or 18% during 2008. The key factors in this increase were the issuance of \$117,420,000 in Water and Sewer Revenue Refunding and Construction Bonds, Series 2008, and the issuance of \$15,815,000 in Sales & Use Tax Bonds, Series 2008. This was offset by the refunding of \$66.475 million in Water and Sewer Revenue Bonds, Series 2002A, the call and maturity of \$16,670,000 in Sales and Use Tax Bonds, Series 2006, and the required principal payments of \$9,260,000 in revenue bonds. The City maintains bond ratings as follows: "AA" rating from Standard & Poor's on its water and sewer revenue bonds series 1999, 2004, and 2005; an "A" rating from Standard & Poor's on its water and sewer revenue bonds series 2008; a "BB" rating from Standard & Poor's on its water and sewer revenue bonds series 2007; a "BB" rating from Standard & Poor's on its sales and use tax bonds series 2006 and an "AA" rating from Standard & Poor's on its sales and use tax bonds series 2008. The solid waste revenue bonds are unrated.

State statutes limit the amount of general obligation bonds a government entity may issue to 25% of its total assessed valuation. The current debt limitation for the City is \$312,550,704. The City has no general obligation debt at December 31, 2008.

In August 2008, the City issued \$117,420,000 in Water and Sewer Refunding and Construction Revenue Bonds, Series 2008. The 2008 Bonds were issued to provide water and wastewater improvements for the City's water and sewer system.

In November 2008, the City issued \$15,815,000 in Sales & Use Tax Bonds, Series 2008. These bonds were issued to provide additional funding for the public radio system project and wastewater improvements that were begun with the 2006 series bonds.

Additional information regarding the City's long-term debt can be found in Note 4 on pages 54-68 of this report.

Economic Factors and the Next Year's Budget and Rates

- The year end unemployment rate for the City was 6.1%, which is an increase from a rate of 5.3% a year ago. This rate compares to the state's average unemployment rate of 6.2% and the national average of 7.2%.
- Although the City is experiencing a decline in revenues affected by the world and national economic crises, the City's sales tax revenue during the last quarter of 2008 increased by an average of 12% which provided an indication that the City could anticipate a 2.5% to 3% increase in sales tax revenue for 2009 but due to current economic conditions, this is subject to change.

These factors were considered when the City prepared its 2009 Budget.

One of the major goals of the Board of Directors is to maintain financial stability in the General Fund by adopting a budget with a minimum unreserved fund balance at 15% of operating expenditures. With this in mind, the City's General Fund budget for 2009 was approved at \$3,333,083 and includes an estimated year end fund balance approximating 7.8%.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance's Office, Suite 512, 623 Garrison Avenue, Fort Smith, Arkansas 72901.

City of Fort Smith, Arkansas
Statement of Net Assets
December 31, 2008

Assets

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Cash	\$ 3,743,805	\$ 1,618,195	\$ 5,362,000	\$ 1,408,489	\$ 313,907
Investments	65,271,884	12,814,216	78,086,100	757,826	1,349,487
Receivables, net of allowance for uncollectibles					
Taxes	11,476,807	-	11,476,807	102,009	-
Sales taxes	2,981,445	-	2,981,445	161,169	-
Accounts	813,982	5,068,653	5,882,635	26,841	213,051
Interest	334,266	497,352	831,618	555	1,494
Grants and other governments	721,546	-	721,546	-	162,736
Internal balances	(321)	321	-	-	-
Inventory	-	776,136	776,136	5,000	3,514
Prepays and deposits	1,673,711	458,079	2,131,790	76,040	57,219
Deferred charges	51,185	4,102,479	4,153,664	-	608,851
Restricted assets					
Cash	13,649	173,127	186,776	-	87,844
Investments	50,177,815	77,440,950	127,618,765	-	474,706
Accounts receivable, net of allowances for uncollectibles	-	57,886	57,886	-	51,417
Sales tax receivable	1,652,627	-	1,652,627	-	-
Interest receivable	-	3,258	3,258	-	6,826
Prepaid items and deposits	-	428,581	428,581	-	-
Capital assets					
Nondepreciable	57,615,162	41,590,579	99,205,741	422,132	12,115,104
Depreciable	263,668,256	340,318,172	603,986,428	194,582	25,792,965
Total Assets	<u>\$ 460,195,819</u>	<u>\$ 485,347,984</u>	<u>\$ 945,543,803</u>	<u>\$ 3,154,643</u>	<u>\$ 41,239,121</u>

City of Fort Smith, Arkansas
Statement of Net Assets (Continued)
December 31, 2008

Liabilities and Net Assets

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Liabilities					
Accounts payable and accrued expenses	\$ 11,570,259	\$ 3,870,293	\$ 15,440,552	\$ 521,659	\$ 724,820
Other current liabilities	-	11,264	11,264	-	-
Accrued interest	972,723	2,425,316	3,398,039	-	3,462
Current portion of long-term debt	11,045,000	6,610,000	17,655,000	-	210,000
Deposits	-	539,276	539,276	-	-
Unearned revenue	1,289,004	-	1,289,004	-	-
Noncurrent liabilities					
Due within one year	2,148,821	545,742	2,694,563	-	1,205
Due in more than one year	65,423,738	198,528,206	263,951,944	-	4,203,616
Total Liabilities	<u>92,449,545</u>	<u>212,530,097</u>	<u>304,979,642</u>	<u>521,659</u>	<u>5,143,103</u>
Net Assets					
Invested in capital assets, net of related debt	293,634,375	249,818,159	543,452,534	616,714	33,493,248
Restricted for					
Capital projects	41,944,158	1,000,964	42,945,122	-	214,153
Debt service	5,037,500	22,509,045	27,546,545	-	569,376
Other	-	3,875,504	3,875,504	-	-
Unrestricted (deficit)	<u>27,130,241</u>	<u>(4,385,785)</u>	<u>22,744,456</u>	<u>2,016,270</u>	<u>1,819,241</u>
Total Net Assets	<u>\$ 367,746,274</u>	<u>\$ 272,817,887</u>	<u>\$ 640,564,161</u>	<u>\$ 2,632,984</u>	<u>\$ 36,096,018</u>

City of Fort Smith, Arkansas
Statement of Activities
For the Year Ended December 31, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units	
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Governmental Activities	Business-Type Activities
					Governmental Activities	Business-Type Activities			
Primary Government:									
Governmental Activities:									
General Government:									
Administration	\$ 5,751,922	\$ 1,414,898	\$ 8,355	\$ 143,352	\$ (4,185,317)		\$ (4,185,317)		
Legal	1,874,062	2,119,461	734,256	-	979,655		979,655		
Finance	2,758,231	733,617	-	-	(2,024,614)		(2,024,614)		
Public safety:									
Police	16,407,287	195,088	1,078,547	39,650	(15,094,002)		(15,094,002)		
Fire	12,226,768	70,997	981,290	38,678	(11,135,803)		(11,135,803)		
Public works:									
Operations	430,548	-	-	-	(430,548)		(430,548)		
Streets	9,824,117	-	58,774	8,001,072	(1,764,271)		(1,764,271)		
Traffic Control	1,836,654	-	-	-	(1,836,654)		(1,836,654)		
Community services:									
Health and Social Services	574,012	-	-	-	(574,012)		(574,012)		
Parks and Recreation	3,625,241	233,936	98,584	1,400	(3,291,321)		(3,291,321)		
Convention Center	1,309,072	676,970	1,797,941	-	1,165,839		1,165,839		
Transit	2,285,402	214,939	1,501,416	36,379	(532,668)		(532,668)		
Housing and Rehabilitation	1,844,220	-	1,669,390	-	(174,830)		(174,830)		
Debt service:									
Interest	4,109,187	-	-	-	(4,109,187)		(4,109,187)		
Total Governmental Activities	<u>64,856,723</u>	<u>5,659,906</u>	<u>7,928,553</u>	<u>8,260,531</u>	<u>(43,007,733)</u>		<u>(43,007,733)</u>		
Business-Type Activities:									
Water and Sewer	41,745,466	36,391,791	-	2,731,780	-	\$ (2,621,895)	(2,621,895)		
Sanitation	11,465,629	14,095,412	-	-	-	2,629,783	2,629,783		
Total Business-Type Activities	<u>53,211,095</u>	<u>50,487,203</u>	<u>-</u>	<u>2,731,780</u>	<u>-</u>	<u>7,888</u>	<u>7,888</u>		
Total Primary Government	<u>\$ 118,067,818</u>	<u>\$ 56,147,109</u>	<u>\$ 7,928,553</u>	<u>\$ 10,992,311</u>	<u>\$ (43,007,733)</u>	<u>\$ 7,888</u>	<u>\$ (42,999,845)</u>		
Component Units:									
Governmental:									
Advertising & Promotion	\$ 746,435	\$ -	\$ 2,896	\$ -			\$ (743,539)		
Public Library	2,753,622	110,350	316,833	-			(2,326,439)		
Sub-total	<u>3,500,057</u>	<u>110,350</u>	<u>319,729</u>	<u>-</u>			<u>(3,069,978)</u>		
Business-Type:									
Parking Authority	240,107	158,067	-	-				\$ (82,040)	
Airport	4,682,332	2,636,574	-	3,251,948				1,206,190	
Sub-total	<u>4,922,439</u>	<u>2,794,641</u>	<u>-</u>	<u>3,251,948</u>				<u>1,124,150</u>	
Total Component Units	<u>\$ 8,422,496</u>	<u>\$ 2,904,991</u>	<u>\$ 319,729</u>	<u>\$ 3,251,948</u>			<u>(3,069,978)</u>	<u>1,124,150</u>	

City of Fort Smith, Arkansas
Statement of Activities (Continued)
For the Year Ended December 31, 2008

	Net (Expense) Revenue and Changes in Net Assets				
	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
General revenues					
Property taxes	9,360,659	-	9,360,659	1,187,421	-
Sales taxes	57,837,124	-	57,837,124	996,643	-
Gross receipts utility franchise fees	7,366,814	-	7,366,814	791,602	-
Grants and contributions not restricted to specific programs	1,386,747	-	1,386,747	-	-
Unrestricted investment earnings	3,065,530	2,362,717	5,428,247	24,940	136,700
Payment from City of Fort Smith	-	-	-	-	250,000
Other	309,447	1,247,516	1,556,963	304,859	-
Transfers	(21,629,789)	21,629,789	-	-	-
Total general revenues and transfers	<u>57,696,532</u>	<u>25,240,022</u>	<u>82,936,554</u>	<u>3,305,465</u>	<u>386,700</u>
Change in net assets	14,688,799	25,247,910	39,936,709	235,487	1,510,850
Net assets, beginning	<u>353,057,475</u>	<u>247,569,977</u>	<u>600,627,452</u>	<u>2,397,497</u>	<u>34,585,168</u>
Net assets, end of year	<u>\$ 367,746,274</u>	<u>\$ 272,817,887</u>	<u>\$ 640,564,161</u>	<u>\$ 2,632,984</u>	<u>\$ 36,096,018</u>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Balance Sheet – Governmental Funds
December 31, 2008

	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
Assets							
Cash	\$ 1,033,306	\$ 612,810	\$ 1,345,144	\$ -	\$ -	\$ 529,240	\$ 3,520,500
Investments	6,723,733	3,204,206	30,718,440	-	4,639,817	15,731,257	61,017,453
Receivables, net of allowance for uncollectibles							
Taxes	7,451,956	1,716,382	-	-	-	2,308,469	11,476,807
Sales taxes	1,328,818	-	1,652,627	-	-	-	2,981,445
Accounts	494,772	687	32	-	-	265,690	761,181
Accrued interest	11,615	5,579	46,162	241,613	-	23,134	328,103
Due from other funds	14,817	-	-	-	-	-	14,817
Due from other governments	604,704	-	24,920	-	-	91,922	721,546
Restricted assets:							
Cash	-	-	-	13,649	-	-	13,649
Investments	312,870	-	-	44,827,445	5,037,500	-	50,177,815
Sales taxes	-	-	-	-	1,652,627	-	1,652,627
Deferred charges	8,095	-	-	-	-	-	8,095
Prepaid items	1,079,864	73,291	-	-	-	22,814	1,175,969
Deposits	31,660	-	23,295	338,891	-	-	393,846
Total Assets	\$ 19,096,210	\$ 5,612,955	\$ 33,810,620	\$ 45,421,598	\$ 11,329,944	\$ 18,972,526	\$ 134,243,853
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued liabilities	\$ 1,958,488	\$ 251,474	\$ 1,844,116	\$ 5,173,496	\$ -	550,359	\$ 9,777,933
Retainage payable	-	-	602,312	985,086	-	25,975	1,613,373
Interest payable	4,692	-	-	-	-	-	4,692
Due to other funds	-	-	-	-	-	15,138	15,138
Unearned revenues	6,268,851	1,853,667	-	-	-	2,962,510	11,085,028
Other	157,946	-	-	-	-	2,323	160,269
Total Liabilities	8,389,977	2,105,141	2,446,428	6,158,582	-	3,556,305	22,656,433
Fund Balances:							
Reserved for:							
Encumbrances	2,147,531	98,667	-	129,803	-	57,738	2,433,739
Prepaid items	1,506,482	73,291	-	-	-	22,814	1,602,587
Other purposes - construction projects	-	563,497	31,364,192	39,133,213	-	1,215,099	72,276,001
Other purposes - debt service	-	-	-	-	5,037,500	-	5,037,500
Unreserved:							
Designated for subsequent years' expenditures	1,835,601	2,772,359	-	-	6,292,444	-	10,900,404
Undesignated	5,216,619	-	-	-	-	-	5,216,619
Unreserved, reported in nonmajor:							
Special revenue funds	-	-	-	-	-	13,603,715	13,603,715
Capital projects funds	-	-	-	-	-	516,855	516,855
Total Fund Balances	10,706,233	3,507,814	31,364,192	39,263,016	11,329,944	15,416,221	111,587,420
Total Liabilities and Fund Balances	\$ 19,096,210	\$ 5,612,955	\$ 33,810,620	\$ 45,421,598	\$ 11,329,944	\$ 18,972,526	\$ 134,243,853

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
December 31, 2008

Total fund balances - governmental funds \$ 111,587,420

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

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported in the funds. These assets consist of:

Land	\$ 23,845,702	
Buildings	71,631,445	
Improvements other than buildings	11,448,080	
Machinery and equipment	25,093,249	
Infrastructure	242,557,339	
Accumulated depreciation	<u>(87,061,857)</u>	
	287,513,958	
Construction in progress	<u>33,769,460</u>	
 Total	 <u><u>\$ 321,283,418</u></u>	 321,283,418

Some revenues in the governmental funds are deferred because they are
not collected within the prescribed time period after year end and are not
considered available. On the accrual basis, however, those revenues would
be recognized regardless of when they are collected. 9,796,024

Internal service funds are used by management to charge the costs of
certain activities, such as fuel and insurance, to individual funds. A portion
of the assets and liabilities are included in governmental activities in the
statement of net assets. 3,004,864

Some assets related to long-term debt are deferred and, therefore, are not
reported in the funds. 43,090

Some long-term liabilities are not due and payable in the current period and,
therefore, are not reported in the funds. Those liabilities consist of:

Compensated absences	\$ 1,986,917	
Claims payable	82,500	
Notes payable	1,425,000	
Sales tax bonds payable, net	71,203,018	
Interest payable	968,031	
Capital leases payable	161,340	
OPEB liabilities	1,539,341	
Arbitrage payable	<u>602,395</u>	
	<u><u>\$ 77,968,542</u></u>	<u>(77,968,542)</u>

Net assets of governmental activities \$ 367,746,274

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended December 31, 2008

	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
Revenues							
Taxes	\$ 5,518,765	\$ 1,655,032	\$ -	\$ -	\$ -	\$ 2,208,179	\$ 9,381,976
Sales taxes	16,610,714	-	20,613,205	-	20,613,205	-	57,837,124
Licenses and permits	1,844,407	-	-	-	-	281,744	2,126,151
Utility franchise fees	7,366,814	-	-	-	-	-	7,366,814
Intergovernmental	4,004,844	3,663,686	1,284,996	-	-	4,654,687	13,608,213
Fines and forfeitures	2,045,824	-	-	-	-	142,680	2,188,504
Fees for services	1,215,016	-	-	-	-	-	1,215,016
Interest	161,418	112,112	935,553	1,412,975	145,852	422,132	3,190,042
Decrease in fair value of investments	-	-	-	(75,710)	-	-	(75,710)
Contributions	-	-	3,052,390	-	-	874,410	3,926,800
Miscellaneous	186,181	19,891	63,360	-	100	5,164	274,696
Total Revenues	38,953,983	5,450,721	25,949,504	1,337,265	20,759,157	8,588,996	101,039,626
Expenditures							
Current:							
General government							
Administration	3,957,039	224,079	-	-	-	-	4,181,118
Legal	1,710,076	61,543	-	-	-	-	1,771,619
Finance	2,038,113	326,938	-	-	-	-	2,365,051
Public safety							
Police	12,993,697	-	-	-	-	2,200,419	15,194,116
Fire	9,229,248	-	-	-	-	2,462,431	11,691,679
Public works							
Operations	-	413,167	-	-	-	-	413,167
Streets	-	2,450,316	918,365	-	-	236,816	3,605,497
Traffic Control	-	1,802,215	-	-	-	-	1,802,215
Community services							
Health and Social Services	97,170	-	-	-	-	-	97,170
Parks and Recreation	1,332,848	198,495	-	-	-	21,216	1,552,559
Convention Center	-	-	-	-	-	205,783	205,783
Transit	2,062,512	-	-	-	-	-	2,062,512
Housing and Rehabilitation	-	-	-	-	-	1,668,222	1,668,222
Other	3,374,857	3,112	-	-	15,300	157,634	3,550,903
Capital Outlay	1,355,874	412,607	24,529,953	1,739,654	-	1,285,844	29,323,932
Debt Service:							
Principal	440,000	-	-	-	16,670,000	-	17,110,000
Interest	63,366	-	-	-	3,077,790	-	3,141,156
Total Expenditures	38,654,800	5,892,472	25,448,318	1,739,654	19,763,090	8,238,365	99,736,699
Excess (deficiency) of revenues over (under) expenditures	299,183	(441,751)	501,186	(402,389)	996,067	350,631	1,302,927

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Continued)
For the Year Ended December 31, 2008

	<u>General</u>	<u>Street Maintenance</u>	<u>Sales Tax</u>	<u>Sales & Use Tax Construction</u>	<u>Sales & Use Tax Bond</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other Financing Sources (Uses)							
Transfers in	2,347,998	-	70,000	14,895,149	-	-	17,313,147
Transfers out	(390,000)	(141,000)	(2,111,250)	(21,631,789)	(14,895,149)	-	(39,169,188)
Bond proceeds	-	-	-	-	15,685,899	-	15,685,899
Total Other Financing Sources and Uses	<u>1,957,998</u>	<u>(141,000)</u>	<u>(2,041,250)</u>	<u>(6,736,640)</u>	<u>790,750</u>	<u>-</u>	<u>(6,170,142)</u>
Net Change in Fund Balances	2,257,181	(582,751)	(1,540,064)	(7,139,029)	1,786,817	350,631	(4,867,215)
Fund Balances, January 1	<u>8,449,052</u>	<u>4,090,565</u>	<u>32,904,256</u>	<u>46,402,045</u>	<u>9,543,127</u>	<u>15,065,590</u>	<u>116,454,635</u>
Fund Balances, December 31	<u>\$ 10,706,233</u>	<u>\$ 3,507,814</u>	<u>\$ 31,364,192</u>	<u>\$ 39,263,016</u>	<u>\$ 11,329,944</u>	<u>\$ 15,416,221</u>	<u>\$ 111,587,420</u>

City of Fort Smith, Arkansas
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2008

Net change in fund balances - total governmental funds	\$ (4,867,215)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	29,323,932
The net effect of various transactions, i.e. sales, contributions, capital leases, is to increase net assets.	803,915
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(9,747,132)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources of governmental funds. This transaction does not have any effect on net assets. Also, governmental funds report the effect of issuance costs and other similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long term debt and related items.	1,328,910
Some property taxes will not be collected for several months after the City's fiscal year end and they are not considered "available" revenues in the governmental funds.	(21,317)
Some expenses, i.e. the increase in compensated absences liability and OPEB liabilities, reported in the statement of activities and changes in net assets do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental funds.	(1,539,341)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and fuel, to individual funds. The net gain of the internal service funds is reported with governmental activities [net of the amount allocated to business-type activities of \$(365,849) and the external activities adjustment of \$87,539].	<u>(592,953)</u>
Change in net assets of governmental activities	<u><u>\$ 14,688,799</u></u>

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City of Fort Smith, Arkansas
Statement of Fund Net Assets –
Proprietary Funds
December 31, 2008

Assets

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Current Assets				
Cash	\$ 990,830	\$ 537,135	\$ 1,527,965	\$ 313,535
Investments	4,642,198	6,263,777	10,905,975	6,162,672
Receivables, net of allowance for uncollectibles				
Accounts	3,922,041	1,123,030	5,045,071	76,383
Accrued interest	479,752	14,884	494,636	8,879
Restricted				
Cash	-	173,127	173,127	-
Investments	5,004,085	185,480	5,189,565	-
Accounts receivable, net of allowances for uncollectibles	-	57,886	57,886	-
Interest receivable	413	2,845	3,258	-
Inventory	743,633	-	743,633	32,503
Prepaid items	-	423,654	423,654	138,321
Due from other funds	-	-	-	321
Total Current Assets	15,782,952	8,781,818	24,564,770	6,732,614
Noncurrent Assets				
Restricted				
Investments	67,649,150	4,602,235	72,251,385	-
Prepaid items and deposits	428,581	-	428,581	-
Deferred charges	4,079,871	22,608	4,102,479	-
Capital assets				
Land	11,160,149	373,772	11,533,921	-
Buildings	-	1,842,011	1,842,011	-
Improvements other than buildings	-	18,659,052	18,659,052	-
Leasehold improvements	-	709,952	709,952	-
Machinery and equipment	8,644,686	16,121,746	24,766,432	-
Water system	306,048,837	-	306,048,837	-
Sewer system	132,084,610	-	132,084,610	-
Construction in progress	29,937,171	119,487	30,056,658	-
Less accumulated depreciation	(122,531,202)	(21,261,520)	(143,792,722)	-
Total Noncurrent Assets	437,501,853	21,189,343	458,691,196	-
Total Assets	\$ 453,284,805	\$ 29,971,161	\$ 483,255,966	\$ 6,732,614

City of Fort Smith, Arkansas
Statement of Fund Net Assets –
Proprietary Funds (Continued)
December 31, 2008

Liabilities and Net Assets

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Current Liabilities				
Accounts payable and accrued liabilities	\$ 2,477,249	\$ 863,337	\$ 3,340,586	\$ 276,413
Retainage payable	432,247	-	432,247	-
Accrued vacation and sick leave	9,658	6,262	15,920	-
Accrued interest	2,415,205	10,111	2,425,316	-
Claims and judgments	-	-	-	1,972,119
Revenue bonds payable	5,665,000	945,000	6,610,000	-
Capital leases payable	14,482	-	14,482	-
Deposits	539,276	-	539,276	-
Other	11,264	-	11,264	-
Total Current Liabilities	11,564,381	1,824,710	13,389,091	2,248,532
Noncurrent Liabilities				
Accrued vacation and sick leave	956,171	209,139	1,165,310	-
Landfill closure and postclosure care	-	3,875,504	3,875,504	-
Revenue bonds, net	190,744,779	1,938,233	192,683,012	-
OPEB liabilities	523,055	231,704	754,759	-
Other	49,621	-	49,621	-
Total Noncurrent Liabilities	192,273,626	6,254,580	198,528,206	-
Total Liabilities	203,838,007	8,079,290	211,917,297	2,248,532
Net Assets				
Invested in capital assets, net of related debt	236,136,892	13,681,267	249,818,159	-
Restricted for bond retirement	21,782,314	726,731	22,509,045	-
Restricted for landfill closure and postclosure care	-	3,875,504	3,875,504	-
Restricted for asset replacement	500,000	125,471	625,471	-
Restricted for capital projects	-	375,493	375,493	-
Unrestricted (deficit)	(8,972,408)	3,107,405	(5,865,003)	4,484,082
Total Net Assets	\$ 249,446,798	\$ 21,891,871	\$ 271,338,669	\$ 4,484,082
Reconciliation to government - wide statement of net assets:				
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds			<u>\$ 1,479,218</u>	
Net assets of business type activities			<u>\$ 272,817,887</u>	

City of Fort Smith, Arkansas
Statement of Revenues, Expenses and Changes in
Fund Net Assets – Proprietary Funds
For the Year Ended December 31, 2008

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Operating Revenues				
Water service	\$ 24,144,389	\$ -	\$ 24,144,389	\$ -
Sewer service	11,740,410	-	11,740,410	-
Charges for services	473,967	14,095,412	14,569,379	9,785,425
Other	33,025	-	33,025	-
Total Operating Revenues	<u>36,391,791</u>	<u>14,095,412</u>	<u>50,487,203</u>	<u>9,785,425</u>
Operating Expenses				
Personnel services	11,751,390	5,813,785	17,565,175	-
Contractual services	2,808,910	1,316,660	4,125,570	366,837
Materials and supplies	4,359,065	3,144,157	7,503,222	993,139
Heat, light, and power	1,544,439	72,148	1,616,587	-
Depreciation	9,682,181	1,001,765	10,683,946	-
Insurance claims and expenses	-	-	-	7,305,453
Total Operating Expenses	<u>30,145,985</u>	<u>11,348,515</u>	<u>41,494,500</u>	<u>8,665,429</u>
Operating Income	<u>6,245,806</u>	<u>2,746,897</u>	<u>8,992,703</u>	<u>1,119,996</u>
Nonoperating Revenues (Expenses)				
Interest revenue	1,616,486	307,940	1,924,426	146,891
Increase in fair value of investments	437,593	698	438,291	-
Interest expense and fiscal charges	(6,411,852)	(153,320)	(6,565,172)	-
Other nonoperating expenses, net	(4,399,061)	168,664	(4,230,397)	-
Total Nonoperating Revenues (Expenses)	<u>(8,756,834)</u>	<u>323,982</u>	<u>(8,432,852)</u>	<u>146,891</u>
Income (Loss) Before Contributions and Transfers	<u>(2,511,028)</u>	<u>3,070,879</u>	<u>559,851</u>	<u>1,266,887</u>
Capital contributions	2,681,780	-	2,681,780	-
Transfers in	21,631,789	90,000	21,721,789	100,000
Transfers out	(71,000)	(71,000)	(142,000)	-
Change in Net Assets	<u>21,731,541</u>	<u>3,089,879</u>	<u>24,821,420</u>	<u>1,366,887</u>
Total net assets, beginning of year	<u>227,715,257</u>	<u>18,801,992</u>		<u>3,117,195</u>
Total net assets, ending	<u>\$ 249,446,798</u>	<u>\$ 21,891,871</u>		<u>\$ 4,484,082</u>

Reconciliation to government - wide statement of activities:

Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds

426,490

Change in net assets of business type activities for government - wide statement of activities

\$ 25,247,910

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City of Fort Smith, Arkansas
Statement of Cash Flows – Proprietary Funds
For the Year Ended December 31, 2008

	<u>Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Total</u>	
Operating Activities				
Cash received from customers	\$ 35,755,074	\$ 14,018,120	\$ 49,773,194	\$ -
Cash received from service users	-	-	-	1,445,979
Cash received from city and employee contributions	-	-	-	8,333,266
Cash payments for goods and services	(9,089,453)	(4,769,999)	(13,859,452)	(1,014,075)
Cash paid to employees	(11,153,796)	(5,567,187)	(16,720,983)	-
Cash payments for premiums and other operating expenses	-	-	-	(426,013)
Cash payments for claims paid	-	-	-	(6,870,357)
Cash received from other operating revenues	184,696	164,933	349,629	-
Net cash provided by operating activities	<u>15,696,521</u>	<u>3,845,867</u>	<u>19,542,388</u>	<u>1,468,800</u>
Noncapital Financing Activities				
Transfers in from other funds	21,631,789	90,000	21,721,789	100,000
Transfers out to other funds	(71,000)	(71,000)	(142,000)	-
Net cash provided by noncapital financing activities	<u>21,560,789</u>	<u>19,000</u>	<u>21,579,789</u>	<u>100,000</u>
Capital and Related Financing Activities				
Proceeds from bonds	45,895,746	-	45,895,746	-
Proceeds from sale of capital assets	6,815	81,917	88,732	-
Acquisition and construction of capital assets	(35,957,535)	(1,607,142)	(37,564,677)	-
Principal paid on bonds	(8,350,000)	(910,000)	(9,260,000)	-
Interest paid on bonds	(6,342,169)	(148,982)	(6,491,151)	-
Net cash used for capital and related financing activities	<u>(4,747,143)</u>	<u>(2,584,207)</u>	<u>(7,331,350)</u>	<u>-</u>
Investing Activities				
Proceeds from sales and maturities of investment securities	102,505,060	5,355,708	107,860,768	468,768
Outlays for purchases of investment securities	(136,220,368)	(6,879,819)	(143,100,187)	(2,574,784)
Interest on investments	1,626,285	329,781	1,956,066	152,829
Net cash used for investing activities	<u>(32,089,023)</u>	<u>(1,194,330)</u>	<u>(33,283,353)</u>	<u>(1,953,187)</u>
Net increase in cash and restricted cash	421,144	86,330	507,474	(384,387)
Cash and restricted cash, January 1	<u>569,686</u>	<u>623,932</u>	<u>1,193,618</u>	<u>697,922</u>
Cash and restricted cash, December 31	<u>\$ 990,830</u>	<u>\$ 710,262</u>	<u>\$ 1,701,092</u>	<u>\$ 313,535</u>
Reconciliation of Cash and Restricted Cash at December 31 to Statement of Net Assets				
Cash	\$ 990,830	\$ 537,135	\$ 1,527,965	\$ 313,535
Restricted cash	-	173,127	173,127	-
Total	<u>\$ 990,830</u>	<u>\$ 710,262</u>	<u>\$ 1,701,092</u>	<u>\$ 313,535</u>

City of Fort Smith, Arkansas
Statement of Cash Flows – Proprietary Funds (Continued)
For the Year Ended December 31, 2008

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 6,245,806	\$ 2,746,897	\$ 8,992,703	\$ 1,119,996
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	9,682,181	1,001,765	10,683,946	-
Miscellaneous revenue (expenses)	190,190	153,112	343,302	-
Change in assets and liabilities				
Accounts receivable	(112,999)	(77,292)	(190,291)	(6,443)
Due from other funds	-	-	-	263
Inventory	50,486	-	50,486	21,984
Prepaid items	(377,889)	(423,204)	(801,093)	(124,336)
Accounts payable and accrued liabilities	(2,356)	232,743	230,387	62,701
Deposits	(490,693)	-	(490,693)	-
Accrued vacation and sick leave	(10,177)	(19,858)	(30,035)	-
Liability for claims and judgments	-	-	-	394,635
OPEB liabilities	523,055	231,704	754,759	-
Other liabilities	(1,083)	-	(1,083)	-
Total adjustments	9,450,715	1,098,970	10,549,685	348,804
Net cash provided by operating activities	<u>\$ 15,696,521</u>	<u>\$ 3,845,867</u>	<u>\$ 19,542,388</u>	<u>\$ 1,468,800</u>

Noncash investing, capital and financing activities:

Enterprise funds:

The Water and Sewer Fund received contributions of capital assets of \$2,681,780 for 2008 and recognized a \$437,593 increase in fair value of investments in 2008. The 2002 advance refunding, the 2004 current refunding, and the 2005 advance refunding of water and sewer revenue bonds resulted in cash flow savings of \$34,755, \$89,232, and \$133,473 respectively, for 2008.

The Sanitation Fund recognized an increase in fair value of investments of \$698 for 2008. During 2008, the 1998 and 2002 advance refundings for solid waste revenue bonds resulted in cash flow savings of \$34,168 and \$101,542, respectively.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2008

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

Nature of Operations

The City of Fort Smith, Arkansas (the “City”) is a municipal corporation operating under the authority of Arkansas state statute. The City operates under a city administrator form of government. Seven elected directors and the Mayor set policy. The directors employ the City Administrator. The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body accepted in the United States for establishing governmental accounting and financial reporting principles. Enterprise funds and similar component units also apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The following is a summary of the more significant accounting and reporting policies of the City.

Reporting Entity

The city is a municipality governed by an elected mayor and a seven-member board of directors (Board). As required by GAAP, these financial statements present the City (Primary Government) and its component units. The component units are legally separate from the City, but are included in the City’s reporting entity because of the significance of their operational or financial relationships with the City based upon the criteria of GASB Statement 14 , *The Financial Reporting Entity*, as amended by GASB Statement 39, *Determining whether Certain Organizations Are Component Units*. Generally, GASB Statements 14 and 39 require entities for which the City appoints a voting majority of the board and the entity imposes a financial benefit or burden to be included in the City’s financial reporting entity. Additionally, those entities that the nature and significance of their relationship with the City is such that exclusion from the City’s financial reporting entity would render the City’s financial statements incomplete or misleading, should also be included in the City’s reporting entity.

Those entities that meet the above established criteria for inclusion, as well as meet either of the following criteria (1) provide services entirely or almost entirely for the City, or (2) whose board is substantially the same as the City’s board, are required to be included as part of the primary government’s financial statements through “blended” presentation. Those entities that meet the above established criteria for inclusion, but do not either (1) provide services entirely or almost entirely for the City, or (2) have the same or substantially the same board as the City, are required to be presented “discretely” or in a separate column as part of the City’s reporting entity, but not part of the primary government. Entities for which the City is accountable because it appoints a voting majority of the Board but is not financially accountable, are related organizations and would be disclosed in these notes.

All entities that are not included as “Blended Component Units” or “Discretely Presented Component Units” on the following page are excluded from the City’s financial reporting entity.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Discretely Presented Component Units

Business-Type

Fort Smith Parking Authority (the Authority) - The Authority's governing board is appointed by the City's Board; the operation and administration of the Authority's property is conducted by City personnel; and the legal liability for the Authority's revenue bond obligation remains with the City. In addition, the City provides a subsidy to fund the Authority's operations; however, the Authority functions almost entirely for the benefit of residents and other customers. The Authority is a special purpose government engaged solely in business-type activities and is discretely presented in the City's basic financial statements. Separate financial statements are not prepared for the Authority. See Note 13 on pages 81-82 of these notes for condensed financial statements.

Airport Commission - The Airport Commission manages the Fort Smith Regional Airport and consists of seven members as appointed by the Mayor and confirmed by the Board. Debt is issued in the name of the City and the tax rate on aviation fuel must be approved by the Board. The Airport Commission is a special purpose government engaged solely in business-type activities and is discretely presented in the City's basic financial statements. Financial statements of the Airport Commission can be obtained from the Airport's administrative office located at 6700 McKennon Boulevard, Suite 200, Fort Smith, Arkansas 72903, or from the City Clerk's office. See Note 13 on pages 81-82 of these notes for condensed financial statements.

Governmental

Advertising and Promotion Commission (the Commission) -The Commission was established during 1989 to promote the City and increase tourism. The Commission is governed by seven members appointed by the Board. The Mayor and one board member serve as two of the seven members of the Commission. The City levies taxes for the Commission's revenue, performs administrative services for collection of taxes and provides financial services to the Commission. However, the Commission functions for the benefit of the citizens and visitors to the City. The Commission is a special purpose government engaged in governmental activities and is discretely presented in the City's basic financial statements. Separate financial statements are not prepared for the Commission. See Note 13 on pages 81-82 of these notes for condensed financial statements.

Public Library - The board of trustees for the Fort Smith Public Library manages the Public Library and consists of seven members appointed by the Mayor and confirmed by the Board. Debt is issued in the name of the City and the City levies the Public Library's ad valorem tax annually. The Public Library is a special purpose government engaged in governmental activities and is discretely presented in the City's basic financial statements. Financial statements of the Public Library can be obtained from the Library's administrative office located at 3201 Rogers Avenue, Fort Smith, Arkansas, 72903, or from the City Clerk's office. See Note 13 on pages 81-82 of these notes for condensed financial statements.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2008

Related Organizations

The City's Mayor and Board are also responsible for appointing members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The Mayor and Board appoint the members of the Fort Smith Housing Authority and the Solid Waste Management District; however, the City cannot impose its will upon the Housing Authority or the Solid Waste Management District as stated in GASB Statements 14 and 39; therefore, the financial operations of these related organizations have not been included in the City's basic financial statements.

Change in Accounting Principles

Effective January 1, 2008, the City implemented the following new financial accounting and reporting standards issued by GASB:

- Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*

Statement No. 45 establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans, improves the relevance and usefulness of financial reporting, and supersedes portions of statements No. 12 and 27. The financial impact of the implementation on the City during the year is further discussed in footnote 8 on pages 75-77. The adoption of GASB 45 did not have a material effect on the City's financial statements.

- Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and 27*

Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post employment benefits (OPEB) and in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and employers that provide pension benefits. The implementation had no financial impact on the City during the current year.

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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund services provided and used are not eliminated in the process of consolidation. 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

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2008

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 functions 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. All other revenues are reported as general revenues.

Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category, governmental and proprietary, 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. Internal service funds are also aggregated and reported in a single column.

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.

The *Street Maintenance Fund* is a special revenue fund that accounts for resources related to street and traffic control operations. Minor maintenance, repair and construction of streets and traffic control signals as well as street lighting are included in this fund.

The *Sales Tax Fund* is a special revenue fund that accounts for resources from the City's one percent (1%) local sales and use tax dedicated to the major street, bridge, and associated drainage projects.

The *Sales and Use Tax Construction Fund* is a capital projects fund that accounts for the proceeds of the Sales and Use Tax Refunding and Construction Bonds and the projects funded thereby.

The *Sales and Use Tax Bond Fund* is a debt service fund that accounts for resources to repay general government related debt.

The City reports the following major enterprise funds:

The *Water and Sewer Fund* is an enterprise fund that accounts for the activities of the water and wastewater operations. The City operates water treatment plants and distribution lines and wastewater treatment plants, pumping stations and collection systems.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2008

The *Sanitation Fund* is an enterprise fund that accounts for the activities of providing solid waste collection and disposal. The City's landfill activities are included in this fund.

Additionally, the City reports the following fund types:

Special Revenue Funds- The special revenue funds, which include federal and state grants, are used to account for the proceeds of specific revenue sources, other than major capital projects, that are legally restricted to expenditures for specified purposes. The City's nonmajor special revenue funds are Community Development Block Grant (CDBG) Funds, Tilles Park Fund, Home Investment Partnership Act Fund, Special Grants Fund, LOPFI Contribution Fund, and Convention Center Fund.

Capital Projects Funds-Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by enterprise funds. The City's nonmajor capital project fund is the Sidewalk Construction Fund.

Internal Service Funds- The internal service funds are used to account for centralized services, employee health care, and workers' compensation coverage provided to the City departments on a cost-reimbursement basis.

Measurement Focus and Basis of Accounting

Government-Wide and Proprietary Funds

The government-wide and proprietary 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.

Proprietary fund 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 contributions. Recognition standards are based on the characteristics and classes of nonexchange transactions. Property taxes are recognized as revenues in the year for which they are levied. Utility franchise fees, other taxes, and fines and forfeitures are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. All of the utility franchise fees remitted to the City are based upon the gross receipts of the franchised utility. Grants, entitlements, and contributions are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as unearned revenues. Grants and similar aid to other organizations are recognized as expenses as soon as recipients have met all eligibility requirements. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

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 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 sixty (60) days after year-end with the exception of grant revenues that are considered available if collected within one year. Principal revenue sources considered susceptible to accrual include ad valorem taxes, sales taxes, utility franchise fees, grant revenues and interest. Other revenues, such as fines and forfeitures and service charges, are considered to be measurable and available only when cash is received by the City. Expenditures generally are recorded when the related liability is incurred under the accrual basis of accounting, except for expenditures related to principal and interest on long-term debt, claims and judgments, and compensated absences which are recorded only when payment is due.

Cash and Investments

In order to facilitate cash management, the operating cash of certain funds is pooled into common bank accounts for the purpose of increasing income through combined investment activities. Investments are carried at fair value. Interest earned on investments is recorded in the funds in which the investments are recorded.

Inventories

Inventories, consisting primarily of gasoline and waterline materials, are valued on the average cost basis.

Capital Assets

Capital assets, which include infrastructure assets constructed since 1980, are reported in the government-wide financial statements and the fund financial statements for proprietary funds.

Capital assets are recorded at cost including interest during the construction period for business-type activities. Contributed property is recorded at fair value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets, or on the units-of-production method based on filled capacity utilized for the City's landfill.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

The ranges of estimated useful lives, excluding improvements other than buildings for the Sanitation Fund, are as follows:

Capital Assets	Useful Life (Years)
Governmental activities:	
Buildings	10 to 50
Improvements other than buildings	5 to 50
Infrastructure	
Streets	40
Bridges	30
Drainage	20
Machinery and equipment	5 to 20
Business-type activities:	
Enterprise funds:	
Water and sewer system:	
Water system	10 to 50
Sewer system	10 to 50
Machinery and equipment	3 to 10
Sanitation:	
Buildings	35
Leasehold improvements	10 to 30
Machinery and equipment	3 to 10
Discretely presented component units:	
Public Library	
Fixtures and equipment	5 to 10
Transportation equipment	5
Parking Authority:	
Buildings	30
Machinery and equipment	3 to 10
Airport Commission:	
Buildings and improvements	10 to 30
Improvements other than buildings	5 to 20
Machinery and equipment	3 to 15
Furniture and fixtures	3 to 10
Ramps, runways, taxiways and improvements	3 to 50

Renewals and betterments of property and equipment are capitalized, whereas normal repairs and maintenance are charged to expense as incurred.

Interest is capitalized on enterprise fund capital assets acquired with tax-exempt debt. The amount of interest to be 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. Interest capitalized in 2008 totaled \$441,193.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2008

The City's capitalization policy states that capital assets are defined as assets with an initial value or cost greater than or equal to \$5,000 and an estimated useful life of greater than one year. Exceptions are for infrastructure assets that are defined as having a constructed cost greater than or equal to \$250,000.

Property Tax Revenue

Taxes are levied on October 1 and are due and payable at that time. Property taxes attach an enforceable lien on property the first Monday in January. All unpaid taxes levied October 1 become delinquent October 10 of the following year.

Sebastian County is the collecting agent for the levy and remits the collections to the City, net of a collection fee.

The City is permitted by Arkansas State Law to levy taxes up to \$0.50 per \$100 of assessed valuation on real and personal property for general governmental services, \$0.50 per \$100 of assessed valuation on real and personal property for the payment of principal and interest on long-term debt, \$0.10 per \$100 of assessed valuation on real and personal property for the police pension funds and \$0.10 per \$100 of assessed valuation on real and personal property for the fire pension funds. The combined tax rate levied by the City in 2007 to finance the above operations was \$0.70 per \$100 of assessed valuation on real and personal property, leaving a tax margin of \$0.50 per \$100 of assessed valuation on real and personal property. Approximately \$6,251,014 of additional taxes could be raised per year based on the current year's assessed value of \$844,728,636 for real property and \$405,474,180 for personal property before the limit is reached.

Compensated Absences

The City allows nonuniformed employees to accumulate unused vacation of up to 160 hours, police to accumulate unused vacation of up to 160 hours, and firefighters to accumulate unused vacation of up to 240 hours for one year. Upon termination, any accumulated unused vacation time will be paid to the employees. Generally, City employees are allowed to accumulate unused sick leave up to a maximum of 120 days. Any accumulated unused sick leave over 45 days for nonuniformed employees hired prior to February 4, 1992, and any accumulated unused sick leave over 90 days for nonuniformed employees hired February 4, 1992, and thereafter is paid upon termination. At the end of term of service, police officers will be paid for any accumulated unused sick leave upon retirement to a maximum amount equal to three month's salary for police officers in the rank retired. At the end of term of service, firefighters shall be paid for any accumulated unused sick leave upon retirement to a maximum amount of three month's salary in the rank of Assistant Chief and above, and to a maximum amount of 728 hours for firefighters in the rank of Captain and below.

The City records a liability for compensated absences as the employee earns benefits attributable to services already rendered that are not contingent on a specific event that is outside the control of the City. All compensated absences are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured such as a result of employee resignations and retirements.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Risk Management

The City maintains a medical self-insurance plan funded by the City and administered by a third party. The plan provides certain healthcare benefits to active and retired City employees. Substantially all regular, full-time City employees are eligible for these benefits. The City's costs of providing these benefits, including premiums, totaled \$7,300,835 in 2008, and are included in operating expenses in the Employee Insurance Fund. The City contributes fully for each employee and shares in the contribution for any dependants. Retired employees may continue coverage under the City's policy, but must bear the entire cost of these contributions.

The City also makes contributions to fund a self-insured workers' compensation program. The City contributed \$329,604 in 2008 to fund this program. There have been no significant reductions in insurance coverage from the prior year and there were no settlements that exceeded insurance coverage in the past three fiscal years.

Sales Taxes

In November 1985, the City began assessing a 1% sales and use tax on retail sales in the City. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes for this purpose totaled \$20,613,205 for fiscal year 2008, and are included in the Sales Tax Fund's sales tax revenues in the accompanying financial statements. Sales tax revenues are restricted for repair, maintenance, and improvement of City streets, bridges, and associated drainage. The City refers the tax to the voters every ten years for reapproval. The tax is currently extended through 2015.

In August 1994, Sebastian County began assessing a 1% sales and use tax on retail sales in the county. Each city within Sebastian County receives a portion of the tax based upon population of the city. Currently, the City receives approximately 70% of the county tax. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes totaled \$16,610,714 for fiscal year 2008. These taxes are included in the General Fund's sales tax revenues. The City refers the tax to the voters every ten years for reapproval. The tax is currently in place through August 2014 as the tax was reapproved during 2003 for the period August 2004 through August 2014.

In May 2006, the citizens approved a referendum to continue the 1% sales and use tax on retail sales in the City to refund the Sales and Use Tax Construction Bonds, Series 2001, to fund a new radio communications system for public safety and utility purposes, and to fund the wastewater improvements. Sales tax revenues are restricted for the repayment of the Sales and Use Tax Refunding and Construction Bonds, Series 2006 and Series 2008. These taxes are collected by the state and remitted to the City net of a collection fee. The taxes for this purpose totaled \$20,613,205 for fiscal year 2008. City management expects the Series 2006 and Series 2008 Bonds to be retired by 2012.

Statement of Cash Flows

For purpose of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents, which are classified as cash and restricted cash in the accompanying statement of net assets.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities, business-type activities and component units. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. In governmental funds, long-term liabilities are only recorded to the extent that they are due and payable. Debt premiums, discounts and deferred losses on refunding are generally deferred and amortized over the shorter of refunded debt or refunded debt's life using the straight-line method that approximates the effective interest method. Long-term debt is reported net of the applicable debt premium or discount and deferred losses on refundings. 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 discounts and premiums, as well as debt issuance costs, during the current period. The face amount of the debt issued and discounts given are reported separately as other financing sources. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

Restricted Assets

Assets are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are used first.

Certain proceeds of the City's general government promissory notes and sales and use tax bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable note and bond covenants. The balance of the restricted asset accounts in the general government activities are as follows:

Cash	\$	13,649
Investments		50,177,815
Sales taxes receivable		<u>1,652,627</u>
Total restricted assets - general government	\$	<u><u>51,844,091</u></u>

Certain proceeds of the City's enterprise funds revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

The balances of the restricted assets accounts in the enterprise funds are as follows:

Current Assets:	
Cash - solid waste bond account	\$ 173,127
Investments - solid waste bond account	185,480
Investments - water and sewer bond account	5,004,085
Accounts receivable - solid waste cleanup program account	57,886
Interest receivable - solid waste bond account	2,845
Interest receivable - water and sewer bond account	413
Total current assets - restricted	5,423,836
Noncurrent assets:	
Investments - solid waste debt service reserve account	726,731
Investments - solid waste landfill closure and postclosure care account	3,875,504
Investments - water and sewer bond construction account	67,649,150
Prepaid items and deposits - water and sewer operating account	368,238
Prepaid items and deposits - water and sewer bond construction account	60,343
Total noncurrent assets	72,679,966
Total restricted assets - enterprise funds	\$ 78,103,802

Estimates

The preparation of financial statements in accordance 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 these estimates.

Note 2: Cash and Investments

The City maintains a cash and investment pool that is available for use by all City funds. In addition, investments are separately held by some of the City's funds.

The City follows GASB Statement 3, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement 40, *Deposit and Investment Risk Disclosure*. The investments and deposits of the primary government are stated at quoted fair values. As a result, a net unrealized gain of \$362,581 is recorded as an increase in fair value of

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

investments for the primary government in 2008, with a \$438,291 increase related to the City's enterprise funds and a \$75,710 decrease related to the City's governmental funds.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Arkansas. At December 31, 2008, all City's deposits were fully collateralized and, therefore, were not exposed to custodial credit risk. The bank balances and carrying amount of the City's deposits held as of December 31, 2008 were as follows:

Pooled and Nonpooled Funds

Description	Bank Balance	Carrying Amount
Demand deposits	\$ 39,938,404	\$ 39,550,632
Certificates of deposit	80,970,848	80,970,848
	\$ 120,909,252	\$ 120,521,480

Component Units

At year-end, the carrying amount and the bank balance of the Advertising and Promotion Commission deposits was \$379,047. At December 31, 2008, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Public Library's deposits was \$1,520,238 and the bank balance was \$1,581,919. At December 31, 2008, there was \$90,185 in deposits that were uncollateralized, and, as such, the deposits were exposed to custodial credit risk.

At year-end, the carrying amount and the bank balance of the Parking Authority's deposits was \$160,577. At December 31, 2008, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Airport Commission's deposits was \$1,480,373 and the bank balance was \$1,534,786. At December 31, 2008, none of the balances were exposed to custodial credit risk.

Investments

State statutes and City ordinances authorize the City to invest funds in obligations of the U.S. Government. The City pension funds are authorized to invest in obligations of the U.S. Treasury, U.S. agencies and instrumentalities, commercial paper, corporate stocks, bonds, and mutual funds.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

The City's investments, including accrued interest, held as of December 31, 2008 were as follows:

Pooled and Nonpooled funds

Description	Fair Value	Investment Maturities Less than 1 Year	Investment Maturities 1-5 Years
U.S. Treasury Bills	\$ 2,253,560	\$ 2,253,560	\$ -
U.S. Treasury Notes	<u>89,160,596</u>	<u>73,918,751</u>	<u>15,241,845</u>
	<u>\$ 91,414,156</u>	<u>\$ 76,172,311</u>	<u>\$ 15,241,845</u>

Component Units

At year-end, the Public Library held \$294,426 in mutual funds. The Public Library reports investments at fair value.

At year-end, the Parking Authority fund held \$66,554 in U.S. Treasury Notes and \$26,986 in governmental money market accounts. The Parking Authority reports investments at fair value and the maturity of the notes is May 31, 2009.

At year-end, the Airport Commission held \$411,930 in U.S. Treasury obligations and \$87,844 in money market mutual funds. The Airport Commission reports investments at fair value.

Interest Rate Risk. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The City's investments at December 31, 2008 are securities issued and guaranteed by the U.S. Government.

Custodial Credit Risks. Custodial credit risk is the risk that in the event of the failure of the counterparty the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. While the City's investment policy does not directly address custodial credit risk, all investments held by the City or by an agent of the City are in the City's name.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

The following schedules reconcile the carrying amounts of deposits and investments to the government-wide statement of net assets:

Primary Government:

Carrying value of deposits - Pooled and nonpooled funds	\$ 120,521,480
Deposits classified as investments	<u>(114,972,704)</u>
	<u>\$ 5,548,776</u>
Cash as reported on the government-wide statement of net assets	\$ 5,362,000
Restricted cash as reported on the government-wide statement of net assets	<u>186,776</u>
	<u>\$ 5,548,776</u>
Carrying value of investments - Pooled and nonpooled funds	\$ 91,414,156
Deposits classified as investments	<u>114,972,704</u>
	<u>\$ 206,386,860</u>
As reported on the government-wide statement of net assets:	
Investments	\$ 78,086,100
Interest receivable	831,618
Restricted investments	127,618,765
Restricted interest receivable	<u>3,258</u>
	<u>\$ 206,539,741</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Component Units:

Governmental type-

Carrying value of deposits -

Advertising and Promotion Commission	\$ 379,047
Public Library	1,393,397
Carrying value of investments - Public Library	<u>394,426</u>
	<u><u>\$ 2,166,870</u></u>

As reported on the government-wide statement of net assets:

Cash	\$ 1,408,489
Investments	757,826
Interest receivable	<u>555</u>
	<u><u>\$ 2,166,870</u></u>

Business type-

Carrying value of deposits -

Parking Authority	\$ 47,285
Airport Commission	354,466
Carrying value of investments - Parking Authority	206,832
Airport Commission	<u>1,625,681</u>
	<u><u>\$ 2,234,264</u></u>

As reported on the government-wide statement of net assets:

Cash	\$ 313,907
Investments	1,349,487
Interest receivable	1,494
Restricted cash	87,844
Restricted investments	474,706
Restricted interest receivable	<u>6,826</u>
	<u><u>\$ 2,234,264</u></u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Note 3: Capital Assets

Capital assets activity for the year ended December 31, 2008 was as follows:

Primary Government:

	<u>December 31, 2007</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2008</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 23,468,039	\$ 377,663	\$ -	\$ 23,845,702
Construction in progress	26,305,626	26,214,999	(18,751,165)	33,769,460
Total capital assets not being depreciated	<u>49,773,665</u>	<u>26,592,662</u>	<u>(18,751,165)</u>	<u>57,615,162</u>
Capital assets being depreciated				
Buildings	70,348,271	1,268,019	15,155	71,631,445
Improvements other than buildings	11,355,286	-	92,794	11,448,080
Infrastructure	223,914,123	-	18,643,216	242,557,339
Machinery and equipment	24,428,561	1,463,251	(798,563)	25,093,249
Total depreciable capital assets at historical cost	<u>330,046,241</u>	<u>2,731,270</u>	<u>17,952,602</u>	<u>350,730,113</u>
Less accumulated depreciation for				
Buildings	11,589,351	1,562,233	-	13,151,584
Improvements other than buildings	5,395,958	430,570	-	5,826,528
Infrastructure	45,737,345	6,040,997	-	51,778,342
Machinery and equipment	15,333,808	1,713,332	(741,737)	16,305,403
Total accumulated depreciation	<u>78,056,462</u>	<u>9,747,132</u>	<u>(741,737)</u>	<u>87,061,857</u>
Capital assets being depreciated, net	<u>251,989,779</u>	<u>(7,015,862)</u>	<u>18,694,339</u>	<u>263,668,256</u>
Governmental activities capital assets, net	<u>\$ 301,763,444</u>	<u>\$ 19,576,800</u>	<u>\$ (56,826)</u>	<u>\$ 321,283,418</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Primary Government:

	December 31, 2007	Additions	Deletions/ Transfers	December 31, 2008
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 11,210,513	\$ 323,408	\$ -	\$ 11,533,921
Construction in progress	8,398,526	29,153,339	(7,495,207)	30,056,658
Total capital assets not being depreciated	<u>19,609,039</u>	<u>29,476,747</u>	<u>(7,495,207)</u>	<u>41,590,579</u>
Capital assets being depreciated:				
Water system	299,115,367	4,841,671	2,091,799	306,048,837
Sewer system	125,051,808	2,109,394	4,923,408	132,084,610
Buildings	1,842,011	-	-	1,842,011
Improvements other than buildings	18,659,052	-	-	18,659,052
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	<u>23,177,743</u>	<u>1,896,999</u>	<u>(308,310)</u>	<u>24,766,432</u>
Total depreciable capital assets at historical cost	<u>468,555,933</u>	<u>8,848,064</u>	<u>6,706,897</u>	<u>484,110,894</u>
Less accumulated depreciation for:				
Water system	57,208,306	6,810,839	-	64,019,145
Sewer system	49,854,983	2,442,367	-	52,297,350
Buildings	575,623	61,213	-	636,836
Improvements other than buildings	9,851,827	74,151	-	9,925,978
Leasehold improvements	670,311	15,837	-	686,148
Machinery and equipment	<u>15,246,701</u>	<u>1,279,539</u>	<u>(298,975)</u>	<u>16,227,265</u>
Total accumulated depreciation	<u>133,407,751</u>	<u>10,683,946</u>	<u>(298,975)</u>	<u>143,792,722</u>
Capital assets being depreciated, net	<u>335,148,182</u>	<u>(1,835,882)</u>	<u>7,005,872</u>	<u>340,318,172</u>
Business-type activities capital assets, net	<u>\$ 354,757,221</u>	<u>\$ 27,640,865</u>	<u>\$ (489,335)</u>	<u>\$ 381,908,751</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

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

Governmental activities:	
General government -	
Administration	\$ 41,790
Legal	3,360
Finance	182,612
Public safety -	
Police	544,738
Fire	319,781
Public works -	
Operations	10,260
Streets	6,230,504
Traffic Control	20,561
Community services -	
Health and social services	2,416
Parks and recreation	1,370,634
Convention center	819,938
Transit	184,849
Housing and rehabilitation	15,689
	<hr/>
Total governmental activities depreciation expense	9,747,132
Business type activities:	
Water and Sewer	9,682,181
Sanitation	1,001,765
	<hr/>
Total business-type activities depreciation expense	10,683,946
Total depreciation expense	<u><u>\$ 20,431,078</u></u>

Reconciliation of capital asset additions to the capital outlay in the Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds:

Capital asset activity (on page 45):	
Additions for capital assets not being depreciated	\$ 26,592,662
Additions for capital assets being depreciated	2,731,270
	<hr/>
	<u><u>\$ 29,323,932</u></u>
Capital outlay reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 29,323,932</u></u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Capital asset activity for the year ended December 31, 2008 for the major enterprise funds was as follows:

Primary Government:

	<u>December 31, 2007</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2008</u>
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 10,836,741	\$ 323,408	\$ -	\$ 11,160,149
Construction in progress	8,350,592	29,081,786	(7,495,207)	29,937,171
	<u>19,187,333</u>	<u>29,405,194</u>	<u>(7,495,207)</u>	<u>41,097,320</u>
Total capital assets not being depreciated:				
	19,187,333	29,405,194	(7,495,207)	41,097,320
Capital assets being depreciated:				
Water system	299,115,367	4,841,671	2,091,799	306,048,837
Sewer system	125,051,808	2,109,394	4,923,408	132,084,610
Machinery and equipment	8,336,471	365,384	(57,169)	8,644,686
	<u>432,503,646</u>	<u>7,316,449</u>	<u>6,958,038</u>	<u>446,778,133</u>
Total depreciable capital assets at historical cost				
	432,503,646	7,316,449	6,958,038	446,778,133
Less accumulated depreciation for:				
Water system	57,208,306	6,810,839		64,019,145
Sewer system	49,854,983	2,442,367	-	52,297,350
Machinery and equipment	5,842,898	428,975	(57,166)	6,214,707
	<u>112,906,187</u>	<u>9,682,181</u>	<u>(57,166)</u>	<u>122,531,202</u>
Total accumulated depreciation				
	112,906,187	9,682,181	(57,166)	122,531,202
Capital assets being depreciated, net				
	<u>319,597,459</u>	<u>(2,365,732)</u>	<u>7,015,204</u>	<u>324,246,931</u>
Total water and sewer fund capital assets, net				
	<u>\$ 338,784,792</u>	<u>\$ 27,039,462</u>	<u>\$ (480,003)</u>	<u>\$ 365,344,251</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

	December 31, 2007	Additions	Deletions/ Transfers	December 31, 2008
Sanitation Fund:				
Capital assets not being depreciated:				
Land	\$ 373,772	\$ -	\$ -	\$ 373,772
Construction in progress	47,934	71,553	-	119,487
	<u>421,706</u>	<u>71,553</u>	<u>-</u>	<u>493,259</u>
Total capital assets not being depreciated:				
	<u>421,706</u>	<u>71,553</u>	<u>-</u>	<u>493,259</u>
Capital assets being depreciated:				
Buildings	1,842,011	-	-	1,842,011
Improvements other than buildings	18,659,052	-	-	18,659,052
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	14,841,272	1,531,615	(251,141)	16,121,746
	<u>36,052,287</u>	<u>1,531,615</u>	<u>(251,141)</u>	<u>37,332,761</u>
Total depreciable capital assets at historical cost				
	<u>36,052,287</u>	<u>1,531,615</u>	<u>(251,141)</u>	<u>37,332,761</u>
Less accumulated depreciation for:				
Buildings	575,623	61,213	-	636,836
Improvements other than buildings	9,851,827	74,151	-	9,925,978
Leasehold improvements	670,311	15,837	-	686,148
Machinery and equipment	9,403,803	850,564	(241,809)	10,012,558
	<u>20,501,564</u>	<u>1,001,765</u>	<u>(241,809)</u>	<u>21,261,520</u>
Total accumulated depreciation				
	<u>20,501,564</u>	<u>1,001,765</u>	<u>(241,809)</u>	<u>21,261,520</u>
Capital assets being depreciated, net				
	<u>15,550,723</u>	<u>529,850</u>	<u>(9,332)</u>	<u>16,071,241</u>
Total sanitation fund capital assets, net				
	<u>\$ 15,972,429</u>	<u>\$ 601,403</u>	<u>\$ (9,332)</u>	<u>\$ 16,564,500</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Component Units-

	<u>December 31, 2007</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2008</u>
Governmental Activities:				
Public Library				
Capital assets not being depreciated:				
Land	\$ 422,132	\$ -	\$ -	\$ 422,132
Capital assets being depreciated:				
Equipment	518,179	174,186	-	692,365
Transportation equipment	139,952	-	-	139,952
Total depreciable capital assets at historical cost	658,131	174,186	-	832,317
Less accumulated depreciation	614,635	23,100	-	637,735
Capital assets being depreciated, net	43,496	151,086	-	194,582
Governmental activities capital assets, net				
Public Library	<u>\$ 465,628</u>	<u>\$ 151,086</u>	<u>\$ -</u>	<u>\$ 616,714</u>
	<u>December 31, 2007</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2008</u>
Business-type activities:				
Parking Authority				
Capital assets not being depreciated:				
Land	\$ 1,359,161	\$ -	\$ -	\$ 1,359,161
Capital assets being depreciated:				
Buildings	1,970,589	206,021	-	2,176,610
Machinery and equipment	73,525	-	-	73,525
Total depreciable capital assets at historical cost	2,044,114	206,021	-	2,250,135
Less accumulated depreciation for:				
Buildings	1,214,050	55,192	-	1,269,242
Machinery and equipment	66,485	-	-	66,485
Total accumulated depreciation	1,280,535	55,192	-	1,335,727
Capital assets being depreciated, net	763,579	150,829	-	914,408
Business-type activities capital assets, net				
Parking Authority	<u>\$ 2,122,740</u>	<u>\$ 150,829</u>	<u>\$ -</u>	<u>\$ 2,273,569</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

	<u>December 31, 2007</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2008</u>
Airport Commission:				
Capital assets				
not being depreciated:				
Land	\$ 6,010,552	\$ 48,254	\$ -	\$ 6,058,806
Construction in progress	1,513,747	3,183,391	-	4,697,138
Total capital assets not being depreciated	<u>7,524,299</u>	<u>3,231,645</u>	<u>-</u>	<u>10,755,944</u>
Capital assets being depreciated:				
Buildings	18,961,033	-	(91,571)	18,869,462
Runways & other airport infrastructure	34,096,480	486,432	(7,232)	34,575,680
Equipment, furniture & fixtures, and other	8,806,134	417,040	(51,114)	9,172,060
Total depreciable capital assets at historical cost	<u>61,863,647</u>	<u>903,472</u>	<u>(149,917)</u>	<u>62,617,202</u>
Less accumulated depreciation for:				
Buildings	6,893,040	628,038	(90,951)	7,430,127
Runways & other airport infrastructure	24,291,642	1,233,809	-	25,525,451
Equipment, furniture & fixtures, and other	4,277,939	555,509	(50,380)	4,783,068
Total accumulated depreciation	<u>35,462,621</u>	<u>2,417,356</u>	<u>(141,331)</u>	<u>37,738,646</u>
Capital assets being depreciated, net	<u>26,401,026</u>	<u>(1,513,884)</u>	<u>(8,586)</u>	<u>24,878,556</u>
Business-type activities capital assets, net				
Airport Commission	<u>\$ 33,925,325</u>	<u>\$ 1,717,761</u>	<u>\$ (8,586)</u>	<u>\$ 35,634,500</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Construction-in-progress is composed of the following:

	Primary Appropriation	Expended to December 31, 2008	Committed
Primary government:			
Governmental activities	\$ 65,212,903	\$ 33,769,460	\$ 31,443,443
Business-type activities			
Sanitation capital improvements	3,262,000	119,487	3,142,513
Water and sewer capital improvements	<u>138,038,150</u>	<u>29,937,171</u>	<u>108,100,979</u>
Total	<u>\$ 206,513,053</u>	<u>\$ 63,826,118</u>	<u>\$ 142,686,935</u>

The City's governmental construction projects include major street and drainage improvements. The governmental projects also include the radio communication system purchase and the wastewater projects authorized by the Sales and Use Tax Refunding and Construction Bonds, Series 2006 and 2008. The wastewater projects funded by the 2006 and 2008 Bonds are being transferred to the Water and Sewer Fund as capital asset contributions. Funding is in place for these projects. The water and sewer capital improvements projects include the waterline improvements in the southern areas of the City, wet weather wastewater improvements, and plant designs. The City will need to finance additional water and sewer improvements in the future including more wastewater improvements required by the EPA administrative order as well as rehabilitation and expansion of the Mountainburg water treatment plant and distribution lines. The City will issue additional sales and use tax bonds during 2009 for more wastewater improvements as well as water and sewer revenue bonds during 2009 for a portion of these projects. The City plans to issue additional debt in future years for the remainder of the projects. The sanitation project currently includes engineering work for the next phase of the landfill expansion. The City will be able to fund the next landfill phase with current revenues.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Reconciliation of Capital Assets to Invested in Capital Assets Net of Related Debt on the Statement of Net Assets:

	<u>Business-Type</u>			
	<u>Governmental</u>	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Primary Government:				
Net book value	\$ 321,283,418	\$ 365,344,251	\$ 16,564,500	\$381,908,751
Current and noncurrent debt	(72,789,358)	(196,424,261)	(2,883,233)	(199,307,494)
Restricted assets - unspent bond/not proceeds	<u>45,140,315</u>	<u>67,216,902</u>	<u>-</u>	<u>67,216,902</u>
Invested in capital assets, net of related debt	<u>\$ 293,634,375</u>	<u>\$ 236,136,892</u>	<u>\$ 13,681,267</u>	<u>\$249,818,159</u>
	<u>Governmental</u>	<u>Business-Type</u>		
Component Units:				
Net book value	\$ 616,714	37,908,069		
Current and noncurrent debt	<u>-</u>	<u>(4,414,821)</u>		
Invested in capital assets, net of related debt	<u>\$ 616,714</u>	<u>\$ 33,493,248</u>		

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Note 4: Long-Term Liabilities

Changes in long-term liabilities for the year ended December 31, 2008 were as follows:

Primary Government-

	Balance December 31, 2007	Increases	Decreases	Balance December 31, 2008	Amount Due in One Year
Governmental Activities:					
Bonds Payable -					
Sales tax bonds	\$ 71,005,000	\$ 15,815,000	\$ 16,670,000	\$ 70,150,000	\$ 11,045,000
Add issuance premium	1,265,751	67,639	192,094	1,141,296	-
Less deferral on refunded issue	(264,834)	-	(176,556)	(88,278)	-
Sales tax bonds payable, net	<u>72,005,917</u>	<u>15,882,639</u>	<u>16,685,538</u>	<u>71,203,018</u>	<u>11,045,000</u>
Notes Payable	1,865,000	-	440,000	1,425,000	455,000
Capital leases payable	222,135	-	60,795	161,340	65,131
Compensated Absences	1,967,210	129,136	109,429	1,986,917	89,411
Claims Payable - General Fund					
Legal	82,500	-	-	82,500	82,500
Employee insurance/workers' compensation	1,114,900	341,879	-	1,456,779	1,456,779
OPEB liabilities	-	1,539,341	-	1,539,341	-
Other	706,984	61,333	5,653	762,664	-
Total governmental activities long-term liabilities	<u>\$ 77,964,646</u>	<u>\$ 17,954,328</u>	<u>\$ 17,301,415</u>	<u>\$ 78,617,559</u>	<u>\$ 13,193,821</u>
Business-Type Activities					
Bonds Payable -					
Revenue bonds	\$ 155,605,000	\$ 117,420,000	\$ 75,735,000	\$ 197,290,000	\$ 6,610,000
Less issuance discounts	(67,644)	-	(20,206)	(47,438)	-
Add issuance premium	3,340,249	1,228,241	1,677,165	2,891,325	-
Less deferral on refunded issue	(1,088,256)	(440,770)	(688,151)	(840,875)	-
Revenue bonds payable, net	<u>157,789,349</u>	<u>118,207,471</u>	<u>76,703,808</u>	<u>199,293,012</u>	<u>6,610,000</u>
Capital leases payable	61,722	-	47,240	14,482	14,482
Compensated absences	1,211,265	54,066	84,101	1,181,230	15,920
Claims Payable-Employee insurance and worker's compensation	342,600	172,740	-	515,340	515,340
OPEB liabilities	-	754,759	-	754,759	-
Other	53,277	-	3,656	49,621	-
Closure/postclosure landfill costs	3,676,958	198,546	-	3,875,504	-
Total other long-term liabilities	<u>5,345,822</u>	<u>1,180,111</u>	<u>134,997</u>	<u>6,390,936</u>	<u>545,742</u>
Total business-type activities long-term liabilities	<u>\$ 163,135,171</u>	<u>\$ 119,387,582</u>	<u>\$ 76,838,805</u>	<u>\$ 205,683,948</u>	<u>\$ 7,155,742</u>

Reconciliation of business-type activities to the government-wide statement of net assets:

Current Liabilities:	
Current portion of long-term debt	\$ 6,610,000
Noncurrent liabilities:	
Due within one year	545,742
Due in more than one year	<u>198,528,206</u>
Total business-type activities long-term liabilities	<u>\$ 205,683,948</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

The claims payable for employee insurance and workers' compensation are related to the internal service fund allocations. The internal service funds serve governmental funds as well as the two enterprise funds, therefore, the claims allocations are applied to governmental and business-type activities as applicable. For governmental activities, the General Fund generally liquidates claims and compensated absences.

Changes in long-term liabilities for the year ended December 31, 2008 for the major enterprise funds were as follows:

	Balance December 31, 2007	Increases	Decreases	Balance December 31, 2008	Amount Due in One Year
Water and Sewer Fund:					
Bonds Payable -					
Revenue bonds	\$ 151,670,000	\$ 117,420,000	\$ 74,825,000	\$ 194,265,000	\$ 5,665,000
Less issuance discounts	(60,848)	-	(16,807)	(44,041)	-
Add issuance premium	3,340,249	1,228,241	1,677,165	2,891,325	-
Less deferral on refunded issue	(886,920)	(440,770)	(625,185)	(702,505)	-
Revenue bonds payable, net	<u>154,062,481</u>	<u>118,207,471</u>	<u>75,860,173</u>	<u>196,409,779</u>	<u>5,665,000</u>
Capital leases payable	61,722	-	47,240	14,482	14,482
Compensated absences	976,006	54,066	64,243	965,829	9,658
OPEB liabilities	-	523,055	-	523,055	-
Other	53,277	-	3,656	49,621	-
Other long-term liabilities	<u>1,091,005</u>	<u>577,121</u>	<u>115,139</u>	<u>1,552,987</u>	<u>24,140</u>
Total water and sewer fund	<u>\$ 155,153,486</u>	<u>\$ 118,784,592</u>	<u>\$ 75,975,312</u>	<u>\$ 197,962,766</u>	<u>\$ 5,689,140</u>
Sanitation Fund:					
Bonds Payable -					
Revenue bonds	\$ 3,935,000	\$ -	\$ 910,000	\$ 3,025,000	\$ 945,000
Less issuance discounts	(6,796)	-	(3,399)	(3,397)	-
Less deferral on refunded issue	(201,336)	-	(62,966)	(138,370)	-
Revenue bonds payable, net	<u>3,726,868</u>	<u>-</u>	<u>843,635</u>	<u>2,883,233</u>	<u>945,000</u>
OPEB liabilities	-	231,704	-	231,704	-
Compensated absences	235,259	-	19,858	215,401	6,262
Closure/postclosure landfill costs	<u>3,676,958</u>	<u>198,546</u>	<u>-</u>	<u>3,875,504</u>	<u>-</u>
Other long-term liabilities	<u>3,912,217</u>	<u>430,250</u>	<u>19,858</u>	<u>4,322,609</u>	<u>6,262</u>
Total sanitation fund	<u>\$ 7,639,085</u>	<u>\$ 430,250</u>	<u>\$ 863,493</u>	<u>\$ 7,205,842</u>	<u>\$ 951,262</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Reconciliation of changes in long-term liabilities for the major enterprise funds to the statement of fund net assets for proprietary funds:

	Water and Sewer Fund	Sanitation Fund
Current Liabilities		
Revenue bonds payable	\$ 5,665,000	\$ 945,000
Capital leases payable	14,482	-
Accrued vacation and sick leave	9,658	6,262
Noncurrent Liabilities:		
Landfill closure and postclosure care	-	3,875,504
Revenue bonds, net	190,744,779	1,938,233
Capital leases payable	-	-
Accrued vacation and sick leave	956,171	209,139
OPEB liabilities	523,055	231,704
Other	49,621	-
	<u>\$ 197,962,766</u>	<u>\$ 7,205,842</u>

Changes in long-term liabilities for the year ended December 31, 2008, for the component units were as follows:

	Balance December 31, 2007	Increases	Decreases	Balance December 31, 2008	Amount Due in One Year
Component Units:					
Business-type activities-					
Parking Authority:					
Bonds Payable -					
Revenue bonds payable, net	\$ 1,000,000	\$ -	\$ 90,000	\$ 910,000	\$ 95,000
Less issuance discounts	(18,876)	-	(1,888)	(16,988)	-
Bonds payable, net	981,124	-	88,112	893,012	95,000
Compensated Absences	984	221	-	1,205	121
Total	982,108	221	88,112	894,217	95,121
Airport Commission:					
Bonds payable -					
Revenue Bonds	3,665,000	-	110,000	3,555,000	115,000
Less issuance discounts	(36,052)	-	(1,656)	(34,396)	-
Bonds payable, net	3,628,948	-	108,344	3,520,604	115,000
Total	3,628,948	-	108,344	3,520,604	115,000
Total Component Units	<u>\$ 4,611,056</u>	<u>\$ 221</u>	<u>\$ 196,456</u>	<u>\$ 4,414,821</u>	<u>\$ 210,121</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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Operating Leases

The City leases office space under a noncancelable-operating lease. Total costs for the lease to the General Fund was \$192,000 for the year ended December 31, 2008. The future minimum lease payments for the lease are as follows:

2009 \$ 32,000

Capital Leases

The City and the Parking Authority, a component unit, have entered into lease agreements for the acquisition of capital assets in 2002, 2003, 2004, 2005, 2006 and 2007. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date in the statement of net assets.

The assets acquired through capital lease are as follows:

	Primary Government	
	Governmental Activities	Business - Type Activities - W/S
Buildings	\$ 303,585	\$ -
Machinery and Equipment	60,440	157,856
Less accumulated depreciation	(91,168)	(65,773)
Total	\$ 272,857	\$ 92,083

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2008 were as follows:

	Governmental Activities	Business - Type Activities - W/S
2009	\$ 74,110	\$ 15,785
2010	51,284	-
2011	51,284	-
2012	-	-
2013	-	-
Total future minimum lease payments	176,678	15,785
Less interest	(15,338)	(1,303)
Net present value of future minimum lease payments	\$ 161,340	\$ 14,482

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Notes Payable

In June 2006, the City issued \$2,290,000 in promissory notes to provide funding for a phone system, the Martin Luther King Park community center, and downtown improvements. The notes payable are due in annual installments at varying amounts through June 1, 2011 with interest ranging from 3.75% to 4% payable semiannually. The total costs of issuance were \$20,238 that is being amortized over the life of the notes. The deferred charges at December 31, 2008 were \$8,095.

The maturity schedule for the notes payable is:

Notes Payable Maturity Schedule

	Principal	Interest
2009	\$ 455,000	\$ 47,435
2010	475,000	29,181
2011	495,000	9,900
Total	\$ 1,425,000	\$ 86,516

In accordance with Amendment 78 of the Arkansas Constitution, Arkansas state statutes limit the amount of short-term financing, including capital leases, the City may have in any fiscal year to five percent (5%) of the assessed valuation of property within the City. The limit applies to the reporting entity governmental activities. The total short-term financing as of December 31, 2008 was \$1,687,338. The limit as of December 31, 2008 was \$62.5 million; therefore management believes the City is in compliance with state statutes for short-term financing at December 31, 2008.

Sales and Use Tax Bonds- Governmental Activities

On September 21, 2006, the City issued \$84,935,000 Sales and Use Tax Refunding and Construction Bonds, Series 2006. The bonds are payable solely from a one percent (1%) local sales and use tax levied by the City and approved by citizens on May 20, 2006. The bonds are due in annual installments at varying amounts through December 1, 2015, with interest ranging from 3.884% to 4.877%, payable semiannually.

The 2006 Bonds were issued to refund the remaining 2001 Sales and Use Tax Bonds, purchase and install a new public safety and utility radio communication system, and fund wastewater improvements in response to an EPA administrative order. The economic loss as a result of the refunding was \$1,708,194. The reacquisition price exceeded the carrying amount of the old debt by \$617,946. The unamortized amount is netted against the refunded debt's life using the straight-line method. The remaining unamortized deferred amount on refunding was \$88,278 at December 31, 2008.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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The 2006 Bonds are subject to extraordinary redemption from surplus tax receipts and proceeds of the Bonds not needed for purposes intended at a purchase price equal to the principal amount being redeemed plus accrued interest to the redemption date. A total of \$8,500,000 bonds were called during 2008.

On November 13, 2008, the City issued \$15,815,000 Sales and Use Tax Construction Bonds, Series 2008. The bonds are payable solely from the same sales tax that supports the 2006 Bonds. The bonds are due in annual installments at varying amounts through December 2012, with interest ranging from 3% to 4%.

The 2008 Bonds were issued to provide additional funding for the public safety and utility radio communication system and the wastewater improvements begun with the 2006 Bonds.

The 2008 Bonds are subject to extraordinary redemption from surplus tax receipts and proceeds of the Bonds not needed for purposes intended at a purchase price equal to the principal amount being redeemed plus accrued interest to the redemption date.

Bond Retirement- The City is required to maintain a debt service reserve equal to \$4,246,750 during the life of the 2006 Bonds. The City held a surety bond equal to this amount at December 31, 2008. The City is required to maintain a debt service reserve equal to \$790,750 during the life of the 2008 Bonds. The City held investments equal to this amount at December 31, 2008.

Maturity Schedule – The debt service requirements for the Sales Tax Bonds at December 31, 2008 is as follows:

Sales Tax Bonds Maturity Schedule

	<u>Principal</u>	<u>Interest</u>
2009	\$ 11,045,000	\$ 2,943,604
2010	11,435,000	2,551,118
2011	11,950,000	2,038,331
2012	12,490,000	1,504,352
2013	13,065,000	925,202
2014	<u>10,165,000</u>	<u>406,600</u>
Total	70,150,000	<u>\$ 10,369,207</u>
Add unamortized bond premium	1,141,296	
Less deferred amount on refunding	<u>(88,278)</u>	
Net bonds outstanding at December 31, 2008	<u>\$ 71,203,018</u>	

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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Revenue Bonds - Business-Type Activities

Revenue bonds outstanding at December 31, 2008, are comprised of the following individual issues:

Water and Sewer:

\$26,415,000 of Series 1999 Water and Sewer System Revenue Bonds; due in annual installments at varying amounts through October 1, 2009, with interest of 5% payable semiannually	\$ 1,220,000
\$7,835,000 of Series 2002B Water and Sewer Refunding and Construction Revenue Bonds; due in annual installments at varying amounts through October 1, 2012 with interest ranging from 5% to 5.25% payable semiannually	7,680,000
\$21,330,000 of Series 2002C Water and Sewer Refunding Revenue Bonds; due in annual installments at varying amounts through October 1, 2023 with interest ranging from 4% to 5.25% payable semiannually	18,810,000
\$8,700,000 of Series 2004 Water and Sewer Revenue Refunding Bonds; due in annual installments at varying amounts through October 1, 2009; interest ranging of 3.5% payable semiannually	770,000
\$17,605,000 of Series 2005A Water and Sewer Refunding Revenue Bonds; due in annual installments at varying amounts through October 1, 2019 with interest ranging from 3.25% to 4.25% payable semiannually	17,455,000
\$7,330,000 of Series 2005B Water and Sewer Revenue Bonds; due in annual installments of varying amounts through October 1, 2025 with interest ranging from 4% to 4.375% payable semiannually	7,330,000
\$24,470,000 of Series 2007 Water and Sewer Revenue Bonds; due in annual installments of varying amounts through October 1, 2027 with interest ranging from 4% to 5% payable semiannually	23,580,000
\$117,420,000 of Series 2008 Water and Sewer Refunding and Construction Revenue Bonds; due in varying amounts through October 1, 2033 with interest ranging from 4% to 5.25% payable semiannually	117,420,000

Sanitation:

\$3,055,000 of Series 1998 Solid Waste Refunding Revenue Bonds; due in annual installments at varying amounts through December 1, 2009, with interest ranging of 4.55% payable semiannually	335,000
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City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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\$6,305,000 of Series 2002 Solid Waste Revenue Refunding Bonds; due in annual installments at varying amounts through December 1, 2011, with interest ranging 3.75% to 4.05% payable semiannually	2,690,000
Bonds outstanding, December 31, 2008	197,290,000
Unamortized bond discount	(47,438)
Unamortized bond premium	2,891,325
Deferred amount on refunding	(840,875)
Net bonds outstanding, December 31, 2008	\$ 199,293,012

Water and Sewer-

On September 21, 1999, the City issued \$26,415,000 in Water and Sewer System Revenue Bonds, Series 1999, to be used for the first phase of the Lake Fort Smith water supply expansion project, improvements to the Lee Creek water impoundment, and improvements to the existing water transmission, storage, and distribution system in accordance with the City's Capital Improvement Plan. The Series 1999 Bonds were issued as additional bonds under the Water and Sewer Refunding and Construction Revenue Bonds, Series 1994, ordinance on a parity of security with the Series 1994 Bonds.

The Series 1999 Bonds may be redeemed at the option of the City, on and after October 1, 2009, in whole on any date or in part on any interest payment date, from any source, in inverse order of maturity at a redemption price equal to the principal amount being redeemed plus accrued interest to the date of redemption. On June 1, 2005, \$16,375,000 of the 1999 Bonds was refunded with the issuance of the 2005A Water and Sewer Revenue Refunding Bonds.

On February 5, 2002 and October 15, 2002, the City issued \$111,755,000 Water and Sewer Refunding and Construction Revenue Bonds. The bonds were issued in three series. The 2002A Bonds were issued in the amount of \$82,590,000 for the purpose of financing a portion of the costs of the acquisition, construction, and equipping of extensions, betterments, and improvements to the City's water system with \$74.4 million of the issue allocated to finance a portion of the Lake Fort Smith water supply expansion project. The 2002B Bonds were issued in the amount of \$7,835,000 to advance refund \$1.1 million in principal amount of the 1994 Bonds to be refunded maturing October 1, 2009 and \$6.54 million in principal amount of the 1994 Bonds to be refunded maturing October 1, 2012. The refunded debt has been defeased and the related liabilities have been removed from the Water and Sewer Fund statement of net assets. The reacquisition price exceeded the carrying amount of the old debt by \$589,000. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method. The remaining unamortized deferred amount on refunding was \$117,764 as of December 31, 2007. The City completed the advance refunding to reduce its total debt service payments over the next ten and one-half (10 ½) years by \$378,570 and to obtain an economic gain of \$298,355. The 2002C Bonds were issued in the amount of \$21,330,000 to provide financing for a portion of the Lake Fort Smith water supply expansion project.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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On January 8, 2004, the City issued \$8,700,000 Water and Sewer Revenue Refunding Bonds, Series 2004. The 2004 Bonds were issued to refund the remaining Series 1994 Water and Sewer Refunding and Construction Revenue Bonds which were redeemed at 101% on April 1, 2004. The reacquisition prices exceeded the carrying amounts of the old debt by \$828,717. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The remaining unamortized deferred amount on refunding was \$75,337 as of December 31, 2008. The City completed the refunding to reduce its total debt service payments over the next six (6) years by \$585,727 and to obtain an economic gain of \$529,462.

On June 1, 2005, the City issued \$17,605,000 Water and Sewer Revenue Refunding Bonds, Series 2005A. The 2005A Bonds were issued to refund \$16,375,000 of outstanding Series 1999 Water and Sewer System Revenue Bonds that will be redeemed on October 1, 2009. The reacquisition price exceeded the carrying amount of the old debt by \$1,629,426. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The remaining unamortized deferred amount on refunding was \$181,047 as of December 31, 2008. The City completed the refunding to reduce its total debt service payments over the next five (5) years by \$861,756 and to obtain an economic gain of \$730,371.

On December 21, 2005, the City issued \$7,330,000 Water and Sewer Revenue Bonds, Series 2005B. The 2005B Bonds were issued to purchase a portion of the South Sebastian County Water Users Association water system and to provide water services to the southern areas of Fort Smith. The Series 2005B Bonds were issued as additional bonds on a parity of security with the 1999, 2002, 2004 and 2005A Bonds.

On November 21, 2007, the City issued \$24,470,000 Water and Sewer Revenue Bonds, Series 2007. The 2007 Bonds were issued to provide funding for improvements to the water and sewer facilities including new sewer pump stations, sewer extensions in the southern growth area of the City, the Mountainburg water treatment plant rehabilitation and expansion, Midland Boulevard water transmission line replacement, neighborhood water line replacements, new water line from Mountainburg to the City, water storage tank painting, Lee Creek water plant instrumentation, and water transmission system metering. The 2007 Bonds were issued as additional bonds on a parity of security with the 1999, 2002, 2004, 2005A, and 2005B bonds. The bonds carry interest rates ranging from 4% to 5%.

On August 6, 2008, the City issued \$117,420,000 Water and Sewer Refunding and Construction Revenue Bonds, Series 2008. The 2008 Bonds were issued to advance refund the 2002A Bonds and to provide funding for improvements to the water and sewer facilities. The sewer improvements include extensions in growth areas of the City and the water improvements include the Mountainburg water treatment plant rehabilitation and expansion, the replacement of neighborhood water lines, and the Howard Hill elevated water storage tank. The 2008 Bonds advance refunded \$66.475 million of the outstanding Series 2002A Bonds. The carrying amount of the old debt exceeded the reacquisition price by \$440,770. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The remaining unamortized deferred amount on refunding was \$440,770 as of December 31, 2008. The 2008 Bonds were issued as additional bonds on a parity of security with the 1999, 2002, 2004, 2005A, 2005B, and 2007 bonds. The bonds carry interest rates ranging from 4% to 5.25%.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2008

The Series 1999, 2002, 2004, 2005 2007, and 2008 Revenue Bonds are collateralized by revenue of the water and sewer system and the various special funds established by the authorizing bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system, second to establish and maintain the revenue bond funds and third to pay the cost of replacements made necessary by the depreciation of the system. Any remaining revenues may then be used for redemption of the bonds prior to maturity, as discussed previously, for the purchase of bonds at a price not to exceed par and accrued interest, for construction, extension, betterments and improvements to the system, or for any other lawful purpose.

The ordinances also contain provisions that, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2008, the City is in compliance with all applicable requirements.

Restricted accounts required by the bond ordinances are as follows:

Bond Retirement- The City is required to restrict funds for the payment of principal, interest, and trustee and paying agents' fees up to a maximum of \$2,179,462 related to the Series 1999 Bonds, \$2,641,524 related to the Series 2002 Bonds, \$870,000 related to the Series 2004 Bonds, \$1,760,000 related to the 2005A Bonds, \$727,354 related to the 2005B Bonds, \$1,891,369 related to the 2007 Bonds, and \$11,712,104 related to the 2008 Bonds. The City held surety bonds valued at \$2,179,462, \$2,641,524, \$870,000, \$1,760,000, \$727,354, \$1,891,369 and \$11,712,104 at December 31, 2008 for this purpose.

Asset Replacement- The City is required to deposit 3% of the gross revenues of the water and sewer system for the then preceding month plus \$5,000 per month until the sum of \$500,000 has been accumulated in the Depreciation Fund. Amounts are to be used for replacements made necessary by the depreciation of the system. The City has accumulated \$500,000 for asset replacement as of December 31, 2008.

Sanitation-

In November 1994, the City issued \$4,560,000 in Solid Waste Refunding Revenue Bonds for the purpose of providing a portion of the funds to construct the second phase of the City's landfill. In June 1995, the City issued \$9,185,000 of Solid Waste Refunding and Construction Bonds to redeem the previously outstanding 1993 Temporary Solid Waste Revenue Bonds and to provide financing for future expansion of the Municipal Solid Waste Landfill. In April 1998, the City issued \$3,055,000 of Solid Waste Refunding Revenue Bonds to advance refund the outstanding Series 1994 Solid Waste Revenue Bonds. The net proceeds provided by the refunding debt were issued to purchase securities that were placed in an irrevocable trust, which were used to redeem the debt on December 1, 2001, at 101%. The refunded debt is defeased and the related liabilities have been removed from the Sanitation Fund statement of net assets. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method. The remaining unamortized deferred amount on refunding was \$25,271 as of December 31, 2008.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

On September 3, 2002, the City issued \$6,305,000 Solid Waste Refunding Revenue Bonds. The Series 2002 Bonds were issued to refund the outstanding Series 1995 Bonds. The 1995 Bonds were redeemed at 101% on December 1, 2002. The refunded debt is considered defeased and the related liabilities have been removed from the Sanitation Fund statement of net assets. The reacquisition price exceeded the carrying amount of the old debt by \$376,991. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method. The remaining unamortized deferred amount on refunding was \$113,098 as of December 31, 2008. The City completed the current refunding to reduce its total debt service payments over the next ten (10) years by \$1,020,312 and to obtain an economic gain of \$467,675.

The Series 1998 Solid Waste Bonds may be redeemed at the option of the City on or after December 1, 2003, in whole on any date or in part on any interest payment date, in inverse order of maturity at the redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date.

The Series 1998 and 2002 Revenue Bonds are collateralized by the revenue of the solid waste system and the various special funds established by the authorizing ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system, second to establish and maintain the revenue bond funds, and third to pay the cost of replacements made necessary by the depreciation of the system. Any remaining revenues may then be used for redemption of the bonds prior to maturity, as discussed previously, for the purchase of bonds not to exceed par and accrued interest, for construction, betterments, and improvements to the system or for any other lawful use.

The ordinances also contain provisions that, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2008, the City is in compliance with all applicable requirements. Restricted accounts required by the bond ordinance are as follows:

Bond Retirement- The City is required to restrict funds for the payment of principal, interest and trustee and paying agents' fees of \$726,731 as of December 31, 2008. Of this amount, \$175,121 is related to the Series 1998 Bonds and \$551,610 is related to the Series 2002 Bonds. The City held investments equal to these amounts in the Sanitation Fund at December 31, 2008.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Maturity Schedule

Aggregate debt service requirements at December 31, 2008 for business-type activity related bonds were as follows:

	<u>Water and Sewer</u>		<u>Sanitation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 5,665,000	\$ 9,335,001	\$ 945,000	\$ 121,338
2010	5,910,000	9,089,125	1,020,000	83,220
2011	6,170,000	8,828,312	1,060,000	42,930
2012	6,450,000	8,551,126	-	-
2013	5,350,000	8,254,399	-	-
2014-2018	30,385,000	37,647,672	-	-
2019-2023	37,855,000	30,178,978	-	-
2024-2027	48,230,000	19,808,075	-	-
2028-2032	48,250,000	6,178,250	-	-
Total	<u>\$ 194,265,000</u>	<u>\$ 137,870,938</u>	<u>\$ 3,025,000</u>	<u>\$ 247,488</u>

Total Business-Type

	<u>Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 6,610,000	\$ 9,456,339
2010	6,930,000	9,172,345
2011	7,230,000	8,871,242
2012	6,450,000	8,551,126
2013	5,350,000	8,254,399
2014-2018	30,385,000	37,647,672
2019-2023	37,855,000	30,178,978
2024-2027	48,230,000	19,808,075
2028-2032	48,250,000	6,178,250
Total	<u>\$ 197,290,000</u>	<u>\$ 138,118,426</u>

Component Units Revenue Bonds-Business-Type Activities

Airport Commission-

On September 9, 1999, the Airport Commission issued \$5,290,000 of City of Fort Smith, Arkansas Airport Refunding and Improvement Revenue Bonds, Series 1999, dated October 1, 1999. At December 31, 2008, bonds payable were \$3,555,000. The bonds are due in annual installments at varying amounts through October 1, 2026, with interest ranging from 4.90% to 6.25%, payable semiannually. The bonds outstanding net of amortized discount at December 31, 2008, were \$3,520,604.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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Maturities of revenue bonds payable for succeeding years are as follows:

	Principal	Interest
2009	\$ 115,000	\$ 217,530
2010	125,000	211,090
2011	130,000	204,028
2012	140,000	196,618
2013	145,000	188,498
2014-2018	875,000	799,635
2019-2023	1,180,000	493,385
2024-2026	845,000	104,688
 Total Payments	 3,555,000	 \$ 2,415,472
 Less unamortized bond discount	 (34,396)	
 Net bond outstanding, December 31, 2008	 \$ 3,520,604	

The Series 1999 Bonds are subject to optional, extraordinary, and mandatory sinking fund redemption. On October 1, 2003, the Airport Commission redeemed \$1,125,000 of the Series 1999 Bonds. This resulted in the Airport Commission paying the final three years of bond payments early which reduced the maturity date from October 1, 2029 to October 1, 2026. To the extent not previously redeemed, the Series 1999 Bonds maturing on October 1, 2021, are subject to mandatory sinking fund redemption. The bond covenants require the maintenance of the following restricted account:

Bond Retirement- The Airport Commission is required to maintain funds for the payment of principal, interest and trustee and paying agents' fees of \$492,948, which are classified as restricted assets on the balance sheet, as of December 31, 2008. The Airport Commission held investments equal to this amount at December 31, 2008.

Parking Authority-

In November, 1998, the Parking Authority issued \$2,025,000 of Parking Facilities and Refunding and Improvement Revenue Bonds, Series 1998. Together with \$675,000 of existing funds, approximately \$2,072,000 of the net proceeds were being used to acquire and improve off-street parking facilities, including necessary demolition, and \$849,000 was used to redeem \$825,000 of Series 1989 Bonds issued on January 1, 1989. The Parking Facilities Refunding and Improvement Revenue Bonds are collateralized by the revenues derived from the operations of parking facilities and by the revenues derived from parking meters located in the City. The restricted account required by the bond ordinance is as follows:

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Bond Retirement- The Parking Authority is required to maintain funds for the payment of principal, interest, and trustee and paying agents' fees of \$69,620. As of December 31, 2008, the Parking Authority held investments equal to this amount.

The Series 1998 Bonds are subject to optional, extraordinary, and mandatory sinking fund redemption. The Authority may prepay all or a portion of the bonds in inverse order or maturity in whole at any time, or in part on any interest payment date on or after December 1, 2003, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date. The Series 1998 Bonds must be redeemed from proceeds not needed for the purposes intended on any interest payment date, in whole or in part, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date, in inverse order or maturity. To the extent not previously redeemed, the Series 1998 Bonds with a maturity on December 1, 2015 is subject to mandatory sinking fund redemption. On June 1, 2005, \$415,000 of outstanding 1998 Bonds was redeemed. The redemption was accomplished with the sale of property to a hotel developer.

At December 31, 2008, Parking Authority Revenue Bonds payable was \$910,000. The bonds are due in annual installments at varying amounts through December 1, 2017, with interest ranging from 3.80% to 4.75%, payable semiannually. The bonds outstanding net of unamortized discount at December 31, 2008, was \$893,012.

Debt service requirements for the bonds at December 31, 2008 were as follows:

	<u>Principal</u>	<u>Interest</u>
2009	\$ 95,000	\$ 41,545
2010	100,000	37,413
2011	105,000	33,012
2012	110,000	28,340
2013	115,000	23,390
2014-2017	<u>385,000</u>	<u>37,630</u>
 Total Payments	 910,000	 <u>\$ 201,330</u>
 Less unamortized bond discount	 <u>(16,988)</u>	
 Net bond outstanding, December 31, 2008	 <u>\$ 893,012</u>	

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Applicability of Federal Arbitrage Regulations

Debt issuances of the City and various Authorities issued after the Tax Reform Act of 1986 are subject to the federal arbitrage regulations. The arbitrage rebate regulations require that all earnings from the investment of gross proceeds of a bond issue in excess of the amount that could have been earned had the yield on the investment been equal to the yield on the bonds be remitted to the federal government. These rules carry strict penalties for noncompliance including taxability of interest retroactive to the date of the issue. City management believes the City is in compliance with these rules and regulations.

At December 31, 2008, the City has recorded \$652,016 as arbitrage payable. This liability is included in the Water and Sewer Fund as other long-term liabilities (\$49,621), in the General Fund (\$6,342), and in the Sales and Use Tax Construction Fund (\$596,053).

Conduit Debt Obligations

From time to time, the City has issued various bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the state, the City, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported in the accompanying financial statements.

As of December 31, 2008, there were three series of Industrial Development Revenue Bonds outstanding with an aggregate principal amount payable of \$97,000,000, two series of Fair and Exhibition Facilities Bonds outstanding with an aggregate principal amount payable of \$5,865,000, and two series of Residential Housing Facilities Board Multi-Family Housing Revenue Bonds outstanding with an aggregate principal payable of \$6,375,000.

Note 5: Risk Management

The City is exposed to various risks of loss related to the City's self-insurance of workers' compensation and health and other medical benefits provided to employees and retirees, and their dependants and beneficiaries. The City accounts for these programs through the Employee Insurance Fund and Workers' Compensation Fund. Each fund is an internal service fund. In addition, the City limits property and casualty losses and manages risk through the purchase of insurance policies with several different carriers. The City has not recognized any settlements that exceeded insurance coverage during the past three years.

All funds of the City participate in the City's insurance programs and make payments to the respective self-insurance funds based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for future claims. The Airport Commission participates in the

City of Fort Smith, Arkansas
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City's health plans by making contributions as required by the City. At December 31, 2008 the net assets were \$4,399,259 and \$60,735 in the Employee Insurance and Workers' Compensation Funds, respectively. The claims liability balances of \$1,308,002 and \$664,117 reported in the Employee Insurance and Workers' Compensation Funds, respectively, are based on the requirements of GASB Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The claims liability includes the effect of specific incremental claims, adjustment expenses, and if probable and material, salvage and subrogation. These liabilities include accruals for claims incurred but not reported, based upon the City's historical claims rate. These liabilities are the City's best estimate based on available information. Changes in the reported liabilities during 2008 are detailed below:

	<u>Employee Insurance</u>	<u>Workers' Compensation</u>
Self-insurance liability, December 31, 2006	\$ 762,565	\$ 472,203
Current year claims and changes in estimate	5,986,311	599,920
Claim payments	<u>(5,835,968)</u>	<u>(407,547)</u>
Self-insurance liability, December 31, 2007	912,908	664,576
Current year claims and changes in estimate	7,120,295	328,836
Claim payments	<u>(6,934,307)</u>	<u>(371,146)</u>
Self-insurance liability, December 31, 2008	<u>\$ 1,098,896</u>	<u>\$ 622,266</u>

Note 6: Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. International City Management Association Retirement Corporation (ICMARC) administers the Plan. All assets and income of the trust are for the exclusive benefit of eligible employees and their beneficiaries. The City does not have any fiduciary responsibility or administrative duties relating to the deferred compensation plan other than remitting employees' contributions to the trustees. Accordingly, the City has not presented the assets and liabilities from the plan in these basic financial statements. Deferred compensation investments are held by outside trustees. Plan investments are chosen by the individual (employee) participant and include mutual funds whose focus is on stocks, bonds, treasury securities, money market-type investments or a combination of these.

The Plan, available to all permanent City employees, permits them to defer until future years up to 25% of annual gross earnings not to exceed \$16,500. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

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Note 7: Pension Plans

(a) Public Employees Retirement System

Plan Description

Effective April 1, 1997, the Public Employees' Retirement System (PERS) was converted to a money purchase retirement plan, a defined contribution plan, that is qualified under Section 401(a) of the Internal Revenue Code (the 401(a) Plan). ICMARC serves as administrator of the 401(a) Plan. All full-time, non-uniformed employees with the exception of the two district judges and the District Court Clerk are covered by the 401(a) Plan. Each participant has a plan account to which the contributions are made and each participant manages their account by selecting various investments options offered by ICMARC. Plan benefits are based upon the total amount of money in an individual's account at retirement. Plan provisions and contribution rates are established by the 401(a) Plan agreement between the Board and ICMARC. Approval from both the Board and ICMARC is required for 401(a) Plan amendments. Employees make no contributions to the 401(a) Plan; however, the City makes contributions equal to 10% of each covered employees' earnings. Employer contributions to the PERS plan totaled \$2,232,390 for 2008.

The present value of each PERS active member account at March 31, 1997, was transferred to ICMARC in the participant's name. An annuity contract from an insurance company was purchased to continue to provide benefit payments to beneficiaries of PERS. The remaining balance of approximately \$1,700,000 was transferred to the Employee Insurance Fund to provide for future employee benefits. Additionally, the contract was purchased whereby all beneficiaries will receive a 3% cost of living adjustment every three years beginning January 1, 1998. The present value of the deferred members of PERS may be withdrawn or rolled into a qualified plan at the member's choice.

(b) District Judges and Court Clerk's Retirement System

On January 1, 2005, the district judges became members of the Arkansas District Judges Retirement System (ADJRS). ADJRS is administered by the state as a defined benefit plan. Employer contributions for 2008 were made by the State.

On January 1, 2005, the district court clerk became a member of the Arkansas Public Employees' Retirement System (APERS). APERS is administered by the state as a defined benefit plan. The employer contribution rate was 12.54% of covered payroll and the Clerk's contribution rate was 5% for 2008.

Covered payroll for the clerk was \$77,135 for the fiscal year ended December 31, 2008. There is one retired clerk receiving benefits from APERS.

(c) Fire Relief and Pension Plan and Police Relief and Pension Plan (the Old Plans)

Plan Description

The Fire Relief and Pension Plan and the Police Relief and Pension Plan (the Old Plans) are agent multi-employer defined benefit pension plans for employees of the Fire and Police Department

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who were hired prior to January 1, 1983. The Old Plans were established in accordance with Arkansas statutes and were closed, by state law, to new employees effective January 1, 1983. On September 20, 1990, the City entered into an agreement with the Arkansas local police and fire (LOPFI) retirement system whereby LOPFI assumed responsibility for administration and a portion of the obligation of the Old Plans pursuant to Act 364 of 1981, as amended, and Act 655 of 1983 of the General Assembly of the State of Arkansas. Per the Agreement between the City and LOPFI, the City will contribute an actuarially determined rate sufficient to support the current plan benefit levels and fund the Old Plan's net pension obligation over a 30 year open amortization period. The Old Plan's benefit structure remains unchanged under the administration by LOPFI. The Old Plans issue separate stand-alone financial statements and can be obtained from the Arkansas Local Police and Fire Retirement System, PO Drawer 34164, Little Rock, Arkansas, 72203.

Members and participants of the old plans at December 31, 2008 are:

	Fire	Police
Active Members:		
Vested	10	6
Retirees and beneficiaries	127	105
Total	137	111

Pension benefit provisions and all other requirements, including vesting, are established by state statute. Participants in the Old Plans became eligible for membership as of the first date of employment. Members of the Old Plans who retire with 20 years of credited service are entitled to a retirement benefit payable monthly for life equal to one-half of the participant's annual salary. Employees become vested after 20 years of service. Members with more than 25 years of service credit may be entitled up to a maximum of 100% of their highest annual salary.

Funding Policy and Funded Status

Arkansas state statutes require yearly contributions at a level percentage of covered payroll sufficient to cover the costs of benefit commitments made to participants for their service rendered in that year and, over a reasonable period of time, to fully cover the unfunded costs of benefit commitments for services previously rendered. The City is required to contribute the actuarially required normal costs and amortized costs of the unfunded actuarial accrued liability. In addition, active employees are required to make contributions equal to 6% of their gross salary to the Old Plans. The contributions for the 2008 plan year were based upon the December 31, 2007, actuarial report.

Arkansas LOPFI plan administration policy, as required by state statutes, contains the following provisions: segregate all of the plan's retired participants and fund future benefit payments at 100%; remove these retirees as City obligations while the City realizes the remaining, net unfunded obligation on the segregated retirees; amortize these funded, accrued liabilities over a closed period of 40 years that began September 20, 1990; if the length of the financing period for unfunded

City of Fort Smith, Arkansas
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liabilities causes closed plan assets to temporarily dip below zero, Arkansas LOPFI would loan the shortages until the financing period is complete as, at that time, Arkansas LOPFI will have been fully reimbursed including investment credits.

The actuarially required contributions rate as of December 31, 2008, 2007, and 2006, and amounts required by the City and active participants of the Old Plans for 2008, 2007, and 2006 were as follows:

	Fire Plan			Police Plan		
	2008	2007	2006	2008	2007	2006
Employer actuarially required contribution rates	33.24%	32.93%	32.23%	23.79%	22.47%	22.42%
Employer contributions as a percentage of annual covered payroll	33.24%	32.93%	32.23%	23.79%	22.47%	22.42%
Employer contributions to LOPFI	\$ 223,824	\$ 235,050	\$ 230,350	\$ 89,004	\$ 82,196	\$ 86,677
Annual Pension Cost (APC)	\$ 223,824	\$ 235,050	\$ 230,350	\$ 89,004	\$ 82,196	\$ 86,677
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	-	-	-	-	-	-

The Fire portion of the Old Plan, as of December 31, 2007, the most recent actuarial valuation date, was 12% funded. The actuarial accrued liability for benefits was \$21,410,722, and the actuarial value of assets was \$2,657,357, resulting in an unfunded actuarial accrued liability (UAAL) of \$18,753,365. The covered payroll (annual payroll of active employees covered by the plan) was \$6,111,117 and the ratio of the UAAL to the covered payroll was 307%.

The Police portion of the Old Plan, as of December 31, 2007, the most recent actuarial valuation date, was 43% funded. The actuarial accrued liability for benefits was \$23,123,175, and the actuarial value of assets was \$9,992,121, resulting in an unfunded actuarial accrued liability (UAAL) of \$13,131,054. The covered payroll (annual payroll of active employees covered by the plan) was \$7,040,679 and the ratio of the UAAL to the covered payroll was 187%.

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.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to compute the contribution rates for the year ended December 31, 2008, for the Old Plans:

Old Fire and Police Plans

Valuation date	December 31, 2007
Cost method	Entry age
Asset valuation method	Smooth market over a period of 5 years
Amortization method	Level percentage
Amortization period	29 years open
Assumptions:	
Inflation rate	4.0%
Investment rate of return	8.0%
Projected salary increases	0.0% - 5.1%
Post-retirement benefit increases	3.0%

The market decline during 2008 is not reflected in the values for the old plans as the latest actuarial date is December 31, 2007.

d) Arkansas Local Police and Fire Retirement System (the New Plans)

Plan Description

Employees of the City's Fire and Police Departments hired subsequent to December 31, 1983, are covered by the state-administered Arkansas Local Police and Fire Retirement System (the New Plans), an agent multiple-employer public employee retirement system plan. The New Plans are defined benefit plans that Arkansas statutes established. The New Plans issue separate stand-alone financial statements and can be obtained from the Arkansas Local Police and Fire Retirement System, PO Drawer 34164, Little Rock, Arkansas, 72203.

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Notes to Basic Financial Statements
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Members and participants of the new plans at December 31, 2008 are:

	Fire	Police
Active Members:		
Vested	99	106
Nonvested	20	53
 Retirees and beneficiaries	 4	 15
Total	123	174

Participants who retire at or after age 55 with 20 years of credited service or any age for a participant with 28 or more years of credited service are entitled to retirement benefits payable annually for life equal to 2.7% of final average pay for each year of credited service prior to January 1, 2004. The City adopted Benefit Program 2 for members of the new plans effective January 1, 2004. Benefit Program 2 provides retirement benefits payable annually for life equal to 3.1% of final average pay for each year of credited service that began January 1, 2004 and after. The total benefit cannot exceed 85% of final average pay. Benefits are fully vested after ten years.

Funding Policy and Funded Status

State statutes require active participants of the New Plans to make contributions equivalent to 6% of their gross salary and their contributions are 100% vested. The City is also required by state statute to contribute the remaining amounts necessary to pay benefits when due, as determined by the New Plans' administrator, as well as fund the Old Plans' unfunded actuarial accrued liability over a 30-year open amortization period.

The actuarially computed contribution rates as of December 31, 2008, 2007, and 2006, and amounts required by the City and active participants of the New Plans for 2008, 2007, and 2006 were as shown on the following page:

	Fire Plan			Police Plan		
	2008	2007	2006	2008	2007	2006
Employer actuarially required contribution rates	33.24%	32.93%	32.23%	23.79%	22.47%	22.42%
Employer contributions as a percentage of annual covered payroll	33.24%	32.93%	32.23%	23.79%	22.47%	22.42%
Employer contributions to LOPFI	\$ 1,855,784	\$ 1,788,281	\$ 1,667,217	\$ 1,616,132	\$ 1,547,612	\$ 1,500,304
Annual Pension Cost (APC)	\$ 1,855,784	\$ 1,788,281	\$ 1,667,217	\$ 1,616,132	\$ 1,547,612	\$ 1,500,304
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	-	-	-	-	-	-

City of Fort Smith, Arkansas
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The Fire portion of the New Plan, as of December 31, 2007, the most recent actuarial valuation date, was 102% funded. The actuarial accrued liability for benefits was \$21,410,722 and the actuarial value of assets was \$21,930,847 resulting in an actuarial accrued asset (AAA) of \$520,125. The covered payroll (annual payroll of active employees covered by the plan) was \$5,501,795 and the ratio of the AAA to the covered payroll was 9%.

The Police portion of the New Plan, as of December 31, 2007, the most recent actuarial valuation date, was 116% funded. The actuarial accrued asset for benefits was \$23,123,175, and the actuarial value of assets was \$26,892,624, resulting in an actuarial accrued asset (AAA) of \$3,769,449. The covered payroll (annual payroll of active employees covered by the plan) was \$6,685,543 and the ratio of the AAA to the covered payroll was 56%.

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.

Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to compute the contribution rates for

	New Fire and Police Plans
Valuation date	December 31, 2007
Cost method	Entry age
Asset valuation method	Smooth market over a period of 5 years
Amortization method	Level percentage
Amortization period	30 years open
 Assumptions:	
Inflation rate	4.0%
Investment rate of return	8.0%
Projected salary increases	0.0% - 5.1%
Post-retirement benefit increases	3.0% every other year

The market decline during 2008 is not reflected in the values for the new plans as the latest actuarial date is December 31, 2007.

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Note 8: Other Postemployment Benefits (OPEB)

Plan Description: The City of Fort Smith 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.

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 plans. The City is not required to make contributions to the plan on behalf of the retirees and funds the plan on a projected pay-as-you-go financing method. The plan has 36 active participants who pay monthly premiums between \$403 for single coverage and \$1,263 for family coverage.

Annual OPEB Cost and Net OPEB Obligation: The City’s annual other postemployment 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 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 (ARC)	\$ 2,294,100
Interest on net OPEB obligation	-
Annual OPEB Cost	2,294,100
Total annual employer contribution	-
Increase in net OPEB obligation	2,294,100
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ 2,294,100

The net OPEB obligation is recorded in the government-wide statement of net assets as non-current liabilities due in more than one year for governmental activities at \$1,539,341 and for business-type activities at \$754,759. Furthermore, the obligation for business-type activities is reflected on the statement of fund net assets for proprietary funds as non-current liabilities for the Water and Sewer Fund (\$523,055) and for the Sanitation Fund (\$231,704).

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

City of Fort Smith, Arkansas
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Normal cost	\$ 976,417
Amortization of transition obligation	<u>1,317,683</u>
Annual required contribution	<u><u>\$ 2,294,100</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2008	\$ 2,294,100	0.0%	\$ 2,294,100

Funded Status and Funding Progress: As of January 1, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$16,351,176, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$16,351,176. The covered payroll (annual payroll of active employees covered by the plan) was \$35,747,692, and the ratio of the UAAL to the covered payroll was 45.7%.

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. However, since this is the first year of implementation there is no trend information to report.

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 January 1, 2008, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7% investment rate of return based upon funding the plan in the future, and an annual healthcare cost trend rate of 10% for 2008 and then reduced by decrements of 0.5% to 1.0% annually to an ultimate rate of 5.5% after seven years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008, was thirty years.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Note 9: Commitments and Contingencies

Litigation

In the course of business, a number of claims and lawsuits arise from individuals seeking compensation for personal injury and/or property damage resulting from accidents occurring in the City. In addition, the City has been named as a defendant in a number of lawsuits relating to personnel and contractual matters. Management does not believe that the outcome of these claims will have a material adverse effect on the City's financial position. The City appropriates funds necessary to meet settlements and awards. The City accrues a liability when it is incurred and when the contingency is probable and reasonably estimable. At December 31, 2008 the City has accrued a liability in the amount of \$82,500.

Contingencies

The City has received federal and state financial awards in the form of grants and entitlements that are subject to review and audit by the grantor agencies. Such audits could result in requests for reimbursement by the grantor agency for expenditures disallowed under terms and conditions specified in the grant agreements. In the opinion of City management, such disallowances, if any, will not be significant.

For the past several years, the City has been subject to various administrative orders issued by the Environmental Protection Agency (EPA) with reference to the sanitary sewer system's ability to adequately handle wet weather flows. On September 9, 2005, the EPA issued an additional administrative order. The latest order specifically orders the removal of several planned and constructed overflow sites in the City's sanitary sewer system which are necessary to prevent harm resulting from the overflows during wet weather conditions. The City has been notified by the Department of Justice that the EPA has referred the City's file to the Department of Justice. The City is communicating with the Department of Justice in an effort to establish timelines for the wastewater improvements required. The 2006 Sales and Use Tax Refunding and Construction Bonds included \$49.3 million for wastewater improvements in response to EPA regulations. The City has the authority to issue an additional \$13 million in sales tax bonds for wastewater improvements. The City plans to issue an additional \$60 million in revenue bonds for wastewater improvements in the near future. City management believes this matter will be resolved without litigation and penalty assessment.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Note 10: Individual Fund Disclosures

Interfund receivables and payables as of December 31, 2008 are as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
Governmental Funds:		
General Fund	\$ 14,817	\$ -
Special Revenue Funds	-	15,138
Internal Service Funds	<u>321</u>	<u>-</u>
Total	<u>\$ 15,138</u>	<u>\$ 15,138</u>

The \$14,817 receivable in the General Fund represents amounts paid for expenditures incurred by the Community Development Block Grant Fund (\$7,969) and the HOME Investment Partnership Act Fund (\$6,848). The \$321 receivable in the Working Capital Fund, an internal service fund, represents charges to the Community Development Block Grant Fund for fuel and supplies.

Interfund transfers in (out) for the year ended December 31, 2008, are as follows:

<u>Fund</u>	<u>Transfers</u>	
	<u>In</u>	<u>Out</u>
Governmental Funds:		
Major funds:		
General Fund	\$ 2,324,250	\$ 140,000
Special revenue - Street Maintenance Fund	-	141,000
Sales Tax Fund	70,000	2,111,250
Capital project fund - 2006 Sales & Use Tax Construction Fund	<u>-</u>	<u>21,631,789</u>
Total governmental funds	<u>2,394,250</u>	<u>24,024,039</u>
Proprietary Funds:		
Water and Sewer Fund	21,631,789	71,000
Sanitation Fund	90,000	71,000
Workers' Compensation Fund	<u>50,000</u>	<u>-</u>
Total proprietary funds	<u>21,771,789</u>	<u>142,000</u>
Total	<u>\$ 24,166,039</u>	<u>\$ 24,166,039</u>

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The transfer out of \$2,111,250 from the Sales Tax Fund to the General Fund represents the allocation of overhead costs provided by General Fund programs during 2008. The Sales & Use Tax Construction Fund transfer out of \$21,631,789 to the Water and Sewer Fund represents the transfer of capital assets that is recognized as capital contributions in the Water and Sewer Fund.

Note 11: Landfill Closure and Post Closure Care Costs

In October 1991, the EPA issued rules and regulations which require the City to place a final cover on its Municipal Solid Waster Landfill (MSWLF) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for a period of 30 years following closure of the site.

In 1994, the City adopted GASB Statement 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. This statement requires that the City recognize a portion of the closure and postclosure care costs referred to above as an operating expense in each fiscal year based on landfill capacity used as of each fiscal year-end, even though such costs will be paid only near or after the date that the landfill stops accepting waste.

The City's permitted landfill capacity was increased from a total of 13,507,000 cubic yards to 72,607,000 cubic yards in 2003. The life of the landfill is now projected to last through 2045 rather than 2013. The landfill was opened on October 9, 1993. The City's reported landfill closure and postclosure care liability at December 31, 2008, is \$3,875,504. The remaining estimated closure and postclosure care costs of approximately \$38 million will be recognized as the remaining capacity is filled. The percentage of landfill capacity used to date was approximately 8.5% at December 31, 2008. These amounts are based upon annual engineering estimates of what it would cost to perform all closure and postclosure costs, based on the City's approved closure plan, through December 31, 2008. Actual costs may be significantly higher due to inflation, changes in technology, or changes in regulations by the Arkansas Department of Environmental Quality.

The City is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care costs. The amount of financial assurance required by the state as of December 31, 2008, is \$6,416,951. In order to comply with this requirement, the City held an irrevocable standby letter of credit with BancorpSouth that is pledged to the Arkansas Department of Environmental Quality in the amount of \$5,820,000 at December 31, 2008. The City will increase the value of the letter of credit to meet the required level of financial assurance during 2009.

Note 12: New Applicable GASB Standards

GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes standards of accounting and financial reporting for intangible assets for all state and local governments. This statement becomes effective for periods beginning after June 15, 2009. Management has not determined the impact of this statement.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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Note 13: Condensed Financial Statements-Discretely Presented Component Units

The following presents condensed financial statements for each of the four discretely presented component units:

Statement of Net Assets
December 31, 2008

	Governmental			Business-Type		
	Advertising and Promotion	Public Library	Total	Parking Authority	Airport Commission	Total
Assets						
Current assets	\$ 443,641	\$ 1,933,119	\$ 2,376,760	\$ 190,631	\$ 2,056,864	\$ 2,247,495
Sales taxes receivable from the City	-	161,169	161,169	-	-	-
Capital Assets, net of accumulated depreciation, as applicable	-	616,714	616,714	2,273,569	35,634,500	37,908,069
Noncurrent assets	-	-	-	85,914	997,643	1,083,557
Total Assets	<u>443,641</u>	<u>2,711,002</u>	<u>3,154,643</u>	<u>2,550,114</u>	<u>38,689,007</u>	<u>41,239,121</u>
Liabilities						
Current liabilities	25,139	496,520	521,659	106,628	831,654	938,282
Noncurrent liabilities	-	-	-	799,217	3,405,604	4,204,821
Total liabilities	<u>25,139</u>	<u>496,520</u>	<u>521,659</u>	<u>905,845</u>	<u>4,237,258</u>	<u>5,143,103</u>
Net Assets						
Investment in capital assets, net of related debt	-	616,714	616,714	1,379,352	32,113,896	33,493,248
Restricted	-	-	-	69,602	713,927	783,529
Unrestricted	418,502	1,597,768	2,016,270	195,315	1,623,926	1,819,241
Total net assets	<u>\$ 418,502</u>	<u>\$ 2,214,482</u>	<u>\$ 2,632,984</u>	<u>\$ 1,644,269</u>	<u>\$ 34,451,749</u>	<u>\$ 36,096,018</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2008

Statement of Activities
For the Year Ended December 31, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities		
					Advertising and Promotion	Public Library
Advertising/Promotion	\$ 746,435	\$ -	\$ 2,896	\$ (743,539)	\$ -	\$ (743,539)
Public Library	2,753,622	110,350	316,833	-	(2,326,439)	(2,326,439)
Total	<u>\$ 3,500,057</u>	<u>\$ 110,350</u>	<u>\$ 319,729</u>	<u>(743,539)</u>	<u>(2,326,439)</u>	<u>(3,069,978)</u>
General revenues						
Property taxes				-	1,187,421	1,187,421
Sales taxes				-	996,643	996,643
Hospitality hotel/motel taxes				791,602	-	791,602
Unrestricted investments earnings				9,093	15,847	24,940
Other				-	304,859	304,859
Total general revenues				<u>800,695</u>	<u>2,504,770</u>	<u>3,305,465</u>
Change in net assets				57,156	178,331	235,487
Net assets, beginning				<u>361,346</u>	<u>2,036,151</u>	<u>2,397,497</u>
Net assets, ending				<u>\$ 418,502</u>	<u>\$ 2,214,482</u>	<u>\$ 2,632,984</u>

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines, and Charges for Services	Capital Grants and Contributions	Business-Type Activities		
					Parking Authority	Airport Commission
Parking Authority	\$ 240,107	\$ 158,067	\$ -	\$ (82,040)	\$ -	\$ (82,040)
Airport Commission	4,682,332	2,636,574	3,251,948	-	1,206,190	1,206,190
Total	<u>\$ 4,922,439</u>	<u>\$ 2,794,641</u>	<u>\$ 3,251,948</u>	<u>(82,040)</u>	<u>1,206,190</u>	<u>1,124,150</u>
General revenues						
Unrestricted investment earnings				9,282	127,418	136,700
Payment from City of Fort Smith				250,000	-	250,000
Total general revenues				<u>259,282</u>	<u>127,418</u>	<u>386,700</u>
Change in net assets				177,242	1,333,608	1,510,850
Net assets, beginning				<u>1,467,027</u>	<u>33,118,141</u>	<u>34,585,168</u>
Net assets, ending				<u>\$ 1,644,269</u>	<u>\$ 34,451,749</u>	<u>\$ 36,096,018</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

City of Fort Smith, Arkansas
Required Supplementary Information
Analysis of Funding Progress – Pension and OPEB Plans
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (Projected Unit Credit Cost Method) (b)	Overfunded AAA / (Unfunded) (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	AAA (UAAL) as a Percentage of Covered Payroll ((b-a)/(c))
<i>Fire Relief and Pension Plan and Police Relief and Pension Plan (the Old Plans)</i>						
<i>Fire Plan:</i>						
2007	\$ 2,657,357	\$ 21,410,722	\$ (18,753,365)	12.4%	\$ 6,111,117	-306.9%
2006	936,574	18,647,516	(17,710,942)	5.0%	6,031,834	-293.6%
2005	(526,095)	15,688,288	(16,214,383)	0.0%	5,661,175	-286.4%
<i>Police Plan:</i>						
2007	\$ 9,992,121	\$ 23,123,175	\$ (13,131,054)	43.2%	\$ 7,040,679	-186.5%
2006	8,342,056	21,290,432	(12,948,376)	39.2%	7,018,643	-184.5%
2005	7,738,412	18,162,146	(10,423,734)	42.6%	6,551,838	-159.1%
<i>Arkansas Local Police and Fire Retirement System (the New Plans)</i>						
<i>Fire Plan:</i>						
2007	\$ 21,930,847	\$ 21,410,722	\$ 520,125	102.4%	\$ 5,501,795	9.5%
2006	18,990,176	18,647,516	342,660	101.8%	5,199,899	6.6%
2005	15,015,526	14,283,337	732,189	105.1%	4,863,565	15.1%
<i>Police Plan:</i>						
2007	\$ 26,892,624	\$ 23,123,175	\$ 3,769,449	116.3%	\$ 6,685,543	56.4%
2006	24,201,634	21,290,432	2,911,202	113.7%	6,616,368	44.0%
2005	20,548,026	16,896,894	3,651,132	121.6%	6,085,220	60.0%
<i>Other Postemployment Benefit Plan (OPEB)</i>						
<i>Healthcare Plan ⁽¹⁾</i>						
2008	\$ -	\$ 16,351,176	\$ (16,351,176)	0.0%	\$ 35,747,692	-45.7%

⁽¹⁾ First year of implementation, historical trend information is not available

City of Fort Smith, Arkansas
Required Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – General Fund
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
Revenues						
Taxes	\$ 5,400,900	\$ 5,400,900	\$ 5,518,765	\$ -	\$ 5,518,765	\$ 117,865
Sales taxes	15,697,930	16,273,545	16,610,714	-	16,610,714	337,169
Licenses and permits	1,291,000	1,603,184	1,844,407	-	1,844,407	241,223
Utility franchise fees	7,193,800	7,345,540	7,366,814	-	7,366,814	21,274
Intergovernmental	4,471,603	3,805,113	4,004,844	-	4,004,844	199,731
Fines and forfeitures	1,846,100	1,846,100	2,045,824	-	2,045,824	199,724
Fees for services	1,120,760	1,208,131	1,215,016	-	1,215,016	6,885
Interest	260,000	260,000	161,418	-	161,418	(98,582)
Contributions	-	-	-	-	-	-
Miscellaneous	203,164	195,164	186,181	-	186,181	(8,983)
Total revenues	37,485,257	37,937,677	38,953,983	-	38,953,983	1,016,306
Expenditures						
Current:						
General government						
Administration	4,184,822	4,134,230	3,957,039	78,819	4,035,858	98,372
Legal	1,850,310	1,863,360	1,710,076	46,800	1,756,876	106,484
Finance	2,281,071	2,202,863	2,038,113	18,400	2,056,513	146,350
Public safety						
Police	14,988,740	14,897,822	12,993,697	272,731	13,266,428	1,631,394
Fire	10,127,395	10,032,472	9,229,248	196,347	9,425,595	606,877
Community services						
Health and social services	121,481	121,061	97,170	-	97,170	23,891
Parks and recreation	2,389,920	2,375,938	1,332,848	449,551	1,782,399	593,539
Transit	2,117,220	2,097,019	2,062,512	-	2,062,512	34,507
Other	4,097,184	4,511,684	3,374,857	831,838	4,206,695	304,989
Capital outlay	1,670,985	2,077,201	1,355,874	253,045	1,608,919	468,282
Debt service:						
Principal	-	-	440,000	-	440,000	(440,000)
Interest	-	-	63,366	-	63,366	(63,366)
Total expenditures	43,829,128	44,313,650	38,654,800	2,147,531	40,802,331	3,511,319
Excess (deficiency) of revenues over (under) expenditures	(6,343,871)	(6,375,973)	299,183	(2,147,531)	(1,848,348)	4,527,625
Other Financing Sources (Uses):						
Transfers in	2,345,610	2,345,610	2,347,998	-	2,347,998	2,388
Transfers out	(340,000)	(390,000)	(390,000)	-	(390,000)	-
Total other financing sources and uses	2,005,610	1,955,610	1,957,998	-	1,957,998	2,388
Net change in fund balances	(4,338,261)	(4,420,363)	2,257,181	(2,147,531)	109,650	4,530,013
Fund Balances, January 1	8,449,052	8,449,052	8,449,052	-	8,449,052	-
Fund Balances, December 31	\$ 4,110,791	\$ 4,028,689	\$ 10,706,233	\$ (2,147,531)	\$ 8,558,702	\$ 4,530,013

City of Fort Smith, Arkansas
Required Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – Street Maintenance Fund
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
Revenues						
Taxes	\$ 1,605,600	\$ 1,605,600	\$ 1,655,032	\$ -	\$ 1,655,032	\$ 49,432
Intergovernmental	3,692,328	3,692,328	3,663,686	-	3,663,686	(28,642)
Interest	235,000	139,611	112,112	-	112,112	(27,499)
Miscellaneous	10,000	5,000	19,891	-	19,891	14,891
Total revenues	<u>5,542,928</u>	<u>5,442,539</u>	<u>5,450,721</u>	<u>-</u>	<u>5,450,721</u>	<u>8,182</u>
Expenditures						
Current:						
General government						
Administration	240,235	240,237	224,079	2,457	226,536	13,701
Legal	62,000	68,525	61,543	-	61,543	6,982
Finance	353,873	353,873	326,938	9,944	336,882	16,991
Public works						
Operations	453,370	495,940	413,167	1,216	414,383	81,557
Streets	2,958,980	2,898,330	2,450,316	-	2,450,316	448,014
Traffic control	2,066,901	2,114,981	1,802,215	-	1,802,215	312,766
Community services						
Parks and recreation	293,138	290,750	198,495	48,195	246,690	44,060
Other	75,000	75,000	3,112	-	3,112	71,888
Capital Outlay	270,180	240,180	412,607	36,855	449,462	(209,282)
Total expenditures	<u>6,773,677</u>	<u>6,777,816</u>	<u>5,892,472</u>	<u>98,667</u>	<u>5,991,139</u>	<u>786,677</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,230,749)</u>	<u>(1,335,277)</u>	<u>(441,751)</u>	<u>(98,667)</u>	<u>(540,418)</u>	<u>794,859</u>
Other Financing Uses:						
Transfers out	<u>(141,000)</u>	<u>(141,000)</u>	<u>(141,000)</u>	<u>-</u>	<u>(141,000)</u>	<u>-</u>
Total Other Financing Uses	<u>(141,000)</u>	<u>(141,000)</u>	<u>(141,000)</u>	<u>-</u>	<u>(141,000)</u>	<u>-</u>
Net Change in Fund Balances	<u>(1,371,749)</u>	<u>(1,476,277)</u>	<u>(582,751)</u>	<u>(98,667)</u>	<u>(681,418)</u>	<u>794,859</u>
Fund Balances, January 1	<u>4,090,565</u>	<u>4,090,565</u>	<u>4,090,565</u>	<u>-</u>	<u>4,090,565</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 2,718,816</u>	<u>\$ 2,614,288</u>	<u>\$ 3,507,814</u>	<u>\$ (98,667)</u>	<u>\$ 3,409,147</u>	<u>\$ 794,859</u>

City of Fort Smith, Arkansas
Notes to Required Supplementary Information
December 31, 2008

Budgets and Budget Accounting

By December 1 of each year, the City Administrator is required to submit to the Board of Directors (“Board”) a proposed budget for the fiscal year beginning on the following January 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted prior to adoption of the budget to allow citizen input. The state statute governing adoption of annual budgets requires the Board to approve the budget prior to February 1. For practical purposes, the Board usually adopts the budget in December.

Annual budgets are legally adopted for the General Fund and the Street Maintenance Fund, a special revenue fund.

The City Administrator is authorized to transfer budgeted amounts within departments; however, the Board must approve any revisions that alter the total expenditures of any department. During 2008, supplemental appropriations (expenditures and transfers out) were adopted by the Board for the General Fund totaling \$534,522 to provide additional funding for the purchase of equipment for the Police Department with federally seized forfeiture funds (\$369,972); additional legal fees and settlements (\$94,550); additional contributions for workers’ compensation (\$50,000); and, costs for storm repairs to the port facility (\$20,000). During 2008, the Board adopted supplemental appropriations for the Street Maintenance Fund totaling \$4,139 for additional legal fees. For budgetary purposes, unencumbered appropriations lapse at year-end.

The budgets for the General Fund and the Street Maintenance Fund are prepared on a basis that differs from GAAP. The difference between budget and GAAP basis is that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP). Accordingly, encumbrances have been reflected in the budget and actual schedules as budget adjustments to provide a more meaningful comparison. Budget and actual schedules are presented at the departmental level that is the legal level of budgetary control.

**SUPPLEMENTARY INFORMATION
SECTION**

City of Fort Smith, Arkansas
Nonmajor Governmental Funds
For the Fiscal Year Ended December 31, 2008

Special Revenue Funds:

Community Development Block Grant (CDBG)- To account for the operations of projects utilizing CDBG funds. Such revenues are restricted to expenditures for specified projects by the Department of Housing and Urban Development.

Tilles Park- To account for donations received from the Tilles family estate. The money received is restricted for upgrading and maintaining Tilles Park.

HOME Investment Partnership Act- To account for federal funds administered by the Community Housing Development Organizations (CHDO) and other subrecipients to provide assistance for affordable housing.

Special Grants- To account for federal, state, and local grants received by the City. Current grants include: Economic Development Administration (EDA) for infrastructure projects, State of Arkansas recycling grants, Arkansas historic preservation grants, and a local grant from Sebastian County for drug law enforcement projects. These funds are restricted to expenditures for approved projects of the various agencies.

LOPFI Contribution- To account for the funding of contributions made to the Police and Fire Relief and Pension Plans administered by Arkansas LOPFI.

Convention Center- To account for the state tourism turnback received by the City to be used for operations and capital asset acquisition for the convention center. The turnback is restricted for tourism related uses.

Capital Projects Fund:

Sidewalk Construction- To account for resources utilized to construct sidewalks within the City limits. Revenues collected for sidewalk construction include contributions from the community and permit assessments on new construction. The City Board selects projects. The fund is perpetual.

City of Fort Smith, Arkansas
Combining Balance Sheet – Nonmajor Governmental Funds
December 31, 2008

	Special Revenue					Capital Projects		Total Nonmajor Governmental Funds
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Convention Center	Sidewalk Construction	
Assets								
Cash	\$ 19,017	\$ -	\$ 93,547	\$ 11,930	\$ 74,466	\$ 293,852	\$ 36,428	\$ 529,240
Investments	2,282	8,123	-	476,786	13,955,521	776,580	511,965	15,731,257
Receivables, net of allowance for uncollectibles								
Taxes	-	-	-	-	2,308,469	-	-	2,308,469
Accounts	3,121	-	-	-	-	262,569	-	265,690
Accrued interest	20	11	-	692	19,690	1,942	779	23,134
Due from other governments	54,165	-	26,570	11,187	-	-	-	91,922
Prepaid items	-	-	-	1,497	-	21,317	-	22,814
Total assets	<u>\$ 78,605</u>	<u>\$ 8,134</u>	<u>\$ 120,117</u>	<u>\$ 502,092</u>	<u>\$ 16,358,146</u>	<u>\$ 1,356,260</u>	<u>\$ 549,172</u>	<u>\$ 18,972,526</u>
Liabilities and Fund Balances								
Liabilities:								
Accounts payable and accrued liabilities	\$ 54,165	\$ -	\$ 26,570	\$ -	\$ 388,821	\$ 71,042	\$ 9,761	\$ 550,359
Retainage payable	3,419	-	-	-	-	-	22,556	25,975
Due to other funds	8,290	-	6,848	-	-	-	-	15,138
Unearned revenues	9,606	-	86,699	374,689	2,491,516	-	-	2,962,510
Other	2,323	-	-	-	-	-	-	2,323
Total liabilities	<u>77,803</u>	<u>-</u>	<u>120,117</u>	<u>374,689</u>	<u>2,880,337</u>	<u>71,042</u>	<u>32,317</u>	<u>3,556,305</u>
Fund Balances:								
Reserved for:								
Encumbrances	-	-	-	-	-	57,738	-	57,738
Prepays	-	-	-	1,497	-	21,317	-	22,814
Other purposes	802	8,134	-	-	-	1,206,163	-	1,215,099
Unreserved, reported in nonmajor:								
Special revenue funds	-	-	-	125,906	13,477,809	-	-	13,603,715
Capital projects funds	-	-	-	-	-	-	516,855	516,855
Total fund balances	<u>802</u>	<u>8,134</u>	<u>-</u>	<u>127,403</u>	<u>13,477,809</u>	<u>1,285,218</u>	<u>516,855</u>	<u>15,416,221</u>
Total liabilities and fund balances	<u>\$ 78,605</u>	<u>\$ 8,134</u>	<u>\$ 120,117</u>	<u>\$ 502,092</u>	<u>\$ 16,358,146</u>	<u>\$ 1,356,260</u>	<u>\$ 549,172</u>	<u>\$ 18,972,526</u>

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balance –
Nonmajor Governmental Funds
For the Year Ended December 31, 2008

	Special Revenue						Capital Projects	Total Nonmajor Governmental Funds
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Convention Center	Sidewalk Construction	
Revenues								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,208,179	\$ -	\$ -	\$ 2,208,179
Licenses and permits	-	-	-	-	-	-	281,744	281,744
Intergovernmental	1,026,683	-	641,539	229,238	961,177	1,796,050	-	4,654,687
Fines and forfeitures	-	-	-	-	142,680	-	-	142,680
Interest	-	208	-	3,507	377,247	26,790	14,380	422,132
Contributions	-	1,400	-	-	873,010	-	-	874,410
Miscellaneous	-	-	-	114	5,050	-	-	5,164
Total revenues	<u>1,026,683</u>	<u>1,608</u>	<u>641,539</u>	<u>232,859</u>	<u>4,567,343</u>	<u>1,822,840</u>	<u>296,124</u>	<u>8,588,996</u>
Expenditures								
Current:								
Public safety								
Police	-	-	-	61,736	2,138,683	-	-	2,200,419
Fire	-	-	-	-	2,462,431	-	-	2,462,431
Public works								
Streets	-	-	-	-	-	-	236,816	236,816
Community services								
Parks and Recreation	-	-	-	21,216	-	-	-	21,216
Convention Center	-	-	-	-	-	205,783	-	205,783
Housing and Rehabilitation	1,026,683	-	641,539	-	-	-	-	1,668,222
Other	-	-	-	157,634	-	-	-	157,634
Capital Outlay	-	-	-	-	-	1,285,844	-	1,285,844
Total expenditures	<u>1,026,683</u>	<u>-</u>	<u>641,539</u>	<u>240,586</u>	<u>4,601,114</u>	<u>1,491,627</u>	<u>236,816</u>	<u>8,238,365</u>
Excess (deficiency) of revenues over (under) expenditures	-	1,608	-	(7,727)	(33,771)	331,213	59,308	350,631
Fund Balances, January 1	802	6,526	-	135,130	13,511,580	954,005	457,547	15,065,590
Fund Balances, December 31	<u>\$ 802</u>	<u>\$ 8,134</u>	<u>\$ -</u>	<u>\$ 127,403</u>	<u>\$ 13,477,809</u>	<u>\$ 1,285,218</u>	<u>\$ 516,855</u>	<u>\$ 15,416,221</u>

City of Fort Smith, Arkansas
Internal Service Funds
For the Fiscal Year Ended December 31, 2008

Working Capital- To account for the accumulation and allocation of costs associated with fuel and duplicating services.

Employee Insurance- To account for monthly premiums contributed by the City and its employees for health insurance coverage and to provide for payment of life insurance premiums. The plan is self-insured with a third party administrator acting as paying agent for claims. Premiums are accumulated in this fund for the payment of employee insurance claims.

Workers' Compensation- To account for amounts contributed for workers' compensation. Workers' compensation contributions are accumulated in this fund for the payment of workers' compensation claims.

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Internal Service Funds
December 31, 2008

	<u>Working Capital</u>	<u>Employee Insurance</u>	<u>Workers' Compensation</u>	<u>Total</u>
Assets				
Current Assets				
Cash	\$ 981	\$ 244,987	\$ 67,567	\$ 313,535
Investments	-	5,569,248	593,424	6,162,672
Receivables, net of allowance for uncollectibles				
Accounts	-	68,679	7,704	76,383
Accrued interest	-	7,858	1,021	8,879
Inventory	32,503	-	-	32,503
Prepaid items & deposits	-	83,185	55,136	138,321
Due from other funds	321	-	-	321
	<u>33,805</u>	<u>5,973,957</u>	<u>724,852</u>	<u>6,732,614</u>
Total Current Assets	<u>33,805</u>	<u>5,973,957</u>	<u>724,852</u>	<u>6,732,614</u>
	<u>33,805</u>	<u>5,973,957</u>	<u>724,852</u>	<u>6,732,614</u>
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	9,717	266,696	-	276,413
Claims and judgments	-	1,308,002	664,117	1,972,119
	<u>9,717</u>	<u>1,574,698</u>	<u>664,117</u>	<u>2,248,532</u>
Total Current Liabilities	<u>9,717</u>	<u>1,574,698</u>	<u>664,117</u>	<u>2,248,532</u>
	<u>9,717</u>	<u>1,574,698</u>	<u>664,117</u>	<u>2,248,532</u>
Net Assets				
Unrestricted	24,088	4,399,259	60,735	4,484,082
	<u>24,088</u>	<u>4,399,259</u>	<u>60,735</u>	<u>4,484,082</u>
Total Net Assets	<u>\$ 24,088</u>	<u>\$ 4,399,259</u>	<u>\$ 60,735</u>	<u>\$ 4,484,082</u>

City of Fort Smith, Arkansas
Combining Statement of Revenues, Expenses and
Changes in Fund Net Assets
Internal Service Funds
For the Year Ended December 31, 2008

	Working Capital	Employee Insurance	Workers' Compensation	Total
Operating Revenues				
Charges for services - internal	\$ 936,582	\$ 8,007,930	\$ 333,040	\$ 9,277,552
Charges for services - external	-	507,873	-	507,873
Total Operating Revenues	<u>936,582</u>	<u>8,515,803</u>	<u>333,040</u>	<u>9,785,425</u>
Operating Expenses				
Contractual services	-	366,528	309	366,837
Materials and supplies	993,139	-	-	993,139
Insurance claims and expenses	-	6,934,307	371,146	7,305,453
Total Operating Expenses	<u>993,139</u>	<u>7,300,835</u>	<u>371,455</u>	<u>8,665,429</u>
Operating Income (Loss)	<u>(56,557)</u>	<u>1,214,968</u>	<u>(38,415)</u>	<u>1,119,996</u>
Nonoperating Revenues				
Investment earnings	-	126,559	20,332	146,891
Total Nonoperating Revenues	<u>-</u>	<u>126,559</u>	<u>20,332</u>	<u>146,891</u>
Income (Loss) Before Transfers	(56,557)	1,341,527	(18,083)	1,266,887
Transfers In	<u>50,000</u>	<u>-</u>	<u>50,000</u>	<u>100,000</u>
Change in Net Assets	(6,557)	1,341,527	31,917	1,366,887
Total net assets, beginning	<u>30,645</u>	<u>3,057,732</u>	<u>28,818</u>	<u>3,117,195</u>
Total net assets, ending	<u>\$ 24,088</u>	<u>\$ 4,399,259</u>	<u>\$ 60,735</u>	<u>\$ 4,484,082</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows
Internal Service Funds
For the Year December 31, 2008

	Working Capital	Employee Insurance	Workers' Compensation	Total
Cash Flows from Operating Activities:				
Cash received from service users	\$ 936,845	\$ 509,134	\$ -	1,445,979
Cash received from city and employee contributions	-	8,007,930	325,336	8,333,266
Cash payments for goods and services	(1,014,075)	-	-	(1,014,075)
Cash payments for premiums and other operating expenses	-	(366,528)	(59,485)	(426,013)
Cash payments for claims paid	-	(6,498,752)	(371,605)	(6,870,357)
Net cash provided by (used for) operating activities	<u>(77,230)</u>	<u>1,651,784</u>	<u>(105,754)</u>	<u>1,468,800</u>
Cash Flows from Noncapital Financing Activities				
Transfers in from other funds	<u>50,000</u>	<u>-</u>	<u>50,000</u>	<u>100,000</u>
Net cash provided by noncapital financing activities	<u>50,000</u>	<u>-</u>	<u>50,000</u>	<u>100,000</u>
Cash Flows from Investing Activities				
Proceeds from sales and maturities of investment securities	-	-	468,768	468,768
Outlays for purchases of investment securities	-	(2,117,111)	(457,673)	(2,574,784)
Interest on investments	-	131,310	21,519	152,829
Net cash provided by (used for) investing activities	<u>-</u>	<u>(1,985,801)</u>	<u>32,614</u>	<u>(1,953,187)</u>
Net Decrease in Cash	<u>(27,230)</u>	<u>(334,017)</u>	<u>(23,140)</u>	<u>(384,387)</u>
Cash, January 1	<u>28,211</u>	<u>579,004</u>	<u>90,707</u>	<u>697,922</u>
Cash, December 31	<u>\$ 981</u>	<u>\$ 244,987</u>	<u>\$ 67,567</u>	<u>\$ 313,535</u>
Reconciliation of Operating Income (Loss) to Net Cash				
Provided by (Used for) Operating Activities				
Operating income (loss)	<u>\$ (56,557)</u>	<u>\$ 1,214,968</u>	<u>\$ (38,415)</u>	<u>\$ 1,119,996</u>
Change in assets and liabilities				
Accounts receivable	-	1,261	(7,704)	(6,443)
Due from other funds	263	-	-	263
Inventory	21,984	-	-	21,984
Prepaid items	-	(83,185)	(41,151)	(124,336)
Accounts payable and accrued liabilities	(42,920)	123,646	(18,025)	62,701
Liability for claims and judgments	-	395,094	(459)	394,635
Total adjustments	<u>(20,673)</u>	<u>436,816</u>	<u>(67,339)</u>	<u>348,804</u>
Net cash provided by (used for) operating activities	<u>\$ (77,230)</u>	<u>\$ 1,651,784</u>	<u>\$ (105,754)</u>	<u>\$ 1,468,800</u>

City of Fort Smith, Arkansas
Discretely Presented Component Units
For the Fiscal Year Ended December 31, 2008

Governmental Fund Types – Special Revenue Funds

Advertising and Promotion- To account for the operations of the Advertising and Promotion Commission utilizing revenues from the hotel/motel tax. These revenues are restricted to expenditures of the Advertising and Promotion Commission to promote the City and increase tourism.

Public Library- To account for the operations of the Fort Smith Public Library in providing library services to citizens.

Proprietary Fund Types – Enterprise Funds

Parking Authority- To account for the provision of parking facilities within the City. All services necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, financing, and related debt service.

Airport Commission- To account for the provision of regional airport services. All activities necessary to provide such services are accounted for in this fund, including but not limited to, administration, operations, maintenance, financing, and related debt service.

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Governmental Component Units
December 31, 2008

	Advertising and Promotion	Public Library	Total
Assets			
Cash	\$ 15,092	\$ 1,393,397	\$ 1,408,489
Investments	363,400	394,426	757,826
Receivables, net of allowance for uncollectibles			
Taxes	49,555	52,454	102,009
Sales taxes	-	161,169	161,169
Accounts	-	26,841	26,841
Accrued interest	555	-	555
Prepaid items	15,039	61,001	76,040
Inventory, at cost	-	5,000	5,000
Capital assets			
Nondepreciable	-	422,132	422,132
Depreciable	-	194,582	194,582
	<u>443,641</u>	<u>2,711,002</u>	<u>3,154,643</u>
Liabilities			
Accounts payable and accrued liabilities	<u>25,139</u>	<u>496,520</u>	<u>521,659</u>
Total Liabilities	<u>25,139</u>	<u>496,520</u>	<u>521,659</u>
Net Assets			
Invested in capital assets	-	616,714	616,714
Unrestricted	<u>418,502</u>	<u>1,597,768</u>	<u>2,016,270</u>
Total Net Assets	<u>\$ 418,502</u>	<u>\$ 2,214,482</u>	<u>\$ 2,632,984</u>

City of Fort Smith, Arkansas
Combining Statement of Activities – Governmental Component Units
For the Year Ended December 31, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities		
				Advertising & Promotion	Public Library	Total
Advertising & Promotion	\$ 746,435	\$ -	\$ 2,896	\$ (743,539)	\$ -	\$ (743,539)
Public Library	2,753,622	110,350	316,833	-	(2,326,439)	(2,326,439)
Total	\$ 3,500,057	\$ 110,350	\$ 319,729	(743,539)	(2,326,439)	(3,069,978)
General revenues						
Property taxes				-	1,187,421	1,187,421
Sales taxes				-	996,643	996,643
Hospitality taxes				791,602	-	791,602
Unrestricted investment earnings				9,093	15,847	24,940
Other				-	304,859	304,859
Total general revenues				800,695	2,504,770	3,305,465
Change in net assets				57,156	178,331	235,487
Net assets, beginning				361,346	2,036,151	2,397,497
Net assets, ending				\$ 418,502	\$ 2,214,482	\$ 2,632,984

City of Fort Smith, Arkansas
Balance Sheet – Advertising and Promotion
Governmental Component Unit
December 31, 2008

Assets:

Cash	\$ 15,092
Investments	363,400
Receivables, net of allowance for uncollectibles	
Taxes	49,555
Accrued interest	555
Prepaid items	15,039
	<hr/>
Total Assets	<u>\$ 443,641</u>

Liabilities and Fund Balance:

Current:

Accounts payable and accrued liabilities	\$ 25,139
	<hr/>
Total Liabilities	25,139

Fund Balance:

Reserved	
Encumbrances	90,288
Prepays	15,039
Unreserved	313,175
	<hr/>
Total Liabilities and Fund Balance	<u>\$ 443,641</u>

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balance
Advertising and Promotion - Governmental Component Unit
For the Year Ended December 31, 2008

Revenues	
Taxes	\$ 791,602
Interest	9,093
Contributions	2,896
	<hr/>
Total revenues	803,591
	<hr/>
Expenditures	
Other	712,510
Capital outlay	10,177
	<hr/>
Total Expenditures	722,687
	<hr/>
Excess of revenues over expenditures	80,904
	<hr/>
Other Financing Uses:	
Transfers out to primary government	(23,748)
	<hr/>
Total other financing uses	(23,748)
	<hr/>
Net change in fund balance	57,156
Fund Balance, January 1	361,346
	<hr/>
Fund Balance, December 31	\$ 418,502
	<hr/> <hr/>

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Business-Type Component Units
December 31, 2008

Assets	Parking Authority	Airport	Total
Current Assets			
Cash	\$ 47,285	\$ 266,622	\$ 313,907
Investments	136,756	1,212,731	1,349,487
Receivables, net of allowance for uncollectibles			
Accounts	861	212,190	213,051
Accrued interest	474	1,020	1,494
Restricted			
Cash	-	87,844	87,844
Accounts receivable, net of allowances for uncollectibles	-	51,417	51,417
Interest receivable	-	6,826	6,826
Grants and other governments	-	162,736	162,736
Prepaid items and deposits	5,255	51,964	57,219
Inventory	-	3,514	3,514
Total Current Assets	<u>190,631</u>	<u>2,056,864</u>	<u>2,247,495</u>
Noncurrent Assets			
Restricted			
Investments	69,602	405,104	474,706
Deferred charges	16,312	592,539	608,851
Capital assets			
Nondepreciable	1,359,160	10,755,944	12,115,104
Depreciable	914,409	24,878,556	25,792,965
Total Noncurrent Assets	<u>2,359,483</u>	<u>36,632,143</u>	<u>38,991,626</u>
Total Assets	<u>2,550,114</u>	<u>38,689,007</u>	<u>41,239,121</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8,166	716,654	724,820
Payable from restricted assets:			
Accrued interest	3,462	-	3,462
Revenue bonds payable, current	95,000	115,000	210,000
Total Current Liabilities	<u>106,628</u>	<u>831,654</u>	<u>938,282</u>
Noncurrent liabilities			
Due within one year	1,205	-	1,205
Due in more than one year	798,012	3,405,604	4,203,616
Total Noncurrent Liabilities	<u>799,217</u>	<u>3,405,604</u>	<u>4,204,821</u>
Total Liabilities	<u>905,845</u>	<u>4,237,258</u>	<u>5,143,103</u>
Net Assets			
Invested in capital assets, net of related debt	1,379,352	32,113,896	33,493,248
Restricted for bond retirement	69,602	499,774	569,376
Restricted for capital projects	-	214,153	214,153
Unrestricted	195,315	1,623,926	1,819,241
Total Net Assets	<u>\$ 1,644,269</u>	<u>\$ 34,451,749</u>	<u>\$ 36,096,018</u>

City of Fort Smith, Arkansas
Combining Statement of Activities – Business-Type Component Units
For the Year Ended December 31, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines, and Charges for Services	Capital Grants and Contributions	Business-Type Activities		
				Parking Authority	Airport Commission	Total
Parking Authority	\$ 240,107	\$ 158,067	\$ -	\$ (82,040)	\$ -	\$ (82,040)
Airport	4,682,332	2,636,574	3,251,948	-	1,206,190	1,206,190
Total	<u>\$ 4,922,439</u>	<u>\$ 2,794,641</u>	<u>\$ 3,251,948</u>	<u>(82,040)</u>	<u>1,206,190</u>	<u>1,124,150</u>
General revenues						
				9,282	127,418	136,700
				250,000	-	250,000
				<u>259,282</u>	<u>127,418</u>	<u>386,700</u>
				<u>177,242</u>	<u>1,333,608</u>	<u>1,510,850</u>
				<u>1,467,027</u>	<u>33,118,141</u>	<u>34,585,168</u>
				<u>\$ 1,644,269</u>	<u>\$ 34,451,749</u>	<u>\$ 36,096,018</u>

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City of Fort Smith, Arkansas
Combining Statement of Cash Flows – Business-Type Component Units
For the Year Ended December 31, 2008

	Parking Authority	Airport	Total
Operating Activities			
Cash received from customers	\$ 158,435	\$ 2,716,157	\$ 2,874,592
Cash payments for goods and services	(39,911)	(862,205)	(902,116)
Cash paid to employees	(98,318)	(772,250)	(870,568)
Net cash provided by operating activities	<u>20,206</u>	<u>1,081,702</u>	<u>1,101,908</u>
Noncapital Financing Activities			
Operating transfers in from primary government	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Net cash provided by noncapital financing activities	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Capital and Related Financing Activities			
Proceeds from capital grants	-	3,010,921	3,010,921
Passenger facility charges received	-	308,502	308,502
Acquisition and construction of capital assets	(206,021)	(4,253,725)	(4,459,746)
Principal paid on bonds	(90,000)	(110,000)	(200,000)
Interest paid on bonds	(45,734)	(222,064)	(267,798)
Net cash used for capital and related financing activities	<u>(341,755)</u>	<u>(1,266,366)</u>	<u>(1,608,121)</u>
Investing Activities			
Proceeds from sales and maturities of investment securities	479,569	1,060,000	1,539,569
Outlays for purchases of investment securities	(402,816)	(1,212,731)	(1,615,547)
Interest on investments	9,782	134,778	144,560
Net cash provided by (used for) investing activities	<u>86,535</u>	<u>(17,953)</u>	<u>68,582</u>
Net increase (decrease) in cash and restricted cash	<u>14,986</u>	<u>(202,617)</u>	<u>(187,631)</u>
Cash and restricted cash, January 1	<u>32,299</u>	<u>557,083</u>	<u>589,382</u>
Cash and restricted cash, December 31	<u><u>\$ 47,285</u></u>	<u><u>\$ 354,466</u></u>	<u><u>\$ 401,751</u></u>
Reconciliation of cash and restricted cash at December 31 to statement of net assets			
Cash	\$ 47,285	\$ 266,622	\$ 313,907
Restricted cash	<u>-</u>	<u>87,844</u>	<u>87,844</u>
Total	<u><u>\$ 47,285</u></u>	<u><u>\$ 354,466</u></u>	<u><u>\$ 401,751</u></u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows – Business-Type Component Units
(Continued)
For the Year Ended December 31, 2008

	Parking Authority	Airport	Total
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities			
Operating loss	\$ (33,247)	\$ (1,822,038)	\$ (1,855,285)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities			
Depreciation	55,192	2,557,618	2,612,810
Change in assets and liabilities			
Accounts receivable	368	79,583	79,951
Inventory	-	5,892	5,892
Prepaid items	(3,575)	332	(3,243)
Accounts payable and accrued liabilities	1,247	260,315	261,562
Liabilities for accrued vacation and sick leave	221	-	221
Total adjustments	<u>53,453</u>	<u>2,903,740</u>	<u>2,957,193</u>
Net cash provided by operating activities	<u>\$ 20,206</u>	<u>\$ 1,081,702</u>	<u>\$ 1,101,908</u>

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STATISTICAL SECTION

City of Fort Smith, Arkansas

Statistical Section

This section of the City of Fort Smith 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 1-5)	
These schedules contain trend information to assist the reader in understanding how the City’s financial performance and well-being have changed over time	107
Revenue Capacity (Tables 6-9)	
These schedules contain information to help the reader assess the City’s most significant revenue sources, local sales taxes and property taxes	113
Debt Capacity (Tables 10-13)	
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	117
Demographic and Economic Information (Tables 14-15)	
These schedules offer demographic and economic indicators to assist the reader in understanding the environment within which the City’s financial activities take place	121
Operating Information (Tables 16-18)	
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	123
Continuing Disclosure Requirement Information (Tables 19-22)	
These schedules provide information required to be disseminated for investors of City debt. By including this data, the CAFR may be used as the document that provides all debt covenant required reports and information	126

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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Table 1

City of Fort Smith, Arkansas
Net Assets by Component
Last Five Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year					
	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008
Governmental activities						
Invested in capital assets, net of related debt	\$ 233,152,845	\$ 254,719,750	\$ 260,483,758	\$ 250,104,666	\$ 275,722,692	\$ 293,634,375
Restricted	6,135,903	4,470,232	3,988,372	44,488,640	47,754,213	46,981,658
Unrestricted	55,062,995	55,390,169	66,055,588	33,741,938	29,580,570	27,130,241
Total governmental activities net assets	<u>\$ 294,351,743</u>	<u>\$ 314,580,151</u>	<u>\$ 330,527,718</u>	<u>\$ 328,335,244</u>	<u>\$ 353,057,475</u>	<u>\$ 367,746,274</u>
Business-Type activities						
Invested in capital assets, net of related debt	\$ 135,630,581	\$ 152,618,444	\$ 181,439,396	\$ 229,748,148	\$ 225,664,963	\$ 249,818,159
Restricted	25,199,051	24,005,631	26,844,476	23,486,930	20,514,957	27,385,513
Unrestricted (deficit)	(9,043,315)	(5,371,394)	(12,506,307)	(15,666,417)	1,390,057	(4,385,785)
Total business-type activities	<u>\$ 151,786,317</u>	<u>\$ 171,252,681</u>	<u>\$ 195,777,565</u>	<u>\$ 237,568,661</u>	<u>\$ 247,569,977</u>	<u>\$ 272,817,887</u>
Primary government						
Invested in capital assets, net of related debt	\$ 368,783,426	\$ 407,338,194	\$ 441,923,154	\$ 479,852,814	\$ 501,387,655	\$ 543,452,534
Restricted	31,334,954	28,475,863	30,832,848	67,975,570	68,269,170	74,367,171
Unrestricted	46,019,680	50,018,775	53,549,281	18,075,521	30,970,627	22,744,456
Total business-type activities	<u>\$ 446,138,060</u>	<u>\$ 485,832,832</u>	<u>\$ 526,305,283</u>	<u>\$ 565,903,905</u>	<u>\$ 600,627,452</u>	<u>\$ 640,564,161</u>

Note: This is the sixth year of implementation for GASB Statement 34, therefore, additional years will be presented in the future for comparison purposes.

Table 2

City of Fort Smith, Arkansas
Changes in Net Assets
Last Five Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year					
	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008
Expenses						
Governmental Activities:						
General government	\$ 6,285,719	\$ 6,291,295	\$ 7,204,031	\$ 7,401,742	\$ 8,121,090	\$ 10,384,215
Public safety	22,479,701	22,814,182	25,007,200	28,283,667	29,635,609	28,634,055
Public works	9,750,060	8,547,371	8,624,464	11,583,305	10,862,082	12,091,319
Community services	9,881,779	10,319,043	10,723,724	11,465,302	10,559,736	9,637,947
Interest on long-term debt	519,078	128,042	-	671,893	3,757,618	4,109,187
Total governmental activities expenses	<u>48,916,337</u>	<u>48,099,933</u>	<u>51,559,419</u>	<u>59,405,909</u>	<u>62,936,135</u>	<u>64,856,723</u>
Business-Type Activities:						
Water and Sewer	31,172,483	29,270,855	29,678,171	32,920,994	36,693,984	41,745,466
Sanitation	8,466,593	9,300,590	9,075,365	10,507,258	11,455,050	11,465,629
Total business-type activities expenses	<u>39,639,076</u>	<u>38,571,445</u>	<u>38,753,536</u>	<u>43,428,252</u>	<u>48,149,034</u>	<u>53,211,095</u>
Total primary government expenses	<u>\$ 88,555,413</u>	<u>\$ 86,671,378</u>	<u>\$ 90,312,955</u>	<u>\$ 102,834,161</u>	<u>\$ 111,085,169</u>	<u>\$ 118,067,818</u>
Program Revenues						
Governmental Activities:						
Charges for services						
General government	\$ 2,933,495	\$ 3,141,036	\$ 3,445,662	\$ 3,551,771	\$ 3,370,526	\$ 4,267,976
Public safety	233,786	223,224	219,114	283,460	288,258	266,085
Public works	-	466,849	-	50	50	-
Community services	754,306	849,429	890,174	1,009,470	1,001,004	1,125,845
Operating grants and contributions	9,786,072	9,837,419	10,413,626	7,006,913	7,524,294	7,928,553
Capital grants and contributions	6,650,958	6,600,991	2,106,374	3,082,171	1,610,147	8,260,531
Total governmental activities program revenues	<u>20,358,617</u>	<u>21,118,948</u>	<u>17,074,950</u>	<u>14,933,835</u>	<u>13,794,279</u>	<u>21,848,990</u>
Business-Type Activities:						
Charges for services						
Water and sewer	28,306,482	28,995,627	30,402,025	32,645,032	33,238,901	36,391,791
Sanitation	9,393,659	10,474,818	11,129,352	11,811,666	12,561,103	14,095,412
Operating grants and contributions	596,100	343,786	-	-	-	-
Capital grants and contributions	259,167	980,093	1,376,054	1,954,879	2,197,861	2,731,780
Total business-type activities program revenues	<u>38,555,408</u>	<u>40,794,324</u>	<u>42,907,431</u>	<u>46,411,577</u>	<u>47,997,865</u>	<u>53,218,983</u>
Total primary government program revenues	<u>\$ 58,914,025</u>	<u>\$ 61,913,272</u>	<u>\$ 59,982,381</u>	<u>\$ 61,345,412</u>	<u>\$ 61,792,144</u>	<u>\$ 75,067,973</u>
Net (expense) revenue						
Governmental activities	\$ (28,557,720)	\$ (26,980,985)	\$ (34,484,469)	\$ (44,472,074)	\$ (49,141,856)	\$ (43,007,733)
Business-Type activities	<u>(1,083,668)</u>	<u>2,222,879</u>	<u>4,153,895</u>	<u>2,983,325</u>	<u>(151,169)</u>	<u>7,888</u>
Total primary government net expense	<u>\$ (29,641,388)</u>	<u>\$ (24,758,106)</u>	<u>\$ (30,330,574)</u>	<u>\$ (41,488,749)</u>	<u>\$ (49,293,025)</u>	<u>\$ (42,999,845)</u>

Table 2 (Continued)

City of Fort Smith, Arkansas
Changes in Net Assets (Continued)
Last Five Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year					
	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes						
Property taxes	\$ 16,117,664	\$ 8,812,154	\$ 8,932,234	\$ 9,392,423	\$ 8,821,508	\$ 9,360,659
Sales taxes	35,748,841	30,940,060	31,236,465	40,747,820	53,014,309	57,837,124
Utility franchise fees	5,530,957	5,986,546	6,833,462	7,406,294	6,760,463	7,366,814
Alcoholic beverage taxes and miscellaneous taxes	463,596	-	-	-	-	-
Unrestricted grants and contributions	1,411,739	1,280,450	1,277,089	5,139,979	6,558,212	1,386,747
Unrestricted investment earnings	813,104	740,108	1,489,322	3,220,403	6,155,547	3,065,530
Gain (loss) on sale of capital assets	4,174	24,462	852	22,838	-	-
Other	100,331	14,907	768,612	1,088,665	251,941	309,447
Transfers	(579,200)	(589,294)	(206,000)	(24,738,822)	(7,697,893)	(21,629,789)
Total governmental activities	<u>59,611,206</u>	<u>47,209,393</u>	<u>50,332,036</u>	<u>42,279,600</u>	<u>73,864,087</u>	<u>57,696,532</u>
Business-type activities:						
Sales taxes	7,817,663	15,024,256	17,372,140	10,812,656	-	-
Unrestricted investment earnings	2,360,225	1,417,046	2,475,149	2,951,710	1,950,264	2,362,717
Other	283,977	212,889	317,700	304,583	504,328	1,247,516
Transfers	579,200	589,294	206,000	24,738,822	7,697,893	21,629,789
Total business-type activities	<u>11,041,065</u>	<u>17,243,485</u>	<u>20,370,989</u>	<u>38,807,771</u>	<u>10,152,485</u>	<u>25,240,022</u>
 Total primary government	 <u>\$ 70,652,271</u>	 <u>\$ 64,452,878</u>	 <u>\$ 70,703,025</u>	 <u>\$ 81,087,371</u>	 <u>\$ 84,016,572</u>	 <u>\$ 82,936,554</u>
 Changes in Net Assets						
Governmental activities	\$ 31,053,486	\$ 20,228,408	\$ 15,847,567	\$ (2,192,474)	\$ 24,722,231	\$ 14,688,799
Business-type activities	9,957,397	19,466,364	24,524,884	41,791,096	10,001,316	25,247,910
 Total primary government	 <u>\$ 41,010,883</u>	 <u>\$ 39,694,772</u>	 <u>\$ 40,372,451</u>	 <u>\$ 39,598,622</u>	 <u>\$ 34,723,547</u>	 <u>\$ 39,936,709</u>

Note: This is the sixth year of implementation for GASB Statement 34, therefore, additional years will be presented in the future for comparison purposes.

Table 3

City of Fort Smith, Arkansas
General Governmental Taxes by Source
Last Ten Fiscal Years

Fiscal Year	Ad Valorem Taxes	Sales Taxes (1)	Utility Franchise Fees	Total
1999	\$ 3,242,972	\$ 29,121,222	\$ 4,224,932	\$ 36,589,126
2000	6,591,586	35,805,269	4,708,407	47,105,262
2001	7,079,863	35,872,020	5,199,799	48,151,682
2002	7,681,552	35,167,253	4,846,025	47,694,830
2003	7,909,748	35,748,841	5,530,957	49,189,546
2004	8,085,650	30,940,060	5,986,546	45,012,256
2005	8,624,431	31,236,465	6,833,462	46,694,358
2006	8,953,917	40,747,820	7,406,294	57,108,031
2007	8,736,124	53,014,309	6,760,463	68,510,896
2008	9,381,976	57,837,124	7,366,814	74,585,914

(1) The City began collecting a 1% sales tax for street projects in November 1985, a 1/2% sales tax for bond retirement in January 1998 through June 2004, and the City share of the county 1% sales tax in August 1994. In May 2006, the City began collecting a 1% sales tax for bond retirement.

Table 4

**City of Fort Smith, Arkansas
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General Fund												
Reserved	\$ 2,733,524	\$ 300,758	\$ 1,541,830	\$ 1,184,473	\$ 563,055	\$ 1,101,074	\$ 1,297,557	\$ 2,850,478	\$ 3,152,121	\$ 4,706,017	\$ 2,191,724	\$ 3,654,013
Unreserved	(1,951,205)	(306,529)	1,121,448	2,836,710	3,630,696	4,431,214	5,260,425	5,911,270	7,423,514	7,607,076	6,257,328	7,052,220
Total general fund	<u>782,319</u>	<u>(5,771)</u>	<u>2,663,278</u>	<u>4,021,183</u>	<u>4,193,751</u>	<u>5,532,288</u>	<u>6,557,982</u>	<u>8,761,748</u>	<u>10,575,635</u>	<u>12,313,093</u>	<u>8,449,052</u>	<u>10,706,233</u>
All other governmental funds												
Reserved	14,372,806	21,561,008	24,909,521	33,158,304	36,524,914	32,259,904	29,997,170	27,560,991	34,639,037	101,879,344	93,901,326	86,760,617
Unreserved, reported in:												
Special revenue funds	8,848,857	9,502,349	13,050,044	14,280,491	13,988,578	15,563,250	16,934,572	16,062,417	1,648,864	13,477,723	13,646,710	13,603,715
Debt service fund	-	-	-	-	-	-	-	-	-	3,634,024	-	-
Capital projects funds	42,714,496	43,543,539	34,482,847	4,872,479	1,816,158	966,281	549,288	367,067	394,212	457,785	457,547	516,855
Total all other governmental funds	<u>65,936,159</u>	<u>74,606,896</u>	<u>72,442,412</u>	<u>52,311,274</u>	<u>52,329,650</u>	<u>48,789,435</u>	<u>47,481,030</u>	<u>43,990,475</u>	<u>36,682,113</u>	<u>119,448,876</u>	<u>108,005,583</u>	<u>100,881,187</u>
Total governmental fund balances	<u>\$ 66,718,478</u>	<u>\$ 74,601,125</u>	<u>\$ 75,105,690</u>	<u>\$ 56,332,457</u>	<u>\$ 56,523,401</u>	<u>\$ 54,321,723</u>	<u>\$ 54,039,012</u>	<u>\$ 52,752,223</u>	<u>\$ 47,257,748</u>	<u>\$ 131,761,969</u>	<u>\$ 116,454,635</u>	<u>\$ 111,587,420</u>

Table 5

City of Fort Smith, Arkansas
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	1999	2000	2001	2002	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008
Revenues										
Taxes (1)	\$ 39,589,126	\$ 47,105,262	\$ 48,151,682	\$ 47,694,830	\$ 49,189,546	\$ 45,012,256	\$ 46,694,358	\$ 57,108,031	\$ 68,510,896	\$ 74,585,914
Licenses and permits	1,188,651	1,374,696	1,462,282	1,343,203	1,338,949	1,271,411	1,499,151	1,473,234	1,501,022	2,126,151
Intergovernmental	15,727,224	10,513,059	13,943,553	11,900,040	16,638,318	16,120,435	12,952,988	12,734,833	13,395,035	13,608,213
Fines and forfeitures	1,694,367	1,720,211	1,615,757	1,744,309	2,081,628	1,888,668	2,064,332	2,063,755	2,858,829	2,188,504
Charges for services	329,352	340,266	720,524	786,492	881,942	941,582	978,987	1,099,840	1,088,811	1,215,016
Investment earnings	2,980,151	3,921,011	2,864,102	1,515,915	846,138	755,355	1,530,732	3,326,046	6,294,463	3,114,332
Contributions	1,014,852	1,032,084	930,455	831,586	785,030	774,010	808,149	2,166,420	1,027,818	3,926,800
Miscellaneous	195,964	166,504	360,903	590,805	858,521	696,478	250,361	470,606	316,373	274,696
Total revenues	<u>62,719,687</u>	<u>66,173,093</u>	<u>70,049,258</u>	<u>66,407,180</u>	<u>72,620,072</u>	<u>67,460,195</u>	<u>66,779,058</u>	<u>80,442,765</u>	<u>94,993,247</u>	<u>101,039,626</u>
Expenditures										
General government	3,542,767	4,105,006	4,791,577	5,215,541	5,741,344	5,908,918	6,879,247	7,522,720	8,190,325	8,317,788
Public safety	16,893,976	19,895,794	19,956,251	19,892,329	21,064,548	22,076,641	24,139,684	26,003,929	28,062,350	26,885,795
Public works	15,346,680	13,514,651	18,805,624	23,702,402	5,874,858	4,550,486	4,600,934	5,433,522	5,202,463	5,820,879
Community services	2,105,136	2,411,123	4,997,754	5,536,507	6,105,744	6,550,085	6,463,376	7,194,025	6,387,764	5,586,246
Other	1,749,246	1,332,628	2,004,322	1,739,626	1,763,635	2,113,409	2,334,916	3,245,313	3,776,800	3,550,903
Capital outlay	17,572,527	34,461,654	7,133,868	3,415,681	23,747,366	21,153,521	14,068,089	23,933,708	32,939,098	29,323,932
Debt service										
Principal	5,520,000	6,325,000	9,220,000	8,178,002	7,785,000	6,540,000	-	-	14,355,000	17,110,000
Interest	1,965,305	1,673,421	1,391,728	937,122	519,078	128,042	-	671,893	3,757,618	3,141,156
Total expenditures	<u>64,695,637</u>	<u>83,719,277</u>	<u>68,301,124</u>	<u>68,617,210</u>	<u>72,601,573</u>	<u>69,021,102</u>	<u>58,486,246</u>	<u>74,005,110</u>	<u>102,671,418</u>	<u>99,736,699</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,975,950)</u>	<u>(17,546,184)</u>	<u>1,748,134</u>	<u>(2,210,030)</u>	<u>18,499</u>	<u>(1,560,907)</u>	<u>8,292,812</u>	<u>6,437,655</u>	<u>(7,678,171)</u>	<u>1,302,927</u>
Other financing sources and (uses)										
Transfers in	4,162,258	2,449,777	3,296,518	2,263,625	1,939,996	2,459,809	4,101,090	63,067,680	2,602,260	17,313,147
Transfers out	(1,681,743)	(3,676,826)	(4,853,708)	(2,844,728)	(2,519,196)	(2,798,714)	(4,307,000)	(88,464,556)	(10,300,153)	(39,169,188)
Proceeds from bond issuance	-	-	-	-	-	-	-	88,299,286	-	15,685,899
Capital leases	-	-	-	589,455	277,990	613,023	1,241,713	341,156	(58,278)	-
Total other financing sources (uses)	<u>2,480,515</u>	<u>(1,227,049)</u>	<u>(1,557,190)</u>	<u>8,352</u>	<u>(301,210)</u>	<u>274,118</u>	<u>1,035,803</u>	<u>63,243,566</u>	<u>(7,756,171)</u>	<u>(6,170,142)</u>
Net change in fund balances	<u>\$ 504,565</u>	<u>\$ (18,773,233)</u>	<u>\$ 190,944</u>	<u>\$ (2,201,678)</u>	<u>\$ (282,711)</u>	<u>\$ (1,286,789)</u>	<u>\$ 9,328,615</u>	<u>\$ 69,681,221</u>	<u>\$ (15,434,342)</u>	<u>\$ (4,867,215)</u>
Debt service as a % of noncapital expenditures	15.9%	16.2%	17.3%	14.0%	17.0%	13.9%	-	1.3%	35.1%	40.4%

(1) See Table 3 for detail of tax revenues.

Table 6

**City of Fort Smith, Arkansas
Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year	Total Tax Levy (1)	Current Tax Collections	Percent of Levy Collections	Delinquent Tax Collections	Total Tax Collections	Collection Percent of Current Levy	Outstanding Delinquent Taxes	Outstanding Delinquent Taxes as a Percent of Current Levy
1999	\$ 5,925,809	\$ 5,829,854	98.38%	\$ 181,543	\$ 6,011,397	101.44%	\$ 237,037	4.00%
2000	6,460,708	6,158,209	95.32%	29,427	6,187,636	95.77%	233,346	3.61%
2001	6,348,763	6,004,289	94.57%	121,353	6,125,642	96.49%	56,473	0.89%
2002	6,858,241	6,403,187	93.36%	208,685	6,611,872	96.41%	269,196	3.93%
2003	7,668,913	6,593,969	85.98%	286,387	6,880,356	89.72%	298,067	3.89%
2004	7,805,688	6,839,388	87.62%	268,913	7,108,301	91.07%	306,752	3.93%
2005	7,544,588	7,016,787	93.00%	270,725	7,287,512	96.59%	420,214	5.57%
2006	7,735,932	7,277,449	94.07%	397,572	7,675,021	99.21%	309,621	4.00%
2007	8,221,008	7,744,922	94.21%	337,687	8,082,609	98.32%	138,399	1.68%
2008	8,629,508	8,154,385	94.49%	434,209	8,588,594	99.53%	280,412	3.25%

- (1) Total tax levy is based upon valuation of previous year and has been adjusted for the homestead tax relief for property owners which became effective for the 2001 fiscal year. The tax levy for this schedule represents the City's levy for its General Fund, police pension plan, and fire pension plan. The levy does not include the road millage assessed by Sebastian County of which the City receives one-half the collections from the county levy in its Street Maintenance Fund, a special revenue fund.

Table 7

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

Fiscal Year (1)	Real Property		Personal Property		Total		Ratio of Total Assessed to Total Estimated Actual
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1998	\$ 522,018,450	\$ 2,610,092,250	\$ 239,096,910	\$ 1,195,484,550	\$ 761,115,360	\$ 3,805,576,800	20.00%
1999	535,068,911	2,675,344,555	245,708,442	1,228,542,210	780,777,353	3,903,886,765	20.00%
2000	607,508,450	3,037,542,250	262,110,959	1,310,554,795	869,619,409	4,348,097,045	20.00%
2001	636,575,485	3,182,877,425	293,983,422	1,469,917,110	930,558,907	4,652,794,535	20.00%
2002	643,415,789	3,217,078,945	295,817,178	1,479,085,890	939,232,967	4,696,164,835	20.00%
2003	674,592,414	3,372,962,070	301,118,605	1,505,593,025	975,711,019	4,878,555,095	20.00%
2004	725,381,058	3,626,905,290	307,760,220	1,538,801,100	1,033,141,278	5,165,706,390	20.00%
2005	733,760,780	3,668,803,900	346,331,415	1,731,657,075	1,080,092,195	5,400,460,975	20.00%
2006	722,422,061	3,612,110,305	365,714,785	1,828,573,925	1,088,136,846	5,440,684,230	20.00%
2007	756,337,274	3,781,686,370	378,474,240	1,892,371,200	1,134,811,514	5,674,057,570	20.00%
2008	844,728,636	4,223,643,180	405,474,180	2,027,370,900	1,250,202,816	6,251,014,080	20.00%

(1) Fiscal year is year of valuation.

The assessed value of real and personal property within the City limits is used as the basis for applying the City's property tax rates shown in the first two columns of Table 8 which follows.

Table 8

City of Fort Smith, Arkansas
Property Tax Rates and Tax Levies
All Direct and Overlapping Governments
Last Ten Fiscal Years

Tax rates (per \$100 of assessed valuation):

Fiscal Year (1)	City of Fort Smith		Overlapping Rates								Total Direct & Overlapping Rates	
	Real	Personal	Sebastian County		FS School District		FS Public Library		U of A Fort Smith		Real	Personal
	Property	Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
1999	\$ 0.70	\$ 0.70	\$ 0.80	\$ 0.80	\$ 3.65	\$ 3.65	\$ 0.10	\$ 0.10	\$ 0.53	\$ 0.53	\$ 5.78	\$ 5.78
2000	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.53	0.53	5.78	5.78
2001	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.53	0.53	5.78	5.78
2002	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2003	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2004	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2005	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2006	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2007	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2008	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25

Tax levies (millages):

Fiscal Year (1)	City of Fort Smith		Overlapping Rates								Total Direct & Overlapping Rates	
	Real	Personal	Sebastian County		Fort Smith School District		FS Public Library		U of A Fort Smith		Real	Personal
	Property	Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
1999	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
2000	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
2001	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
2002	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2003	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2004	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2005	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2006	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2007	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2008	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50

(1) Fiscal year is year of levy.

Table 9

City of Fort Smith, Arkansas
Principal Taxpayers
Current Year and Nine Years Ago
(Unaudited)

Name of Taxpayer (1)	2008			1999		
	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation
FS Mall Partners (Central Mall)	\$ 8,353,800	1	0.74%	\$ 6,726,050	6	0.88%
Whirlpool Corporation	5,818,980	2	0.51%	12,995,775	1	1.71%
GGNSC Administrative Services	5,519,990	3	0.49%			
Arkansas Best Corporation	3,779,080	4	0.33%	5,806,940	9	0.76%
Gerber Products Company	3,397,150	5	0.30%	8,770,375	3	1.15%
St. Edward Mercy Medical Center	3,187,430	6	0.28%			
The Park Apartments of Fort Smith	3,068,870	7	0.27%			
OK Foods, Inc.	3,027,230	8	0.27%			
Widmer Place, Inc.	2,963,840	9	0.26%			
Hiram Walker & Sons/Pernod Ricard USA	2,594,390	10	0.23%	5,610,810	10	0.74%
Norton Propants, Inc.	2,513,910	11	0.22%			
Graphic Packaging International	2,486,930	12	0.22%			
Zero Mountain, Inc.	2,327,610	13	0.21%			
Lowe's Home Centers, Inc.	2,101,688	14	0.19%			
Wal-Mart	2,015,430	15	0.18%	8,618,835	4	1.13%
Trane CAC, Inc.	2,008,670	16	0.18%			
Baldor Electric Company	2,093,969	17	0.18%			
Oklahoma Gas & Electric				11,742,003	2	1.54%
Southwestern Bell Telephone				8,376,928	5	1.10%
Planters Peanuts				6,395,265	7	0.84%
Arkansas Oklahoma Gas Corp.				6,120,758	8	0.80%
	<u>\$ 57,258,967</u>		5.05%	<u>\$ 81,163,739</u>		10.66%

(1) Sebastian County Assessor's Office.

(2) Property taxes collected in 2008 are based upon 2007 assessed valuation of \$1,134,811,514. Property taxes collected in 1999 were based upon the 1998 assessed valuation of \$761,115,360.

Table 10

City of Fort Smith, Arkansas
Computation of Direct and Estimated Overlapping Debt
December 31, 2008
(Unaudited)

Taxing Jurisdiction	Total Outstanding Bonded Debt (1)	Estimated Percent Applicable (2)	Direct and Estimated Overlapping Bonded Debt
Direct:			
City of Fort Smith	<u>\$ 70,150,000</u>	100%	<u>\$ 70,150,000</u>
Overlapping:			
Fort Smith Special School District	39,060,563	100%	39,060,563
Greenwood School District	35,980,000	5%	1,799,000
Sebastian County	<u>625,000</u>	76%	<u>475,000</u>
Total Overlapping	<u>75,665,563</u>		<u>41,334,563</u>
Total direct and estimated overlapping bonded debt	<u>\$ 145,815,563</u>		<u>\$ 111,484,563</u>
Ratio, direct and estimated overlapping debt to fiscal 2008 assessed valuation (3)			9%
Per capita direct and estimated overlapping bonded debt (4)			<u>\$ 1,321</u>

(1) Excluding self-supporting debt.

(2) The percentage applicable to the City of Fort Smith is based on the relative assessed values within the City.

(3) From Table 7, \$1,250,816.

(4) Based on the estimated population for 2008 in Table 14; 84,375.

City of Fort Smith, Arkansas
Computation of Legal Debt Margin
Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net assessed value (1)	\$ 761,115,360	\$ 780,777,353	\$ 869,619,409	\$ 930,558,907	\$ 939,232,967	\$ 975,711,019	\$ 1,033,141,278	\$ 1,080,092,195	\$ 1,088,136,846	\$ 1,134,811,514	\$ 1,250,202,816
Plus exempt property (2)	-	-	-	-	-	-	-	-	-	-	-
Total assessed value	<u>\$ 761,115,360</u>	<u>\$ 780,777,353</u>	<u>\$ 869,619,409</u>	<u>\$ 930,558,907</u>	<u>\$ 939,232,967</u>	<u>\$ 975,711,019</u>	<u>\$ 1,033,141,278</u>	<u>\$ 1,080,092,195</u>	<u>\$ 1,088,136,846</u>	<u>\$ 1,134,811,514</u>	<u>\$ 1,250,202,816</u>
Debt limit - 25% of total assessed value (3)	\$ 190,278,840	\$ 195,194,338	\$ 217,404,852	\$ 232,639,727	\$ 234,808,242	\$ 243,927,755	\$ 258,285,320	\$ 270,023,049	\$ 272,034,212	\$ 283,702,879	\$ 312,550,704
Amount of debt applicable to limit (4)	-	-	-	-	-	-	-	-	-	-	-
Debt Margin	<u>\$ 190,278,840</u>	<u>\$ 195,194,338</u>	<u>\$ 217,404,852</u>	<u>\$ 232,639,727</u>	<u>\$ 234,808,242</u>	<u>\$ 243,927,755</u>	<u>\$ 258,285,320</u>	<u>\$ 270,023,049</u>	<u>\$ 272,034,212</u>	<u>\$ 283,702,879</u>	<u>\$ 312,550,704</u>

(1) From Table 7.

(2) Not available

(3) Limitation is established by state statute.

(4) Includes general obligation debt net of assets available for bond retirement.

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

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	Sales Tax Bonds	Notes Payable	Capital Leases	Revenue Bonds	Sales Tax Bonds	Capital Leases			
1999	\$ 38,035,000	\$ -	\$ -	\$ 58,600,000	\$ -	\$ -	\$ 96,635,000	5.7%	\$ 1,327
2000	31,710,000	-	-	55,910,000	-	-	87,620,000	6.7%	1,092
2001	22,490,000	-	-	51,170,000	80,000,000	-	153,660,000	4.1%	1,914
2002	14,325,000	-	576,453	154,200,000	73,680,000	-	242,781,453	2.6%	3,025
2003	6,540,000	-	667,331	151,045,000	68,415,000	440,757	227,108,088	2.9%	2,829
2004	-	-	891,735	144,755,000	58,270,000	298,315	204,215,050	3.4%	2,544
2005	-	-	1,442,517	146,795,000	42,995,000	562,877	191,795,394	3.9%	2,389
2006	84,935,000	2,290,000	388,004	139,125,000	-	315,442	227,053,446	3.5%	2,722
2007	71,005,000	1,865,000	222,135	155,605,000	-	61,722	228,758,857	3.7%	2,742
2008	70,150,000	1,425,000	161,340	197,290,000	-	14,482	269,040,822	3.1%	3,189

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

(1) See Table 14 for the personal income and population data.

Table 13

City of Fort Smith, Arkansas
Revenue Bonds Debt Service Coverage
Last Ten Fiscal Years

	Fiscal Year	Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Services	Debt Service Requirements			Coverage
					Principal	Interest (3)	Total	
Water and Sewer System	1999	\$ 17,666,492	\$ 11,906,342	\$ 5,760,153	\$ 1,170,000	\$ 1,610,697	\$ 2,780,697	207%
	2000	23,046,282	12,557,120	10,489,162	2,050,000	2,561,255	4,611,255	227%
	2001	23,167,106	13,753,378	9,413,728	2,140,000	1,832,688	3,972,688	237%
	2002	28,693,062	14,727,485	13,965,577	2,240,000	2,624,305	4,864,305	287%
	2003	30,461,180	15,104,962	15,356,218	2,370,000	3,990,161	6,360,161	241%
	2004	30,676,280	16,339,330	14,336,950	5,070,000	2,931,611	8,001,611	179%
	2005	32,668,644	17,116,764	15,551,880	5,700,000	3,016,704	8,716,704	178%
	2006	35,439,335	21,269,130	14,170,205	6,820,000	2,776,864	9,596,864	148%
	2007	35,181,555	19,365,972	15,815,583	7,115,000	6,245,962	13,360,962	118%
	2008	38,608,012	20,463,804	18,144,208	8,350,000	6,411,852	14,761,852	123%
Solid Waste System	1999	\$ 8,220,315	\$ 6,533,853	\$ 1,686,462	\$ 610,000	\$ 555,378	\$ 1,165,378	145%
	2000	10,155,226	7,134,530	3,020,696	635,000	528,529	1,163,529	260%
	2001	9,591,135	7,345,440	2,245,695	665,000	499,594	1,164,594	193%
	2002	9,803,303	7,054,152	2,749,151	975,000	302,660	1,277,660	215%
	2003	9,511,187	7,003,747	2,507,440	785,000	277,400	1,062,400	236%
	2004	10,622,644	8,069,676	2,553,268	805,000	260,782	1,065,782	240%
	2005	11,441,729	7,775,933	3,665,796	820,000	239,814	1,059,814	346%
	2006	12,216,101	9,108,943	3,107,158	850,000	214,021	1,064,021	292%
	2007	13,122,193	10,269,779	2,852,414	875,000	187,827	1,062,827	268%
	2008	14,650,900	10,346,750	4,304,150	910,000	153,320	1,063,320	405%

(1) For purposes of this schedule, revenue includes operating revenue, interest revenue, and gross other nonoperating revenue.

(2) Excludes depreciation expense and amortization expense.

(3) Total interest paid for the fiscal year is presented in this schedule for revenue bonds only and it includes capitalized interest.

City of Fort Smith, Arkansas
Demographic Statistics
Last Ten Fiscal Years

Fiscal Year	City Population (1)	County Population (1)	Personal Income (in thousands) (2)	Per Capita Income (2)	Median Age	Education Level in Years of Schooling (3)	School Enrollment (4)	Unemployment Rate (2)
1999	72,798	99,590	\$ 5,487,943	\$ 21,029	34.0	12	12,430	4.0%
2000	80,268	115,071	5,889,283	22,270	34.0	12	12,637	3.6%
2001	80,268	115,071	6,278,630	22,676	34.0	12	12,596	4.2%
2002	81,557	116,964	6,403,948	23,021	35.0	12	12,844	4.9%
2003	81,795	117,221	6,628,057	26,624	35.2	12	12,871	5.4%
2004	81,801	117,519	7,030,000	24,956	35.3	12	12,921	5.0%
2005	82,482	118,587	7,514,000	26,420	35.4	12	13,373	4.2%
2006	83,489	120,351	8,009,000	27,729	35.4	12	13,633	4.9%
2007	84,375	121,766	8,435,449	29,197	35.4	12	13,900	5.3%
2008	84,375	121,766	8,604,158 *	29,547 *	35.4	12	13,759	6.1%

Data Sources:

- (1) Bureau of the Census
- (2) U.S. Department of Commerce
- (3) Community Development Department's estimate.
- (4) Fort Smith School District
- * Estimate

Table 15

City of Fort Smith, Arkansas
Principal Employers
Continuing Disclosure Requirement
Current Year and Nine Years Ago

Employer	2008			1999		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Sparks Health System	2,400	1	1.7%	2,800	3	2.1%
Baldor Electric Company	1,800	2	1.3%	1,711	4	1.3%
O. K. Industries	1,800	3	1.3%	4,000	2	3.0%
Fort Smith Public Schools	1,783	4	1.2%	1,565	7	1.2%
Whirlpool Corporation	1,515	5	1.1%	4,200	1	2.9%
St. Edward Mercy Medical Center	1,487	6	1.0%	1,600	6	1.2%
Rheem-Ruud	1,157	7	0.8%	1,651	5	1.2%
University of Arkansas at Fort Smith	951	8	0.7%	638	14	0.5%
Arkansas Best Corp.	936	9	0.7%	800	11	0.6%
City of Fort Smith	899	10	0.7%	793	12	0.6%
Golden Ventures/Beverly Enterprises	800	11	0.6%	870	9	0.6%
Bost Human Development Services	740	12	0.5%	-		
Gerber Products	700	13	0.5%	625	15	0.5%
Cooper Clinic	631	14	0.4%	650	13	0.5%
Area Agency on Aging	521	15	0.4%	-		
Trane Company				850	10	0.6%
Riverside Furniture	-			1,325	8	1.0%
Total	18,120		12.9%	24,078		17.8%

Data Sources:

Chamber of Commerce

U.S. Department of Labor, employment totals:

2008 143,338

1999 134,523

Table 16

City of Fort Smith, Arkansas
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government	102	109	113	118	122	123	124	124	128	126
Public safety:										
Police										
Officers	148	152	150	150	154	160	160	168	168	168
Civilians	43	43	45	47	46	47	47	46	46	46
Fire										
Firefighters and officers	122	125	125	125	125	125	126	126	129	129
Civilians	3	3	3	3	3	3	3	3	3	3
Public works:										
Operations	5	5	5	5	5	5	5	5	5	5
Streets	44	44	46	46	46	46	46	46	46	46
Traffic control	12	12	13	13	13	12	13	13	13	13
Parks and recreation	29	36	45	44	45	47	53	54	57	57
Transit	30	28	34	35	35	35	35	37	37	37
Water and sewer	169	181	181	181	182	183	185	191	191	191
Sanitation	80	85	84	83	79	75	76	77	78	78
Total	787	823	844	850	855	861	873	890	901	899

Table 17

**City of Fort Smith, Arkansas
Capital Asset Statistics by Function
Last Ten Fiscal Years**

Function	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Sub-stations (2)	-	-	-	-	-	-	-	8	8	8
Patrol units	12	12	12	12	12	12	12	12	12	12
Fire:										
Stations	10	10	10	10	10	10	10	10	10	10
Apparatus	20	21	21	22	22	22	22	21	21	21
Streets										
Streets (miles)	497	532	541	603	582	590	558	562	566	578
Streetlights	5,011	5,350	5,383	5,383	5,589	5,285	5,957	5,971	5,971	6,029
Traffic signals	106	122	122	123	123	133	136	135	135	142
Parks and recreation										
Parks acreage (square feet)	128	287	292	295	295	315	260	273	273	273
Parks	9	11	18	20	20	26	26	26	26	25
Swimming pools	2	2	2	1	1	1	1	1	1	1
Water splashpad	-	-	-	-	-	1	1	1	1	1
Tennis courts	14	14	14	14	14	14	14	14	14	14
Skatepark	-	-	-	-	1	1	1	1	1	1
Community centers	2	2	4	4	4	4	4	5	5	5
Convention center -										
Theater -seats	1,513	1,375	1,375	1,375	1,331	1,331	1,331	1,331	1,331	1,331
Theater -area (square feet)	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200
Exhibit Hall -area (square feet)	13,200	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Transit buses	11	11	18	18	18	17	20	20	20	20
Water and sewer										
Water mains (miles)	570	570	576	576	584	584	584	560	560	627
Average daily production capacity (thousands of gallons)	45,000	45,000	45,000	55,000	55,000	55,000	55,000	54,100	54,100	55,000
Average daily consumption (thousands of gallons)	26,629	27,821	29,511	29,511	27,384	26,986	28,876	28,097	29,197	28,876
Sanitary sewers (miles)	470	470	481	481	488	503	503	505	505	505
Storm sewers	NA	NA	NA	NA	NA	7,900	7,900	7,900	7,900	7,900
Sanitation										
Collection trucks	59	58	56	52	52	52	52	52	52	52
Landfill capacity (in cubic yards) (1)	10,127,369	9,789,639	9,506,239	9,186,033	68,036,250	67,716,006	67,337,973	67,197,006	66,853,337	66,405,305

NA - not available

(1) During 2003, the City acquired an additional 400 acres of land for the landfill. The landfill permit was expanded from a storage capacity of 13,507,000 cubic yards to 72,607,000 cubic yards.

The 2005 engineering survey indicated that the capacity remaining at the landfill increased between 2004 and 2005 due to the construction of Phase 4 of the landfill project.

(2) Police sub-stations were not reported prior to 2006.

Table 18

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

Function	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Police:										
Physical arrest	8,537	8,204	6,877	7,865	8,113	9,362	10,417	10,512	10,834	10,848
Parking violations	21,111	14,819	15,424	12,308	11,722	10,905	3,487	1,732	3,887	3,094
Traffic violations	16,055	15,563	16,249	16,191	18,466	19,287	19,289	20,442	21,129	24,191
Fire										
Number of calls answered	4,751	5,988	5,953	6,517	7,022	6,699	6,461	7,326	7,619	7,200
Transit										
Passenger trips	93,791	111,459	149,341	147,620	158,652	163,503	173,556	155,515	173,917	208,600
Water and sewer										
New connections	506	506	456	529	529	438	464	1,391	458	346
Average daily production (thousands of gallons)	26,629	27,821	29,511	29,511	27,384	26,986	28,876	28,097	29,197	23,567
Average daily sewage flow (thousands of gallons)	13,800	13,800	16,900	15,130	15,400	14,760	15,500	15,290	16,400	18,231
Sanitation										
Waste disposal (cubic yards/day)	3,049	3,020	3,020	2,586	2,401	3,011	3,475	3,848	3,657	3,620

Table 19

City of Fort Smith, Arkansas
Local Sales and Use Tax Collections
Continuing Disclosure Requirement
Last Ten Fiscal Years

Fiscal Year	1% City Sales & Use Tax Allocated for Street (1)	City Share 1% County Sales & Use Tax (2)	1% City Sales & Use Tax Allocated for Bonds (3)	Total
1999	\$ 14,689,273	\$ 11,802,187	\$ 7,344,637	\$ 33,836,097
2000	15,453,552	12,624,941	7,726,776	35,805,269
2001	15,728,836	12,278,766	12,387,128	40,394,730
2002	15,502,200	11,913,953	15,502,200	42,918,353
2003	15,635,325	12,295,853	15,635,326	43,566,504
2004	16,465,972	13,032,372	16,465,972	45,964,316
2005	17,372,140	13,864,325	17,372,140	48,608,605
2006	18,420,915	14,718,645	18,420,915	51,560,475
2007	18,929,527	15,155,255	18,929,527	53,014,309
2008	20,613,205	16,610,714	20,613,205	57,837,124
Total	<u>\$ 168,810,945</u>	<u>\$ 134,297,011</u>	<u>\$ 150,397,826</u>	<u>\$ 453,505,782</u>

(1) The City Sales and Use Tax allocated for construction, repair and maintenance of street, bridge and associated drainage improvements was initially assessed in 1985 for a period of 10 years. The tax has been reauthorized through 2015. The tax is accounted for in the Sales Tax Fund, a special revenue fund.

(2) Sebastian County began assessing a 1% Sales and Use Tax August 1, 1994. The City receives a share of the tax based upon its population within Sebastian County. The City allocates its share of the tax to its General Fund. The tax has been reauthorized through 2014.

(3) Prior to May 2006, the City assessed two 1/2 % City sales and use taxes to total 1% for bond redemption. The first 1/2% was allocated to redeem the City of Fort Smith Sales and Use Tax Bonds, Series 1997. The 1997 Bonds were issued to fund the construction for the convention center, public library facilities, and riverfront park projects. The tax became effective January 1, 1998. The second 1/2% was allocated to redeem the City of Fort Smith Sales and Use Tax Bonds, Series 2001. The 2001 Bonds were issued to fund a portion of the Lake Fort Smith water supply expansion project and to fund wastewater improvements. The tax for the 2001 Bonds became effective May 1, 2001. The 1997 Bonds were redeemed in June 2004 and now the entire 1% tax is allocated to the repayment of the 2001 Bonds. In May 2006, the 1% sales and use tax was approved to support the issuance of City of Fort Smith Sales and Use Tax Refunding and Construction Bonds, Series 2006. The 2006 Bonds were issued to refund the outstanding 2001 Bonds, acquire a public safety and utility radio communication system, and provide wastewater improvements in accordance with an EPA administrative order. In November 2008, additional sales and use tax bonds were issued to provide additional funding for the radio project and the wastewater projects. The same local sales and use tax supports the repayment of the 2008 bonds as well.

Table 20

City of Fort Smith, Arkansas
Solid Waste System Statistics
Continuing Disclosure Requirement
Last Ten Fiscal Years

Fiscal Year	Annual # Sanitation System Customers	Cubic Yardage of Waste at Landfill	Useful Life of Landfill Remaining	Remaining Storage Capacity at Landfill
1999	272,616	1,369,106	14 yrs	10,127,369 cubic yards
2000	236,376	1,106,718	13 yrs	9,789,639 cubic yards
2001	276,564	1,096,082	12 yrs	9,506,239 cubic yards
2002	277,896	938,670	11 yrs	9,186,033 cubic yards
2003	277,896	871,647	42 yrs	68,036,250 cubic yards (1)
2004	299,412	1,092,855	41 yrs	67,716,006 cubic yards
2005	300,624	1,263,149	40.5 yrs	67,337,973 cubic yards
2006	304,620	1,404,524	40 yrs	67,197,006 cubic yards
2007	306,864	1,334,806	40 yrs	66,853,337 cubic yards
2008	310,224	1,129,422	40 yrs	66,405,305 cubic yards

(1) During 2003, the City's landfill permit was expanded to allow for a total storage capacity of approximately 72,607,000 cubic yards. The total capacity prior to this was 13,507,000 cubic yards.

Table 21

City of Fort Smith, Arkansas
Water and Sewer Statistics
Continuing Disclosure Requirement
(Unaudited)

Fiscal Year	Average Daily Water Use in Gallons	Maximum Daily Water Use in Gallons	Total Water Use for Year in Gallons	Average Daily Sewage Flow in Gallons
2004	26,986,000	37,617,000	9,856,258,000	14,760,000
2005	29,161,000	45,536,000	10,539,665,000	15,500,000
2006	28,097,000	42,941,000	10,283,590,000	15,290,000
2007	29,197,000	39,956,000	9,196,894,000	16,400,000
2008	23,567,000	37,004,000	8,625,607,000	18,231,000

Water Customers Fiscal Year	Residential	Commercial	Wholesale	Other	Total
2004	26,043	3,989	12	10	30,054
2005	26,479	3,979	12	10	30,480
2006	27,748	4,024	13	10	31,795
2007	27,998	4,127	13	10	32,148
2008	28,386	4,142	13	10	32,551

Sewer Customers Fiscal Year	Residential	Commercial	Government	Total
2004	25,149	3,869	10	29,028
2005	25,443	3,875	10	29,328
2006	25,533	3,681	10	29,224
2007	25,790	3,661	10	29,461
2008	26,076	3,662	10	29,748

Table 21 (Continued)

City of Fort Smith, Arkansas
Water and Sewer Statistics (Continued)
Continuing Disclosure Requirement
(Unaudited)

For 2007:					% of Gross
Entity	Water	Sewer	Total	Revenues	
City of Van Buren	\$ 3,308,734	\$ -	\$ 3,308,734	10.11%	
OK Foods	2,047,126	130,687	2,177,813	6.65%	
Gerber Products	926,993	814,227	1,741,220	5.32%	
Quanex Macsteel	264,068	98,684	362,752	1.11%	
St. Edward Mercy Medical Center	224,932	99,293	324,225	0.99%	
Sparks Medical Center	200,296	115,015	315,311	0.96%	
Whirlpool	115,308	123,079	238,387	0.73%	
Twin Rivers Packaging	79,784	111,635	191,419	0.58%	
Southern Steel & Wire	76,132	101,511	177,643	0.54%	
Hiland Dairy	51,955	11,950	63,905	0.20%	
Top Ten Users	<u>\$ 7,295,328</u>	<u>\$ 1,606,081</u>	<u>\$ 8,901,409</u>	<u>27.19%</u>	

For 2008:					% of Gross
Entity	Water	Sewer	Total	Revenues	
City of Van Buren	\$ 3,519,294	\$ -	\$ 3,519,294	9.81%	
OK Foods	2,130,051	233,442	2,363,493	6.59%	
Gerber Products	1,175,591	877,401	2,052,992	5.72%	
Quanex Macsteel	307,638	151,047	458,685	1.28%	
St. Edward Mercy Medical Center	295,388	241,087	536,475	1.49%	
Sparks Medical Center	229,648	135,622	365,270	1.02%	
Whirlpool	123,426	119,380	242,806	0.68%	
Hiland Dairy	63,334	76,389	139,723	0.39%	
Hiram Walker	63,322	26,802	90,124	0.25%	
Planters Peanuts	62,540	75,433	137,973	0.38%	
Top Ten Users	<u>\$ 7,970,232</u>	<u>\$ 1,936,603</u>	<u>\$ 9,906,835</u>	<u>27.61%</u>	

Table 22

City of Fort Smith, Arkansas
General Fund Revenues, Expenditures, and Fund Balance
Continuing Disclosure Requirement
Last Five Fiscal Years
(Modified Accrual Basis of Accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Revenues	\$ 30,133,031	\$ 32,780,080	\$ 33,972,924	\$ 36,218,142	\$ 37,164,047	\$ 38,953,983
Expenditures	<u>30,724,130</u>	<u>33,032,858</u>	<u>34,663,140</u>	<u>38,309,177</u>	<u>43,059,070</u>	<u>38,654,800</u>
Excess (deficiency) of revenues over (under) expenditures	(591,099)	(252,778)	(690,216)	(2,091,035)	(5,895,023)	299,183
Other financing sources	<u>1,616,793</u>	<u>2,456,544</u>	<u>2,507,103</u>	<u>3,825,493</u>	<u>2,030,982</u>	<u>1,957,998</u>
Net change in fund balances	1,025,694	2,203,766	1,816,887	1,734,458	(3,864,041)	2,257,181
Fund balance, January 1	<u>5,532,288</u>	<u>6,557,982</u>	<u>8,761,748</u>	<u>10,578,635</u>	<u>12,313,093</u>	<u>8,449,052</u>
Fund balance, December 31	<u><u>\$ 6,557,982</u></u>	<u><u>\$ 8,761,748</u></u>	<u><u>\$ 10,578,635</u></u>	<u><u>\$ 12,313,093</u></u>	<u><u>\$ 8,449,052</u></u>	<u><u>\$ 10,706,233</u></u>

Independent Accountants' Report on Compliance With Certain State Acts

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Fort Smith, Arkansas

We have examined management's assertions that the City of Fort Smith, Arkansas complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas statutes during the year ended December 31, 2008.

- (a) Municipal Accounting Law, Act 159 of 1973, Act 616 of 1979 and Act 308 of 1977
(Arkansas Statutes 19-5301 – 19-5317);
- (b) Municipal Courts, Police Courts, City Courts and Justice of the Peace Courts Accounting Law of 1977, Acts 677 and 776 of 1985, Act 904 of 1991 and Act 1256 of 1996.
(Arkansas Statutes 22-1101 – 22-1108);
- (c) Municipal Court and Police Department Uniform Filing Fees and Court Cost, Act 1341 of 1997;
- (d) Bonding of Municipal Officers and Employees, Act 338 of 1955, Act 677 of 1975, Act 940 of 1977 and Act 1014 of 1987
(Arkansas Statutes 13-412 – 13-412.3) (Replaced by Act 5 of 1985);
- (e) Improvement Contracts over \$10,000, Act 159 of 1949, Act 183 of 1957, Act 477 of 1961, Act 370 of 1977, Act 266 of 1981, Act 871 of 1983, Acts 758 and 759 of 1987, Act 936 of 1989, Act 728 of 1991, Act 645 of 1993 and Act 1319 of 1995
(Arkansas Statutes 14-611 – 14-614);
- (f) Budgets, Purchases over \$2,000; Payments of Claims, Etc., Act 28 of 1959, Act 154 of 1979, Acts 344 and 926 of 1981, Act 745 of 1985 and Act 812 of 1995
(Arkansas Statutes 19-4421 – 19-4430);
- (g) Investment of Public Funds, Act 273 of 1943, Act 106 of 1973, Act 402 of 1995, Act 800 of 1997 and Act 1341 of 2000
(Arkansas Statutes 13-901 – 13-904); and

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Page 2

- (h) Deposit of Public Funds, Act 21 of 1935, Acts 57 and 62 of 1945, Act 122 of 1947, Act 18 of 1964, Acts 89 and 107 of 1973, Act 250 of 1987, Act 459 of 1991 and Acts 232 and 700 of 1995
(Arkansas Statutes 13-801 – 13-805).

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

Our examination was made 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 Fort Smith, Arkansas complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2008.

This report is intended solely for the information and use of the Mayor, Board of Directors, management and the state of Arkansas and is not intended to be and should not be used by anyone other than these specified parties.



June 26, 2009

**SINGLE AUDIT
SECTION**

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

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Fort Smith, Arkansas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fort Smith, Arkansas, as of and for the year ended December 31, 2008, which collectively comprise its basic financial statements and have issued our report thereon dated June 26, 2009, which contained a reference to the report of another accountant and an explanatory paragraph regarding two changes in accounting principle. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other accountants audited the financial statements of the Fort Smith Public Library, as described in our report on the City'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

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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*.

We noted certain matters that we reported to the City's management in a separate letter dated June 26, 2009.

This report is intended solely for the information and use of the Mayor, Board of Directors, management and 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, CPA

June 26, 2009

Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Fort Smith, Arkansas

Compliance

We have audited the compliance of the City of Fort Smith, Arkansas, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2008. 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 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 Fort Smith, 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 Fort Smith, Arkansas, complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the City of Fort Smith, 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, 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.

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Page 2

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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, Board of Directors, management 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.

Handwritten signature in black ink, appearing to read "BKD, LLP".

June 26, 2009

City of Fort Smith, Arkansas
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2008

Cluster/Program	Federal Agency/Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount
Community Development Block Grants/Entitlement Grants	U. S. Department of Housing and Urban Development	14.218	B06MC050003	\$ 417,721
			B07MC050003	608,962
				<u>1,026,683</u>
HOME Investment Partnership Program	U. S. Department of Housing and Urban Development	14.239	M04MC050202	80,957
			M05MC050202	159,972
			M06MC050202	979
			M07MC050202	335,911
			M08MC050202	63,720
	<u>641,539</u>			
Drug Enforcement Task Force	U. S. Department of Justice	N/A		<u>61,735</u>
Asset Forfeiture and Money Laundering	U. S. Department of Justice	16.000	AR060100	372,834
Immigration and Customs Enforcement Task Force	U. S. Department of Justice	16.000		5,482
Treasury Criminal Investigation Task Force	U. S. Department of Justice	16.000	2-9-62-2128	2,640
				<u>380,956</u>
Federal Transit Formula Grants	U. S. Department of Transportation/ Arkansas Highway & Transportation Department	20.507	AR-90-X062	10,372
			AR-90-X081	68,059
			AR-90-X088	1,171,124
Federal Transit Metropolitan Planning Grants	U. S. Department of Transportation/	20.505	AR-03-X011	1,479
				<u>1,251,034</u>
Law Enforcement Officer Reimbursement Agreement Program	U. S. Department of Homeland Security	97.090	HSTS-02-08-HSLR150	156,089
Assistance to Firefighters Grant	U. S. Department of Homeland Security	97.044	EMW-2008-FO-06892	38,678
Disaster Grants-Public Assistance (Presidentially Declared Disasters)	U. S. Department of Homeland Security/Arkansas Department of Emergency Management Disaster Public Assistance	97.036	FEMA 1751 DR AR	300,965
			FEMA 3289 EM LA	32,105
				<u>527,837</u>
Nonpoint Source Implementation Grants	U. S. Environmental Protection Agency/Arkansas Soil & Water Conservation	66.460	C-999610314	1,133
Cooperative Forestry Assistance	U. S. Department of Agriculture/ Arkansas Forestry Commission	10.664	UCF07-08	2,500
				<u>\$ 3,893,417</u>

City of Fort Smith, Arkansas
Schedule of Expenditures of State Awards
Year Ended December 31, 2008

Granting Agency/Grant Program	Grant Number	Expenditures
Arkansas Department of Pollution Control and Ecology- Solid Waste Management and Recycling Grant Program:		
Equipment, Education, Market Development and Administration	SEB 50-08	\$ 18,256
Department of Arkansas Heritage:		
CLG Grant - Historic Preservation Program	CLG 03-02	477
CLG Grant - Historic Preservation Program	CLG 04-02/RETT	1,812
CLG Grant - Historic Preservation Program	CLG 05-03	55
CLG Grant - Historic Preservation Program	CLG 06-04	630
CLG Grant - Historic Preservation Program	CLG 07-04	2,508
CLG Grant - Historic Preservation Program	CLG 08-PA-03	110
CLG Grant - Historic Preservation Program	CLG 08-03	1,890
		<u>7,482</u>
Arkansas State Highway and Transportation Department:		
Jenny Lind Road/Ingersol	40471	130,896
Phoenix Avenue	40223	1,154,100
Miscellaneous Agencies Fund	N/A	30,321
Public Transit Trust Fund	N/A	232,913
		<u>1,548,230</u>
Arkansas State Police:		
Alcohol/Other Drug Countermeasures Program	K8-2008-08-09-10	68,948
Alcohol/Other Drug Countermeasures Program	K8-2009-08-09-10	28,426
Internet Crimes Against Children	2007-MC-CX-K005	13,922
		<u>111,296</u>
Arkansas Department of Emergency Management:		
Disaster Public Assistance	FEMA 1751 DR AR	50,161
	Total State Awards	<u>\$ 1,735,425</u>

City of Fort Smith, Arkansas
Notes to Schedules of Expenditures of Federal and State Awards
December 31, 2008

(1) Scope of Audit Pursuant to OMB Circular A-133

All federal financial award programs of the City of Fort Smith, Arkansas (the City), are included in the scope of the OMB Circular A-133 audit (the single audit). For purposes of this report, awards include those received from other agencies, the original source of which was a federal agency. The Schedules of Expenditures of Federal and State Awards does not include the Airport Commission's federal and state financial award programs.

(2) Organization and Accounting Policies

The City is recipient of certain federal and state grant funds. The grant programs are administered by various departments within the City. The activities of these departments are monitored by the City staff to ensure compliance with the requirements of the underlying grants.

The accounting policies of the City conform the accounting principles generally accepted in the United States for local government units as prescribed by the Government Accounting Standards Board.

(3) Basis of Accounting

The grant accounts are maintained and the accompanying Schedules of Expenditures of Federal and State Awards have been prepared on a modified accrual basis. Grant revenues are recognized when eligibility requirements are met.

(4) Relationship to Federal and State Financial Reports

Amounts reported in the accompanying Schedules of Expenditures of Federal and State Awards may not agree with the amounts reported in the related federal and state financial reports filed with grantor agencies because of accruals which would be included in the next report filed with the agencies.

(5) Relationship to Basic Financial Statements

The following is a reconciliation of federal and state financial assistance revenue as reported in the City's basic financial statements to the Schedules of Expenditures of Federal and State Awards:

Total intergovernmental revenue	\$ 13,608,213
State turnback revenue	(7,807,660)
Local match	<u>(171,711)</u>
 Federal and state assistance per accompanying schedules	 <u><u>\$ 5,628,842</u></u>

City of Fort Smith, Arkansas

Notes to Schedule of Expenditures of Federal and State Awards (Continued)

December 31, 2008

(6) Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant	14.218	\$ 351,097
HOME Investment Partnership	14.239	567,517

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2008

Summary of Auditor's Results

1. The opinion(s) expressed in the independent accountants' report was (were):
 Unqualified Qualified Adverse Disclaimed

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

Significant deficiency(ies) noted considered material weakness(es)? Yes No

Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

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

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:

Significant deficiency(ies) noted considered material weakness(es)? Yes No

Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

5. The opinion(s) expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was (were):
 Unqualified Qualified Adverse Disclaimed

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

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2008

7. The Organization's major programs were:

Cluster/Program	CFDA Number
Community Development Block Grant	14.218
Asset Forfeiture and Money Laundering	16.000
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036

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 Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2008

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

City of Fort Smith, Arkansas
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2008

Reference Number	Summary of Finding	Status
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No matters are reportable.