



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2010

# **City of Fort Smith, Arkansas**

## **Comprehensive Annual Financial Report**

Year Ended December 31, 2010

### **Prepared By the**

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

### **City Board of Directors**

Sandy Sanders, Mayor

Steven Tyler  
Andre' Good  
Don Hutchings  
George Catsavis  
Pam Weber  
Kevin Settle  
Phillip H. Merry, Jr.

**City Administrator**  
Ray Gosack

**Director of Finance**  
Kara Bushkuhl

**City of Fort Smith, Arkansas**  
**Year Ended December 31, 2010**

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**INTRODUCTORY  
SECTION**



June 29, 2011

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, 2010.

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, 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, 2010 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, fiduciary fund, aggregate discretely presented component units, each major fund and aggregate remaining fund information that collectively comprise the City's

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basic financial statements as of and for the fiscal year ended December 31, 2010. 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 issued separately and not included in this document.

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 a population of 86,209. 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 realized a slowdown in its economy during 2010 although not as dramatic as the slowdown in 2009. Sales tax revenues were slightly below the prior year. However, there have been some positive economic activities in our area.

UmarexUSA, a manufacturer of and distributor of air weapons and small caliber rifles opened a new distribution/manufacturing facility at Chaffee Crossing. The move resulted in approximately 60 new jobs. 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.

Mitsubishi Power Systems Americas Inc. (Mitsubishi) began construction of a wind turbine plant in the City. The plant will be approximately 200,000 square feet on approximately 90 acres at Chaffee Crossing. The turbine/nacelle component of windmills will be manufactured and then shipped to wind corridors in the western United States. Mitsubishi has estimated the investment in the plant and equipment will be \$100 million. The plant is expected to create 330 jobs.

Gerber Products announced a \$90 million investment in its Fort Smith plant to further modernize its packaging and warehousing operations. The expansion will add approximately 65 new jobs to the plant's employment. Kraft Foods/Planters is undertaking an approximate \$20 million expansion of its Fort Smith plant. The expansion does not add any new employees but does poise the plant for future growth that could result in increased employment. Retail development in Fort Smith has continued to grow despite the sluggish national economy. Dick's Sporting Goods has a

new store under construction that should open before the end of 2011. Longhorn Steakhouse and Beef O'Brady's opened new restaurants near the end of 2010.

**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. During 2009 and 2010, the City issued additional sales and use tax bonds to fund more wastewater improvements. 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, 2008, and 2010 Bonds are expected to be redeemed prior to maturity. The 2009 Bonds will be redeemed following the redemption of the 2006, 2008, and 2010 bonds.

During the first quarter of 2011, the City enacted a one-percent (1%) prepared food tax to go into effect June 1, 2011. A court order has temporarily delayed the collection date. The tax is to be used by the Advertising & Promotion Commission to fund the convention center operations as well as other tourism activities.

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 for 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, 2009. The Certificate of Achievement is the highest form of recognition for excellence in local government financial reporting. This was the twenty-fifth 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, 2011. This was the twenty-third 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,



Ray Gosack  
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, 2009

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.

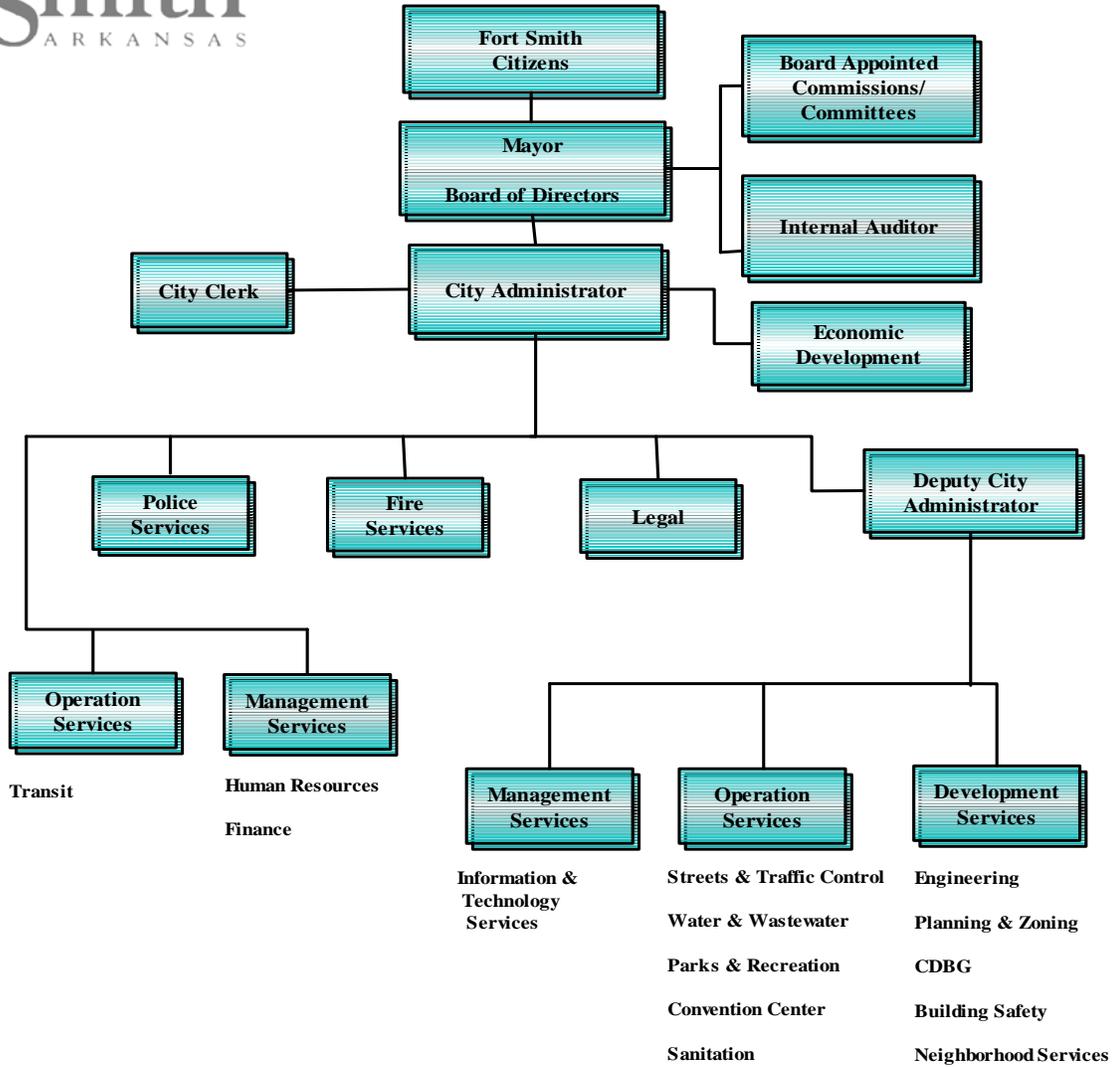


President

Executive Director



# Plan of Organization



**City of Fort Smith, Arkansas**  
**List of Elected and Appointed Officials**  
**December 31, 2010**

**Elected Officials**

Mayor	Sandy Sanders
Director-Ward 1	Steven Tyler
Director-Ward 2	Andre' Good
Director-Ward 3	Don Hutchings
Director-Ward 4	George Catsavis
Director at Large	Pam Weber
Director at Large/Vice Mayor	Kevin Settle
Director at Large	Phillip H. Merry, Jr.
District Court Judge	Ben Beland
District Court Judge	Claire Borengasser
District Court Judge	David Saxon

**Appointed Officials**

City Administrator	Ray Gosack
Deputy City Administrator	Jeff Dingman
Advertising and Promotion	Claude Legris
Airport	John Parker
City Clerk	Sherri Gard
Development/Planning	Wally Bailey
Convention Center	Frankie Hamilton
District Court	Rachel Sims
Engineering	Stan Snodgrass
Finance	Kara Bushkuhl
Fire	Mike Richards
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, 2010, 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 \$2,401,750 and \$2,852,518, respectively, and represents 95% and 81% of the aggregate discretely presented component units' (governmental activities) total assets and revenues at December 31, 2010 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 and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other accountants provide a reasonable basis for our opinions.

In our opinion, based on our audit and the 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2011, 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 and the other accountants 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 City's basic financial statements. The accompanying supplementary information 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 by us and the other accountants in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other accountants are 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 by us and the other accountants in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*BKD, LLP*

June 29, 2011

# **City of Fort Smith, Arkansas**

## **Management's Discussion and Analysis**

### **December 31, 2010**

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, 2010. 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 2010 by \$694,743,093 (net assets). Of this amount, \$26,700,849 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 \$34,297,504. The City's business-type activities have an unrestricted deficit of \$7,596,655.
- The City's total net assets increased by \$22,433,701 in 2010. Net assets of the governmental activities increased by \$5,296,842 in 2010 compared to a net decrease of \$10,030,763 in 2009 ending net assets. The City's net assets of the business-type activities increased by \$17,136,859 in 2010 as compared to a net increase of \$41.8 million in 2009.
- As of the close of 2010, the City's governmental funds reported combined ending fund balances of \$75,437,299 that was a decrease of \$14,620,170 from the prior year. The unreserved portion of the fund balances is \$25,919,386 that represents 34.4% of the total and is available for spending at the Board's discretion.
- At the end of 2010, the unreserved fund balance for the General Fund was \$6,272,987 or 16% of total General Fund expenditures. There was a decrease of \$52,903 in total General Fund balance between years.
- The City's total bonded indebtedness decreased by \$19.665 million during the current year. The decrease is a result of the call and maturity of outstanding Sales and Use Tax Bonds, Series 2006, 2008, and 2010 that totaled \$16.33 million, and the maturity of revenue bonds during the year of \$6.93 million. The decrease was offset by the \$3.595 million issuance of Sales and Use Tax Bonds, Series 2010 during the year.
- The City's governmental component units reported net assets of \$2,474,708 at December 31, 2010 that was an increase of \$161,264 over 2009.
- The City's business-type component units reported net assets of \$39,104,542 at December 31, 2010 that was a \$1,740,829 increase over 2009.

## 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.

**Fiduciary fund.** The City maintains a pension trust fund for its OPEB plan trust that is held for the purpose of providing future medical claims of retirees that become participants. The plan trust is an irrevocable trust entered into by the City during 2009 for benefit of its participants.

The fiduciary fund financial statements can be found on pages 30-31 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 32-86 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 87-90 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 92-107 of this report.

## Government-Wide Financial Analysis

City of Fort Smith Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 100,857,045	\$ 116,813,037	\$ 59,870,186	\$ 91,005,495	\$ 160,727,231	\$ 207,818,532
Capital assets	351,827,278	342,781,141	474,156,992	431,345,484	825,984,270	774,126,625
Total assets	452,684,323	459,594,178	534,027,178	522,350,979	986,711,501	981,945,157
Long-term liabilities	63,506,807	77,143,058	186,719,212	192,918,584	250,226,019	270,061,642
Other liabilities	26,165,163	24,735,609	15,577,226	14,838,514	41,742,389	39,574,123
Total liabilities	89,671,970	101,878,667	202,296,438	207,757,098	291,968,408	309,635,765
Net Assets:						
Invested in capital assets, net of related debt	305,663,999	294,746,494	314,941,959	293,549,646	620,605,958	588,296,140
Restricted	23,050,850	24,205,366	24,385,436	24,102,177	47,436,286	48,307,543
Unrestricted (deficit)	34,297,504	38,763,651	(7,596,655)	(3,057,942)	26,700,849	35,705,709
Total Net assets	<u>\$ 363,012,353</u>	<u>\$ 357,715,511</u>	<u>\$ 331,730,740</u>	<u>\$ 314,593,881</u>	<u>\$ 694,743,093</u>	<u>\$ 672,309,392</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 \$694,743,093 at the close of 2010.

The largest portion of the City's net assets (89.3%) 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 outstanding debt used to acquire those assets. 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 (6.8%) represents resources that are subject to restrictions as to how they may be used. Of the total restricted net assets (\$47.4 million), \$25.9 million is restricted for bond retirement, \$17 million is restricted for construction projects, and \$4.5 million is restricted for landfill closure and postclosure care costs. The remaining balance of net assets 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 2010 and 2009.

The City's net assets increased by \$22,433,701 during 2010. Total revenues decreased by 2% between years. Revenues generated by fees and charges increased by 7.5% due primarily to increased water and sewer service rates and higher water consumption in 2010. Sales tax revenue on a government-wide basis decreased by 1%.

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues</b>						
Program revenues						
Fees, fines, and charges for services	\$ 5,345,580	\$ 4,895,700	\$ 51,756,652	\$ 48,212,924	\$ 57,102,232	\$ 53,108,624
Operating grants and contributions	13,142,881	12,754,491	-	-	13,142,881	12,754,491
Capital grants and contributions	1,357,800	1,763,263	512,378	3,683,324	1,870,178	5,446,587
	<u>19,846,261</u>	<u>19,413,454</u>	<u>52,269,030</u>	<u>51,896,248</u>	<u>72,115,291</u>	<u>71,309,702</u>
General revenues						
Property taxes	10,623,101	12,267,731	-	-	10,623,101	12,267,731
Sales taxes	52,091,471	52,601,763	-	-	52,091,471	52,601,763
Utility franchise fees	6,492,100	5,990,452	-	-	6,492,100	5,990,452
Grants and contributions not restricted to specific programs	10,085	226,195	-	-	10,085	226,195
Unrestricted investment earnings	163,172	538,627	89,914	343,471	253,086	882,098
Insurance proceeds from hail storm	-	1,778,572	-	-	-	1,778,572
Other	1,199,332	1,318,649	339,356	1,116,923	1,538,688	2,435,572
	<u>90,425,522</u>	<u>94,135,443</u>	<u>52,698,300</u>	<u>53,356,642</u>	<u>143,123,822</u>	<u>147,492,085</u>
<b>Total revenues</b>						
	<u>90,425,522</u>	<u>94,135,443</u>	<u>52,698,300</u>	<u>53,356,642</u>	<u>143,123,822</u>	<u>147,492,085</u>
<b>Expenses</b>						
General government	9,464,539	8,783,548	-	-	9,464,539	8,783,548
Public safety	32,350,902	31,836,140	-	-	32,350,902	31,836,140
Public works	13,226,363	12,169,873	-	-	13,226,363	12,169,873
Community services	12,165,578	13,438,158	-	-	12,165,578	13,438,158
Interest on long-term debt	3,838,008	3,917,534	-	-	3,838,008	3,917,534
Water and sewer	-	-	37,974,129	34,198,511	37,974,129	34,198,511
Sanitation	-	-	11,670,602	11,403,090	11,670,602	11,403,090
	<u>71,045,390</u>	<u>70,145,253</u>	<u>49,644,731</u>	<u>45,601,601</u>	<u>120,690,121</u>	<u>115,746,854</u>
<b>Total expenses</b>						
	<u>71,045,390</u>	<u>70,145,253</u>	<u>49,644,731</u>	<u>45,601,601</u>	<u>120,690,121</u>	<u>115,746,854</u>
Increase in net assets before transfers and capital contributions	19,380,132	23,990,190	3,053,569	7,755,041	22,433,701	31,745,231
Transfers	(14,083,290)	(34,020,953)	14,083,290	34,020,953	-	-
Increase (decrease) in net assets	5,296,842	(10,030,763)	17,136,859	41,775,994	22,433,701	31,745,231
<b>Net assets - January 1</b>	<u>357,715,511</u>	<u>367,746,274</u>	<u>314,593,881</u>	<u>272,817,887</u>	<u>672,309,392</u>	<u>640,564,161</u>
<b>Net assets - December 31</b>	<u>\$ 363,012,353</u>	<u>\$ 357,715,511</u>	<u>\$ 331,730,740</u>	<u>\$ 314,593,881</u>	<u>\$ 694,743,093</u>	<u>\$ 672,309,392</u>

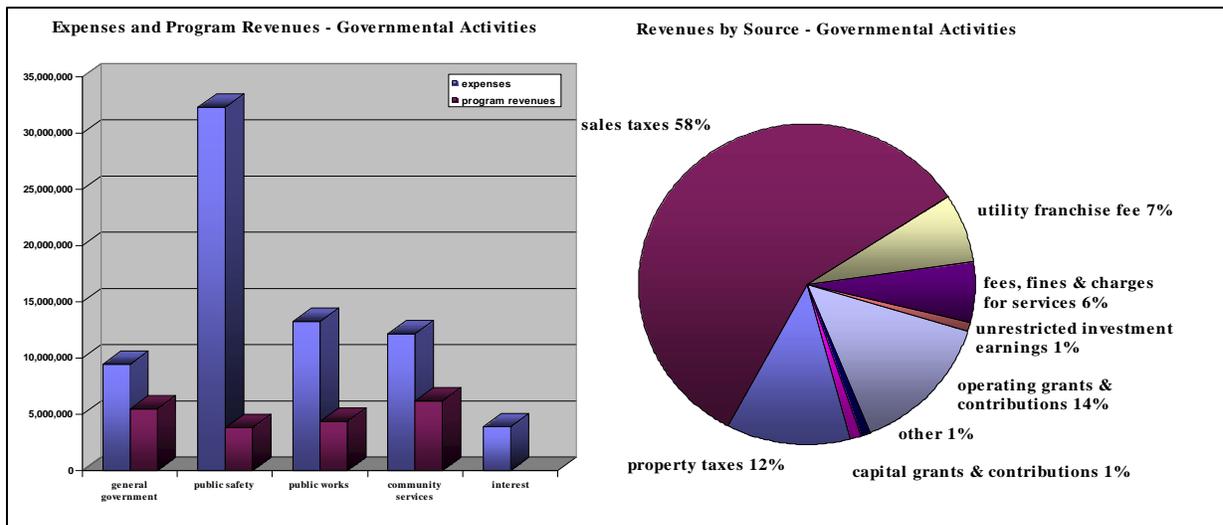
**Governmental Activities.** Governmental activities increased the City's net assets by \$5,296,842. Key elements of the net increase are as follows:

- Total expenses for 2010 were approximately \$900,000 more than the prior year. Total revenues for 2010 decreased by approximately \$1.9 million. The 2009 revenues included a one-time revenue source of \$1.8 million in insurance proceeds from the hailstorm that occurred in 2008. In addition, the sales taxes were down \$511,000 in 2010 as compared to 2009.
- Net capital asset acquisition exceeded depreciation by \$23.7 million. This was offset by the \$14.6 million capital contribution to the Water and Sewer Fund for wastewater improvements provided by the Sales & Use Tax Construction Fund.

Sales tax revenue allocated for governmental purposes reflects a 1% decrease between years. The City's share of the county sales tax, accounted for in the General Fund, decreased 1% in 2010 from 2009. The City's sales tax that is allocated for street projects and accounted for in the Sales Tax Fund decreased 1% between 2009 and 2010, as did the city sales tax allocated for redemption of the Sales and Use Tax Bonds, Series 2006, 2008, 2009, and 2010.

Utility franchise fee revenues increased by \$502,000 or 8.4% during 2010 due to increased electric rates and greater usage during the year.

The reported 2010 expenses were \$900,000 less than in 2009. The decrease resulted from the significant reduction in capital asset acquisitions and very limited pay rate increases during the year.



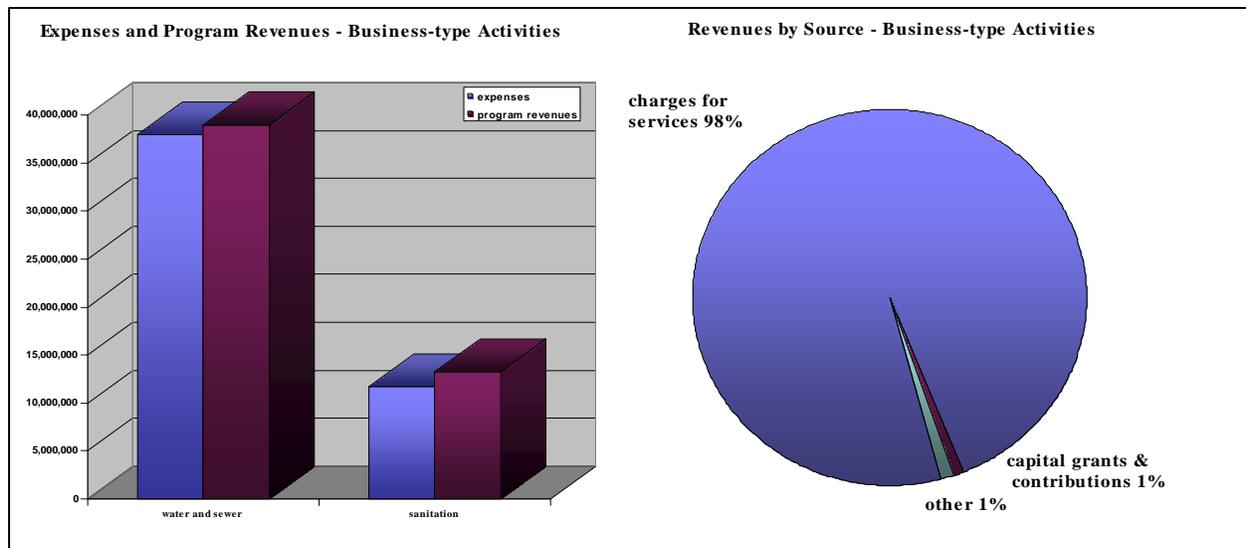
**Business-Type Activities.** Business-type activities increased the City's net assets by \$17,136,859. Key elements of the increase are as follows:

- The water and sewer system contributed \$15,457,330 to total net assets. The most significant increase in net assets was the \$14,622,644 capital contribution 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 \$9,028,419 in 2010.
- The solid waste system added \$1,970,888 to total net assets. The operating income for the system in 2010 totaled \$1,851,454.

Water and sewer system service charges contribute 74% of the operating revenue to business-type activities.

The solid waste system service charges accounted for 26% of the revenue to business-type activities.

Current year operating expenses for the business-type activities were 79% of current revenues.



## 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, 2010, the City's governmental funds reported combined ending fund balances of \$75,437,299 a decrease of \$14,620,170 in comparison with the prior year. Of this amount, \$25,919,386 represents *unreserved fund balance*, which is available for spending at the government's discretion (undesignated). 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, 2010, unreserved fund balance of the General Fund was \$6,272,987, while the total fund balance was \$8,442,610. 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 15.9% of total General Fund expenditures, including transfers out, while total fund balances represents 21.3% of that same amount. The fund balances of the City's General Fund decreased by \$52,903 during 2010.

Key factors in this decrease are as follows:

- Total revenues decreased between 2010 and 2009 by \$369,483. This was a result of less county sales taxes of \$154,760 in 2010, lower intergovernmental revenue of \$492,413 for 2010, and the \$799,151 insurance proceeds from the hailstorm received in 2009 but not in 2010. These decreases were offset by the increases in revenues for 2010 that included \$125,554 in property taxes, \$501,648 in franchise fee revenues, and \$195,334 in additional court fines and forfeitures.
- Total expenditures were \$2.5 million less in 2010 compared to 2009 due to very limited pay increases available for employees, significant decreases in capital asset acquisitions, and an overall decrease in the spending by departments due to the economic downturn. However, expenditures exceeded revenues by the \$52,903 for the year.

The Street Maintenance Fund and the Sales Tax Fund, both special revenue funds, are presented as major funds and account for 29% 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 \$1,258,019 between years. The decrease was due to a decrease in the city sales tax during 2010 and level spending in street projects during the year.

The Sales & Use Tax Construction Fund is also presented as a major fund and accounts for 27% 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 \$3.595 million in additional bond proceeds, the fund balance decreased by \$11.5 million from the prior year as there were capital asset additions of \$14.8 million during 2010.

**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 \$304,651,691 and \$25,596,291 for the Water and Sewer Fund and the Sanitation Fund, respectively. The increase in net assets was \$15,457,330 for the Water and Sewer Fund and \$1,970,888 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 \$45,378,362 (total expenditures plus transfers out) compared to the original budget total of \$42,555,499. The increase in appropriations of \$2,822,863 is summarized briefly as follows:

- \$1,765,553 for transit capital improvements provided by the American recovery and rehabilitation act (ARRA); ARRA funds were awarded in the fall of 2009 but still unspent at the end of 2010.
- Capital asset purchases for the fire department of \$161,290, for aquatics of \$24,200, for the downtown parking lot project of \$264,626, and for the trolley extension project in the amount of \$213,956.
- \$ 343,238 for additional administrative personnel and operating costs, police operating costs, local service agency expenditures, and park operating expenditures.
- \$50,000 additional transfer for the cleanup and demolition projects during 2010.

Revenue and transfers in estimates for the General Fund were increased from an original budget of \$40,066,526 to the final estimate of \$42,431,862. The \$2,365,336 increase was due to the increase in intergovernmental revenue from the ARRA funds for the transit capital improvements as well as additional transit operating reimbursements (\$3.2 million) and an anticipated increase in property tax revenue (\$409,100). These increases were offset by the expected decreases in the City's share of the county sales tax (\$410,425) and the franchise fees (\$852,200).

Total actual revenue, including, “other financing sources”, for the General Fund was \$2,910,893 less than the final budget estimates. The decreased revenues were due to further decreases in county sales tax revenue of \$207,983. Additionally, intergovernmental revenue was \$3.5 million less than the final revenue estimate as the ARRA funds were only drawn at a total of \$283,000 during 2010 and the additional appropriation for the funds was doubled. These decreases were offset by even more franchise fee revenue of \$392,100 and an increase in fine revenues of \$241,161. Total actual expenditures were \$3.7 million less than the final appropriated budget of the General Fund. Actual expenditures were lower due to: police and fire expenditures being \$2.6 million less than budget; general government costs were \$1 million less than budgeted; and park operations were \$353,000 less than anticipated.

The budget and actual schedule for the General Fund may be found on page 88 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, 2010 amounts to \$825,984,270, 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 6.7%, a 2.6% increase for governmental activities and a 9.9% increase for business-type activities.

#### City of Fort Smith Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 26,015,756	\$ 25,949,786	\$ 12,040,339	\$ 11,964,252	\$ 38,056,095	\$ 37,914,038
Buildings	56,523,090	57,214,025	1,235,041	1,220,942	57,758,131	58,434,967
Water System	-	-	242,826,105	243,143,652	242,826,105	243,143,652
Sewer System	-	-	111,446,622	97,660,824	111,446,622	97,660,824
Improvement other than buildings	6,430,000	6,481,442	11,044,748	8,701,022	17,474,748	15,182,464
Leasehold improvements	-	-	(24,085)	7,967	(24,085)	7,967
Infrastructure	229,907,105	216,226,688	-	-	229,907,105	216,226,688
Machinery and equipment	8,346,964	8,614,754	9,374,547	8,853,385	17,721,511	17,468,139
Construction in progress	24,604,363	28,294,446	86,213,675	59,793,440	110,818,038	88,087,886
<b>Total</b>	<b>\$ 351,827,278</b>	<b>\$ 342,781,141</b>	<b>\$ 474,156,992</b>	<b>\$ 431,345,484</b>	<b>\$ 825,984,270</b>	<b>\$ 774,126,625</b>

Major capital asset events during 2010 included the following:

- Net additions to construction in progress totaled \$22.7 million. Of this amount, water and wastewater improvements accounted for an increase of \$26.6 million and the street projects had a \$3.7 million net decrease in construction in progress.
- Net additions to infrastructure totaled \$20.6 million due to the completion of several street projects during 2010.
- Net additions to the sewer system totaled \$16.7 million and to the water system totaled \$5 million in 2010.
- Depreciation expense totaled \$20 million.

Additional information on the City’s capital assets can be found in Note 3 on pages 47-54 of this report.

**Long-term debt.** At December 31, 2010, the City had \$252.985 million of long-term bonds outstanding, including \$183.75 million of bonds secured solely by specified revenue sources, (i.e. revenue bonds).

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Sales and Use Tax Bonds	\$ 69,235,000	\$ 81,970,000	\$ -	\$ -
Revenue Bonds	-	-	183,750,000	190,680,000
Total	<u>\$ 69,235,000</u>	<u>\$ 81,970,000</u>	<u>\$ 183,750,000</u>	<u>\$ 190,680,000</u>

The City’s total bonded debt decreased by \$19.665 million or 7.2% during 2010. The key factors in this decrease were the issuance of the issuance of \$3.595 million in Sales & Use Tax Bonds, Series 2010. This was offset by the retirement of \$6.93 million in revenue bonds, and the call and maturity of \$16.33 million in sales and use tax bonds. The City maintains bond ratings as follows: “AA” rating from Standard & Poor’s on its water and sewer revenue bonds series 2005; an “A” rating from Standard & Poor’s on its water and sewer revenue bonds series 2007 and 2008; and an “AA” rating from Standard & Poor’s on its sales and use tax bonds series 2006, 2008, 2009, and 2010. 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 \$302.5 million. The City has no general obligation debt at December 31, 2010. Sales and use tax bonds are special debt of the City and are not considered general obligation bonds by the state.

Additional information regarding the City’s long-term debt can be found in Note 4 on pages 55-69 of this report.

**Economic Factors and the Next Year’s Budget and Rates**

- The year-end unemployment rate for the City was 8.2%, which was the same as one year ago. The state unemployment rate for 2010 was 7.9% and the national rate was 9.4%. The City is still experiencing a slow economy
- The City expects a 1.5% increase in its tax revenue for the coming year.

These factors were considered when the City prepared its 2011 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. Due to the economic slowdown in its major revenue sources, the City’s General Fund budget for 2011 was approved at \$41 million and includes an estimated year end fund balance approximating 9.1 % as \$1.6 million of the 2010 balance was used to provide the funding gap between 2011 revenues and appropriations. The Board and management are aware of the declining balance and are working towards reducing expenditures even further.

The Board adopted increased water and sewer rates effective January 1, 2011. The increases in rates are expected to provide operating revenue to cover day-to-day costs as well as improve the City’s water and sewer revenue bond debt service coverage.

## **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, 2010**

**Assets**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Cash	\$ 42,902,452	\$ 9,558,754	\$ 52,461,206	\$ 1,050,452	\$ 1,736,846
Investments	4,192,645	2,023,423	6,216,068	326,983	260,097
Receivables, net of allowance for uncollectibles					
Taxes	12,309,245	-	12,309,245	77,603	-
Sales taxes	2,726,271	-	2,726,271	141,022	-
Accounts	683,781	5,528,899	6,212,680	19,305	263,953
Interest	2,022	611	2,633	4	43
Grants and other governments	414,209	-	414,209	-	424,862
Internal balances	(434)	434	-	-	-
Inventory	-	892,889	892,889	5,000	17,598
Prepays and deposits	542,138	7,699	549,837	38,189	55,182
Deferred charges	370,794	3,916,660	4,287,454	-	326,041
Restricted assets					
Cash	58,275	4,716,679	4,774,954	-	491,976
Investments	35,079,777	33,016,486	68,096,263	-	296,986
Accounts receivable, net of allowances for uncollectibles	32,547	133,436	165,983	-	55,621
Sales tax receivable	1,541,365	-	1,541,365	-	-
Interest receivable	1,957	11,168	13,125	-	282
Prepaid items and deposits	-	63,049	63,049	-	-
Capital assets					
Nondepreciable	50,620,119	98,254,014	148,874,133	422,132	8,103,324
Depreciable	301,207,159	375,902,978	677,110,137	459,756	31,659,229
	<u>301,207,159</u>	<u>375,902,978</u>	<u>677,110,137</u>	<u>459,756</u>	<u>31,659,229</u>
Total assets	<u>\$ 452,684,323</u>	<u>\$ 534,027,178</u>	<u>\$ 986,711,501</u>	<u>\$ 2,540,446</u>	<u>\$ 43,692,040</u>

**City of Fort Smith, Arkansas**  
**Statement of Net Assets (Continued)**  
**December 31, 2010**

**Liabilities and Net Assets**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
<b>Liabilities</b>					
Accounts payable and accrued expenses	\$ 9,063,658	\$ 4,862,301	\$ 13,925,959	\$ 65,738	\$ 596,971
Other current liabilities	-	9,832	9,832	-	-
Accrued interest	797,622	2,210,656	3,008,278	-	2,751
Deposits	-	531,005	531,005	-	-
Unearned revenue	566,024	-	566,024	-	-
Noncurrent liabilities					
Other long-term liabilities					
due within one year	2,082,859	771,132	2,853,991	-	21
Current portion of long-term debt	13,655,000	7,192,300	20,847,300	-	235,000
Due in more than one year	63,506,807	186,719,212	250,226,019	-	3,752,755
	<u>89,671,970</u>	<u>202,296,438</u>	<u>291,968,408</u>	<u>65,738</u>	<u>4,587,498</u>
Total liabilities					
<b>Net Assets</b>					
Invested in capital assets, net of related debt	305,663,999	314,941,959	620,605,958	881,888	35,774,777
Restricted for					
Construction projects	16,376,100	625,471	17,001,571	-	480,549
Debt service	6,674,750	19,284,461	25,959,211	-	492,258
Landfill closure and postclosure care	-	4,475,504	4,475,504	-	-
Unrestricted (deficit)	34,297,504	(7,596,655)	26,700,849	1,592,820	2,356,958
	<u>363,012,353</u>	<u>331,730,740</u>	<u>694,743,093</u>	<u>2,474,708</u>	<u>39,104,542</u>
Total net assets					

**City of Fort Smith, Arkansas**  
**Statement of Activities**  
**For the Year Ended December 31, 2010**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Governmental	Business-Type
					Governmental Activities	Business-Type Activities	Total	Activities	Activities
Primary Government:									
Governmental Activities:									
General Government:									
Administration	\$ 5,255,127	\$ 1,024,742	\$ 1,161,147	\$ 38	\$ (3,069,200)	\$ -	\$ (3,069,200)		
Legal	1,842,415	2,168,882	449,000	-	775,467	-	775,467		
Finance	2,366,997	681,134	-	-	(1,685,863)	-	(1,685,863)		
Public safety:									
Police	18,966,337	240,081	1,764,855	377,573	(16,583,828)	-	(16,583,828)		
Fire	13,384,565	72,462	1,228,143	95,458	(11,988,502)	-	(11,988,502)		
Public works:									
Operations	472,247	-	-	-	(472,247)	-	(472,247)		
Streets	10,669,867	4,605	4,052,226	326,338	(6,286,698)	-	(6,286,698)		
Traffic Control	2,084,249	-	-	-	(2,084,249)	-	(2,084,249)		
Community services:									
Health and Social Services	592,140	-	63,200	-	(528,940)	-	(528,940)		
Parks and Recreation	4,791,723	302,017	42,558	400	(4,446,748)	-	(4,446,748)		
Convention Center	2,144,725	652,979	884,220	6,337	(601,189)	-	(601,189)		
Transit	2,493,012	198,539	1,382,308	551,656	(360,509)	-	(360,509)		
Housing and Rehabilitation	2,143,978	139	2,115,224	-	(28,615)	-	(28,615)		
Debt service:									
Interest	3,838,008	-	-	-	(3,838,008)	-	(3,838,008)		
Total Governmental Activities	71,045,390	5,345,580	13,142,881	1,357,800	(51,199,129)	-	(51,199,129)		
Business-Type Activities:									
Water and Sewer	37,974,129	38,509,851	-	512,378	-	1,048,100	1,048,100		
Sanitation	11,670,602	13,246,801	-	-	-	1,576,199	1,576,199		
Total Business-Type Activities	49,644,731	51,756,652	-	512,378	-	2,624,299	2,624,299		
Total Primary Government	\$ 120,690,121	\$ 57,102,232	\$ 13,142,881	\$ 1,870,178	\$ (51,199,129)	\$ 2,624,299	\$ (48,574,830)		
Component Units:									
Governmental:									
Advertising & Promotion	\$ 740,423	\$ -	\$ 4,170	\$ -			\$ (736,253)		
Public Library	2,633,837	131,685	231,935	-			(2,270,217)		
Sub-total	3,374,260	131,685	236,105	-			(3,006,470)		
Business-Type:									
Parking Authority	264,226	189,286	-	-				\$ (74,940)	
Airport	4,641,303	2,628,918	-	3,460,563				1,448,178	
Sub-total	4,905,529	2,818,204	-	3,460,563				1,373,238	
Total Component Units	\$ 8,279,789	\$ 2,949,889	\$ 236,105	\$ 3,460,563			(3,006,470)	1,373,238	

See accompanying notes to basic financial statements.

**City of Fort Smith, Arkansas**  
**Statement of Activities (Continued)**  
**For the Year Ended December 31, 2010**

	Net (Expense) Revenue and Changes in Net Assets				
	Primary Government			Component Units	
	Governmental	Business-Type	Total	Governmental	Business-Type
	Activities	Activities		Activities	Activities
General revenues					
Property taxes	\$ 10,623,101	\$ -	\$ 10,623,101	\$ 1,271,046	\$ -
Sales taxes	52,091,471	-	52,091,471	893,521	-
Gross receipts utility franchise fees	6,492,100	-	6,492,100	678,718	-
Grants and contributions not restricted to specific programs	10,085	-	10,085	-	-
Unrestricted investment earnings	163,172	89,914	253,086	2,027	40,895
Payment from City of Fort Smith					250,000
Other	1,199,332	339,356	1,538,688	322,422	76,696
Transfers	(14,083,290)	14,083,290	-	-	-
Total general revenues and transfers	<u>56,495,971</u>	<u>14,512,560</u>	<u>71,008,531</u>	<u>3,167,734</u>	<u>367,591</u>
Change in net assets	5,296,842	17,136,859	22,433,701	161,264	1,740,829
Net assets, beginning	<u>357,715,511</u>	<u>314,593,881</u>	<u>672,309,392</u>	<u>2,313,444</u>	<u>37,363,713</u>
Net assets, end of year	<u>\$ 363,012,353</u>	<u>\$ 331,730,740</u>	<u>\$ 694,743,093</u>	<u>\$ 2,474,708</u>	<u>\$ 39,104,542</u>

See accompanying notes to basic financial statements.

**City of Fort Smith, Arkansas**  
**Balance Sheet – Governmental Funds**  
**December 31, 2010**

	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Cash	\$ 5,390,222	\$ 2,781,011	\$ 18,624,237	\$ -	\$ -	\$ 12,341,252	\$ 39,136,722
Investments	814,969	421,824	75,246	-	-	2,110,506	3,422,545
Receivables, net of allowance for uncollectibles							
Taxes	7,770,744	1,945,072	-	-	-	2,593,429	12,309,245
Sales taxes	1,184,906	-	1,541,365	-	-	-	2,726,271
Accounts	434,887	2,726	-	-	-	10,367	447,980
Accrued interest	245	144	827	-	-	609	1,825
Due from other funds	3,189	-	-	-	-	2,622	5,811
Due from other governments	307,192	-	-	-	-	107,017	414,209
Restricted assets:							
Cash	-	-	-	-	58,275	-	58,275
Investments	333,302	-	-	24,522,856	10,223,619	-	35,079,777
Accounts receivable, net of allowance for uncollectibles	-	-	-	32,547	-	-	32,547
Sales taxes receivable	-	-	-	-	1,541,365	-	1,541,365
Interest receivable	-	-	-	-	1,957	-	1,957
Prepaid items	106,388	2,500	-	-	-	-	108,888
Deposits	19,649	-	32,095	309,011	-	-	360,755
<b>Total Assets</b>	<b>\$ 16,365,693</b>	<b>\$ 5,153,277</b>	<b>\$ 20,273,770</b>	<b>\$ 24,864,414</b>	<b>\$ 11,825,216</b>	<b>\$ 17,165,802</b>	<b>\$ 95,648,172</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$ 1,489,485	\$ 205,231	\$ 1,180,885	\$ 2,151,915	\$ -	862,865	\$ 5,890,381
Retainage payable	-	-	503,329	2,374,475	-	-	2,877,804
Due to other funds	2,622	-	-	-	-	3,623	6,245
Deferred revenue	6,259,690	1,912,941	-	-	-	3,090,203	11,262,834
Other	171,286	-	-	-	-	2,323	173,609
<b>Total Liabilities</b>	<b>7,923,083</b>	<b>2,118,172</b>	<b>1,684,214</b>	<b>4,526,390</b>	<b>-</b>	<b>3,959,014</b>	<b>20,210,873</b>
<b>Fund Balances:</b>							
<b>Reserved for:</b>							
Encumbrances	2,063,235	47,895	-	-	-	-	2,111,130
Prepaid items	106,388	2,500	-	-	-	-	108,888
Other purposes - construction projects	-	605,497	18,589,556	20,338,024	-	1,090,068	40,623,145
Other purposes - debt service	-	-	-	-	6,674,750	-	6,674,750
<b>Unreserved:</b>							
Designated for subsequent years' expenditures	1,334,669	2,379,213	-	-	5,150,466	-	8,864,348
Undesignated	4,938,318	-	-	-	-	-	4,938,318
<b>Unreserved, reported in nonmajor:</b>							
Special revenue funds	-	-	-	-	-	11,607,880	11,607,880
Capital projects funds	-	-	-	-	-	508,840	508,840
<b>Total Fund Balances</b>	<b>8,442,610</b>	<b>3,035,105</b>	<b>18,589,556</b>	<b>20,338,024</b>	<b>11,825,216</b>	<b>13,206,788</b>	<b>75,437,299</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 16,365,693</b>	<b>\$ 5,153,277</b>	<b>\$ 20,273,770</b>	<b>\$ 24,864,414</b>	<b>\$ 11,825,216</b>	<b>\$ 17,165,802</b>	<b>\$ 95,648,172</b>

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, 2010**

Total fund balances - governmental funds \$ 75,437,299

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	\$ 26,015,756	
Buildings	72,678,819	
Improvements other than buildings	13,137,619	
Machinery and equipment	26,705,849	
Infrastructure	295,160,994	
Accumulated depreciation	(106,476,122)	
	327,222,915	
Construction in progress	24,604,363	
	\$ 351,827,278	351,827,278

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. 10,696,810

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. 3,094,835

Some assets related to long-term debt are deferred and, therefore, are not  
reported in the funds. 370,794

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	\$ 2,208,284	
Claims payable	82,500	
Notes payable	495,000	
Sales tax bonds payable, net	70,142,001	
Interest payable	797,622	
Capital leases payable	49,134	
OPEB liabilities	4,407,093	
Arbitrage payable	233,029	
	\$ 78,414,663	(78,414,663)

Net assets of governmental activities \$ 363,012,353

**City of Fort Smith, Arkansas**  
**Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds**  
**For the Year Ended December 31, 2010**

	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Taxes	\$ 6,604,632	\$ 1,927,606	\$ -	\$ -	\$ -	\$ 2,573,495	\$ 11,105,733
Sales taxes	14,892,017	-	18,599,727	-	18,599,727	-	52,091,471
Licenses and permits	1,343,739	-	-	-	-	145,787	1,489,526
Utility franchise fees	6,492,100	-	-	-	-	-	6,492,100
Intergovernmental	3,940,064	4,052,226	326,338	-	-	4,562,622	12,881,250
Fines and forfeitures	2,164,608	-	-	-	-	134,666	2,299,274
Fees for services	1,237,853	-	-	-	-	-	1,237,853
Interest	6,550	3,774	25,042	39,850	8,156	18,337	101,709
Increase (decrease) in fair value of investments	-	-	-	70,075	(5,678)	-	64,397
Contributions	-	-	-	-	-	1,338,330	1,338,330
Miscellaneous	332,456	3,601	1,004	-	-	4,268	341,329
<b>Total Revenues</b>	<b>37,014,019</b>	<b>5,987,207</b>	<b>18,952,111</b>	<b>109,925</b>	<b>18,602,205</b>	<b>8,777,505</b>	<b>89,442,972</b>
<b>Expenditures</b>							
Current:							
General government							
Administration	3,779,346	223,968	-	-	-	-	4,003,314
Legal	1,688,924	40,919	-	-	-	-	1,729,843
Finance	1,829,575	317,229	-	-	-	-	2,146,804
Public safety							
Police	14,558,433	-	-	-	-	3,107,374	17,665,807
Fire	9,098,827	-	-	-	-	3,267,780	12,366,607
Public works							
Operations	-	444,376	-	-	-	-	444,376
Streets	-	2,616,745	21,341	-	-	771,436	3,409,522
Traffic Control	-	2,016,261	-	-	-	-	2,016,261
Community services							
Health and Social Services	126,401	-	-	-	-	-	126,401
Parks and Recreation	2,008,078	261,432	-	-	-	48,188	2,317,698
Convention Center	-	-	-	-	-	1,240,671	1,240,671
Transit	2,190,282	-	-	-	-	-	2,190,282
Housing and Rehabilitation	-	-	-	-	-	2,112,084	2,112,084
Other	2,118,170	15,719	-	182,169	19,466	-	2,335,524
Capital Outlay	1,533,218	70,909	17,394,032	14,822,522	-	366,560	34,187,241
Debt Service:							
Principal	475,000	-	-	-	16,330,000	-	16,805,000
Interest	27,618	-	-	-	3,012,768	-	3,040,386
Issuance costs	-	-	-	-	75,892	-	75,892
<b>Total Expenditures</b>	<b>39,433,872</b>	<b>6,007,558</b>	<b>17,415,373</b>	<b>15,004,691</b>	<b>19,438,126</b>	<b>10,914,093</b>	<b>108,213,713</b>
Excess (deficiency) in revenues over (under) expenditures	(2,419,853)	(20,351)	1,536,738	(14,894,766)	(835,921)	(2,136,588)	(18,770,741)

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, 2010**

	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
<b>Other Financing Sources (Uses)</b>							
Transfers in	\$ 2,506,950	\$ -	\$ -	\$ 3,355,576	\$ 522,854	\$ 423,956	\$ 6,809,336
Transfers out	(140,000)	(78,250)	(2,696,156)	-	(3,355,576)	-	(6,269,982)
Premium on bond issuance	-	-	-	-	16,217	-	16,217
Bond issuance	-	-	-	-	3,595,000	-	3,595,000
Total Other Financing Sources and Uses	<u>2,366,950</u>	<u>(78,250)</u>	<u>(2,696,156)</u>	<u>3,355,576</u>	<u>778,495</u>	<u>423,956</u>	<u>4,150,571</u>
Net Change in Fund Balances	(52,903)	(98,601)	(1,159,418)	(11,539,190)	(57,426)	(1,712,632)	(14,620,170)
Fund Balances, January 1	<u>8,495,513</u>	<u>3,133,706</u>	<u>19,748,974</u>	<u>31,877,214</u>	<u>11,882,642</u>	<u>14,919,420</u>	<u>90,057,469</u>
Fund Balances, December 31	<u>\$ 8,442,610</u>	<u>\$ 3,035,105</u>	<u>\$ 18,589,556</u>	<u>\$ 20,338,024</u>	<u>\$ 11,825,216</u>	<u>\$ 13,206,788</u>	<u>\$ 75,437,299</u>

See accompanying notes to basic financial statements.

**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, 2010**

Net change in fund balances - total governmental funds \$ (14,620,170)

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.	34,187,241
Capital contributions to the Water and Sewer Fund are recognized as transfers out on the government-wide statement of activities	(14,622,644)
The net effect of various transactions, i.e. sales, contributions, capital leases, is to increase net assets.	1,078,185
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.	(10,483,921)
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.	13,313,195
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.	(482,632)
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.	(2,086,783)
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 \$(303,604) and the external activities adjustment of \$76,912].	<u>(985,629)</u>

Change in net assets of governmental activities \$ 5,296,842

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**City of Fort Smith, Arkansas**  
**Statement of Fund Net Assets –**  
**Proprietary Funds**  
**December 31, 2010**

**Assets**

	<b>Enterprise Funds</b>			<b>Internal Service Funds</b>
	<b>Water and Sewer</b>	<b>Sanitation</b>	<b>Total</b>	
<b>Current Assets</b>				
Cash	\$ 2,192,498	\$ 5,556,600	\$ 7,749,098	\$ 5,575,386
Investments	947,150	835,898	1,783,048	1,010,475
Receivables, net of allowance for uncollectibles				
Accounts	4,409,225	1,084,224	5,493,449	271,251
Accrued interest	39	482	521	287
Restricted				
Cash	-	357,319	357,319	-
Investments	32,164,655	735,687	32,900,342	-
Accounts receivable, net of allowances for uncollectibles	-	133,436	133,436	-
Interest receivable	11,070	98	11,168	-
Inventory	831,013	-	831,013	61,876
Prepaid items	-	-	-	80,194
Due from other funds	-	-	-	434
	<u>40,555,650</u>	<u>8,703,744</u>	<u>49,259,394</u>	<u>6,999,903</u>
Total current assets				
<b>Noncurrent Assets</b>				
Restricted				
Cash	-	4,359,360	4,359,360	-
Investments	-	116,144	116,144	-
Prepaid items and deposits	63,049	-	63,049	-
Deferred charges	3,910,295	6,365	3,916,660	-
Capital assets				
Land	11,666,567	373,772	12,040,339	-
Buildings	-	1,998,195	1,998,195	-
Improvements other than buildings	-	21,016,775	21,016,775	-
Leasehold improvements	-	709,952	709,952	-
Machinery and equipment	8,918,593	18,195,856	27,114,449	-
Water system	317,691,379	-	317,691,379	-
Sewer system	169,064,654	-	169,064,654	-
Construction in progress	86,213,675	-	86,213,675	-
Less accumulated depreciation	(139,175,511)	(22,516,915)	(161,692,426)	-
	<u>458,352,701</u>	<u>24,259,504</u>	<u>482,612,205</u>	<u>-</u>
Total noncurrent assets				
	<u>\$ 498,908,351</u>	<u>\$ 32,963,248</u>	<u>\$ 531,871,599</u>	<u>\$ 6,999,903</u>

**City of Fort Smith, Arkansas**  
**Statement of Fund Net Assets –**  
**Proprietary Funds (Continued)**  
**December 31, 2010**

**Liabilities and Net Assets**

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	\$ 1,787,565	\$ 561,658	\$ 2,349,223	\$ 459,489
Retainage payable	2,349,062	-	2,349,062	-
Accrued vacation and sick leave	9,385	2,578	11,963	-
Accrued interest	2,207,078	3,578	2,210,656	-
Claims and judgments	-	-	-	1,962,821
Revenue bonds payable	6,170,000	1,022,300	7,192,300	-
Capital leases payable	67,029	183,335	250,364	-
Deposits	531,005	-	531,005	-
Other	9,832	-	9,832	-
	<u>13,130,956</u>	<u>1,773,449</u>	<u>14,904,405</u>	<u>2,422,310</u>
<b>Noncurrent liabilities</b>				
Accrued vacation and sick leave	929,111	255,273	1,184,384	-
Landfill closure and postclosure care	-	4,475,504	4,475,504	-
Revenue bonds, net	178,673,183	-	178,673,183	-
Capital leases payable	73,967	190,241	264,208	-
OPEB liabilities	1,449,443	672,490	2,121,933	-
	<u>181,125,704</u>	<u>5,593,508</u>	<u>186,719,212</u>	<u>-</u>
Total noncurrent liabilities	<u>181,125,704</u>	<u>5,593,508</u>	<u>186,719,212</u>	<u>-</u>
Total liabilities	<u>194,256,660</u>	<u>7,366,957</u>	<u>201,623,617</u>	<u>2,422,310</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	296,560,200	18,381,759	314,941,959	-
Restricted for bond retirement	18,732,851	551,610	19,284,461	-
Restricted for landfill closure and postclosure care	-	4,475,504	4,475,504	-
Restricted for asset replacement	500,000	125,471	625,471	-
Unrestricted (deficit)	(11,141,360)	2,061,947	(9,079,413)	4,577,593
	<u>\$ 304,651,691</u>	<u>\$ 25,596,291</u>	<u>330,247,982</u>	<u>\$ 4,577,593</u>

Reconciliation to government - wide statement of net assets:

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

1,482,758

Net assets of business type activities

\$ 331,730,740

**City of Fort Smith, Arkansas**  
**Statement of Revenues, Expenses and Changes in**  
**Fund Net Assets – Proprietary Funds**  
**For the Year Ended December 31, 2010**

	<u>Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Total</u>	
<b>Operating Revenues</b>				
Water service	\$ 25,667,803	\$ -	\$ 25,667,803	\$ -
Sewer service	12,046,062	-	12,046,062	-
Charges for services	761,974	13,246,801	14,008,775	8,666,990
Other	34,012	-	34,012	-
	<u>38,509,851</u>	<u>13,246,801</u>	<u>51,756,652</u>	<u>8,666,990</u>
Total Operating Revenues				
<b>Operating Expenses</b>				
Personnel services	12,079,716	5,758,404	17,838,120	-
Contractual services	2,930,308	1,183,978	4,114,286	567,647
Materials and supplies	4,313,059	3,452,368	7,765,427	652,314
Heat, light, and power	1,549,125	81,721	1,630,846	-
Depreciation	8,609,224	918,876	9,528,100	-
Insurance claims and expenses	-	-	-	8,242,591
	<u>29,481,432</u>	<u>11,395,347</u>	<u>40,876,779</u>	<u>9,462,552</u>
Total Operating Expenses				
<b>Operating Income (Loss)</b>	<u>9,028,419</u>	<u>1,851,454</u>	<u>10,879,873</u>	<u>(795,562)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest revenue	58,133	20,557	78,690	8,819
Increase (decrease) in fair value of investments	17,166	(5,942)	11,224	-
Interest expense and fiscal charges	(8,256,593)	(79,863)	(8,336,456)	-
Other nonoperating revenues, net	76,287	122,932	199,219	-
	<u>(8,105,007)</u>	<u>57,684</u>	<u>(8,047,323)</u>	<u>8,819</u>
Total Nonoperating Revenues (Expenses)				
<b>Income Before Contributions and Transfers</b>	923,412	1,909,138	2,832,550	(786,743)
Capital contributions	15,135,022	-	15,135,022	-
Transfers in	-	140,000	140,000	-
Transfers out	(601,104)	(78,250)	(679,354)	-
	<u>15,457,330</u>	<u>1,970,888</u>	<u>17,428,218</u>	<u>(786,743)</u>
<b>Change in Net Assets</b>				
<b>Total net assets, beginning of year</b>	<u>289,194,361</u>	<u>23,625,403</u>		<u>5,364,336</u>
<b>Total net assets, ending</b>	<u>\$ 304,651,691</u>	<u>\$ 25,596,291</u>		<u>\$ 4,577,593</u>
Reconciliation to government - wide statement of activities:				
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds			<u>(291,359)</u>	
Change in net assets of business type activities for government - wide statement of activities			<u>\$ 17,136,859</u>	

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**City of Fort Smith, Arkansas**  
**Statement of Cash Flows – Proprietary Funds**  
**For the Year Ended December 31, 2010**

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
<b>Operating Activities</b>				
Cash received from customers	\$ 38,291,683	\$ 13,161,235	\$ 51,452,918	\$ -
Cash received from service users	-	-	-	1,244,113
Cash received from city and employee contributions	-	-	-	7,253,195
Cash payments for goods and services	(8,174,919)	(4,920,075)	(13,094,994)	(666,180)
Cash paid to employees	(11,392,811)	(5,406,695)	(16,799,506)	-
Cash payments for premiums and other operating expenses	-	-	-	(7,626,050)
Cash payments for claims paid	-	-	-	(784,459)
Cash received from other operating revenues	124,414	201,156	325,570	-
	<u>18,848,367</u>	<u>3,035,621</u>	<u>21,883,988</u>	<u>(579,381)</u>
Net cash provided by (used in) operating activities				
<b>Noncapital Financing Activities</b>				
Transfers in from other funds	-	140,000	140,000	172,169
Transfers out to other funds	(601,104)	(78,250)	(679,354)	(172,169)
	<u>(601,104)</u>	<u>61,750</u>	<u>(539,354)</u>	<u>-</u>
Net cash provided by (used by) noncapital financing activities				
<b>Capital and Related Financing Activities</b>				
Proceeds from sale of capital assets	5,350	20,500	25,850	-
Acquisition and construction of capital assets	(34,021,356)	(3,383,457)	(37,404,813)	-
Principal paid on bonds	(5,910,000)	(1,020,000)	(6,930,000)	-
Interest paid on bonds	(8,402,026)	(76,854)	(8,478,880)	-
	<u>(48,328,032)</u>	<u>(4,459,811)</u>	<u>(52,787,843)</u>	<u>-</u>
Net cash used for capital and related financing activities				
<b>Investing Activities</b>				
Proceeds from sales and maturities of investment securities	145,078,993	17,370,684	162,449,677	7,215,716
Outlays for purchases of investment securities	(113,754,057)	(7,100,935)	(120,854,992)	(2,164,525)
Interest on investments	272,870	19,191	292,061	10,865
	<u>31,597,806</u>	<u>10,288,940</u>	<u>41,886,746</u>	<u>5,062,056</u>
Net cash provided by investing activities				
<b>Net increase in cash and restricted cash</b>	<b>1,517,037</b>	<b>8,926,500</b>	<b>10,443,537</b>	<b>4,482,675</b>
Cash and restricted cash, January 1	675,461	1,346,779	2,022,240	1,092,711
	<u>\$ 2,192,498</u>	<u>\$ 10,273,279</u>	<u>\$ 12,465,777</u>	<u>\$ 5,575,386</u>
Cash and restricted cash, December 31				
<b>Reconciliation of Cash and Restricted Cash at December 31 to Statement of Net Assets</b>				
Cash	\$ 2,192,498	\$ 5,556,600	\$ 7,749,098	\$ 5,575,386
Restricted cash	-	4,716,679	4,716,679	-
	<u>\$ 2,192,498</u>	<u>\$ 10,273,279</u>	<u>\$ 12,465,777</u>	<u>\$ 5,575,386</u>
Total				

See accompanying notes to basic financial statements.

**City of Fort Smith, Arkansas**  
**Statement of Cash Flows – Proprietary Funds (Continued)**  
**For the Year Ended December 31, 2010**

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating income (loss)	\$ 9,028,419	\$ 1,851,454	\$ 10,879,873	\$ (795,562)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	8,609,224	918,876	9,528,100	-
Miscellaneous revenue (expense)	(36,556)	154,345	117,789	-
Change in assets and liabilities				
Accounts receivable	(191,437)	(85,566)	(277,003)	(169,924)
Due from other funds	-	-	-	242
Inventory	(87,073)	-	(87,073)	(35,617)
Prepaid items	22,432	1,270	23,702	(66,194)
Accounts payable and accrued liabilities	863,155	(133,469)	729,686	357,941
Deposits	7,281	-	7,281	-
Accrued vacation and sick leave	(36,208)	8,411	(27,797)	-
Liability for claims and judgments	-	-	-	129,733
OPEB liabilities	669,101	320,300	989,401	-
Other liabilities	29	-	29	-
Total adjustments	9,819,948	1,184,167	11,004,115	216,181
Net cash provided by operating activities	<u>\$ 18,848,367</u>	<u>\$ 3,035,621</u>	<u>\$ 21,883,988</u>	<u>\$ (579,381)</u>

Noncash investing, capital and financing activities:

Enterprise funds:

The Water and Sewer Fund received contributions of capital assets of \$15,317,191 for 2010 and recognized a \$17,166 increase in fair value of investments in 2010. The 2002 advance refunding and the 2005 advance refunding for water and sewer revenue bonds resulted in cash flow savings of \$34,175 and \$26,723, respectively, for 2010.

The Sanitation Fund recognized a decrease in fair value of investments of \$5,942 for 2010. During 2010, the 2002 advance refunding for solid waste revenue bonds resulted in cash flow savings of \$101,065.

**City of Fort Smith, Arkansas**  
**Statement of Fiduciary Net Assets**  
**OPEB Trust Fund**  
**December 31, 2010**

**Assets**

**Current Assets**

Investments	\$ 722,601
Due from primary government	<u>360,000</u>
Total current assets	<u>1,082,601</u>
Total assets	<u>1,082,601</u>

**Net Assets**

Held in trust for OPEB	<u>1,082,601</u>
Total net assets	<u><u>\$ 1,082,601</u></u>

**City of Fort Smith, Arkansas**  
**Statement of Changes in Fiduciary Net Assets**  
**OPEB Trust Fund**  
**For the Year Ended December 31, 2010**

**Additions:**

Contributions:		
Employer	\$	360,000
Total contributions		<u>360,000</u>
Investment earnings:		
Interest		7,796
Net increase in fair value of investments		1,546
Total investment earnings		<u>9,342</u>
Less investment expense		6,741
Net investment earnings		<u>2,601</u>
Total additions		<u>362,601</u>
Change in net assets		362,601
Net assets, beginning		<u>720,000</u>
Net assets, ending	\$	<u><u>1,082,601</u></u>

# City of Fort Smith, Arkansas

## Notes to Basic Financial Statements

### December 31, 2010

#### 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, 2010**

**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 85-86 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 85-86 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 85-86 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 85-86 of these notes for condensed financial statements.

# City of Fort Smith, Arkansas

## Notes to Basic Financial Statements

### December 31, 2010

#### 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.

#### **Adoption of Accounting Principles**

Effective January 1, 2010, the City implemented the following financial accounting and reporting standards issued by GASB:

Statement No. 51 Accounting and Financial Reporting for Intangible Assets

- This statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software.

Statement No. 53 Accounting and Financial Reporting for Derivative Instruments

- This Statement establishes accounting and financial reporting requirements for derivative instruments entered into by state and local governments.

Statement No. 58 *Accounting and Financial Reporting for Chapter 9 Bankruptcies*

- This Statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan.

Adoption of these standards did not have an impact on the City's financial statements.

#### **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

# City of Fort Smith, Arkansas

## Notes to Basic Financial Statements

### December 31, 2010

parties. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Expenses that cannot be specifically identified to a particular function are charged to 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, proprietary, and fiduciary, are presented. The emphasis of fund financial statements is on major governmental and major enterprise funds, each displayed in a separate column. All other governmental and enterprise funds are aggregated and reported as nonmajor funds. 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.

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.

# City of Fort Smith, Arkansas

## Notes to Basic Financial Statements

### December 31, 2010

The City reports the following fiduciary fund type:

The OPEB Fund is a pension trust fund that accounts for contributions to an irrevocable trust established to provide for future funding of retirees' medical plan benefits.

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

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

# City of Fort Smith, Arkansas

## Notes to Basic Financial Statements

### December 31, 2010

met all eligibility requirements. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

#### **Governmental Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in 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, 2010**

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

<b>Capital Assets</b>	<b>Useful Life (Years)</b>
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 2010 totaled \$767,329.

# **City of Fort Smith, Arkansas**

## **Notes to Basic Financial Statements**

### **December 31, 2010**

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 2009 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 \$6.1 million of additional taxes could be raised per year based on the current year's assessed value of \$873,592,440 for real property and \$336,466,947 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, 2010**

#### ***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 \$8,195,130 in 2010, 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. See Note 8 on pages 76-79.

The City also makes contributions to fund a self-insured workers' compensation program. The City contributed \$369,360 in 2010 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 \$18,599,727 for fiscal year 2010, 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 \$14,892,017 for fiscal year 2010. These taxes are included in the General Fund's sales tax revenues. The County 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, 2008, 2009 and 2010. These taxes are collected by the state and remitted to the City net of a collection fee. The taxes for this purpose totaled \$18,599,727 for fiscal year 2010. City management expects the Series 2006, 2008, and 2010 Bonds to be retired by 2013. The Series 2009 Bonds are expected to be retired during 2014.

#### ***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, 2010**

***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 the remaining life of the old debt or the life of the new debt 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	\$ 58,275
Investments	35,079,777
Accounts receivable, net of allowance for uncollectibles	32,547
Interest receivable	1,957
Sales taxes receivable	<u>1,541,365</u>
Total restricted assets - general government	<u><u>\$ 36,713,921</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 statement of net assets 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, 2010**

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

Current Assets:

Cash - solid waste bond account	\$	357,319
Investments - solid waste bond account		735,687
Investments - water and sewer bond account		4,999,633
Investments - water and sewer bond construction account		27,165,022
Accounts receivable - solid waste cleanup program account		133,436
Interest receivable - solid waste bond account		98
Interest receivable - water and sewer bond construction account		11,048
Interest receivable - water and sewer bond account		22
Total current assets - restricted		33,402,265

Noncurrent assets:

Cash - solid waste landfill construction/closure and postclosure care account		4,359,360
Investments - solid waste landfill construction/closure and postclosure care account		116,144
Prepaid items and deposits - water and sewer operating account		391
Prepaid items and deposits - water and sewer bond construction account		62,658
Total noncurrent assets		4,538,553

Total restricted assets - enterprise funds	\$	37,940,818
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**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 \$75,621 is recorded as an increase in fair value of investments for the primary government in 2010, with an \$11,224 increase related to the City's enterprise funds and a \$64,397 increase related to the City's governmental funds.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

***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, 2010, 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, 2010 were as follows:

**Pooled and Nonpooled Funds**

<u>Description</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Demand deposits	\$ 117,761,685	\$ 119,272,200
Certificates of deposit	6,335,276	6,335,276
	<u>\$ 124,096,961</u>	<u>\$ 125,607,476</u>

**Component Units**

At year-end, the carrying amount and the bank balance of the Advertising and Promotion Commission deposits was \$97,755. At December 31, 2010, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Public Library's deposits was \$978,725 and the bank balance was \$1,015,798. At December 31, 2010, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount and the bank balance of the Parking Authority's deposits was \$310,739. At December 31, 2010, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Airport Commission's deposits was \$2,178,191 and the bank balance was \$1,985,672. At December 31, 2010, 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, 2010**

The City's investments, including accrued interest, held as of December 31, 2010 were as follows:

**Pooled and Nonpooled funds**

Description	Fair Value	Investment Maturities Less than 1 Year	Investment Maturities 1-5 Years	Investment Maturities 5-10 Years
U.S. Treasury Bills	\$ 540,792	\$ 540,792	\$ -	\$ -
U.S. Treasury Notes	5,415,981	5,415,981	-	-
Money Market Mutual Fund	69,090,432	68,707,124	284,797	98,511
Money Market	3,485	3,485	-	-
	<u>\$ 75,050,690</u>	<u>\$ 74,667,382</u>	<u>\$ 284,797</u>	<u>\$ 98,511</u>

**Component Units**

At year-end, the Public Library held \$300,959 in mutual funds. The Public Library reports investments at fair value.

At year-end, the Parking Authority fund held \$68,310 in U.S. Treasury Bills and \$23,934 in governmental money market accounts. The Parking Authority reports investments at fair value and the maturity of the bills is May 31, 2011.

At year-end, the Airport Commission held \$205,056 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, 2010 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, 2010**

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

Carrying value of deposits -	
Pooled and nonpooled funds	\$ 125,607,476
Deposits classified as investments	<u>(68,371,316)</u>
	<u>\$ 57,236,160</u>
Cash as reported on the government-wide statement of net assets	\$ 52,461,206
Restricted cash as reported on the government-wide statement of net assets	<u>4,774,954</u>
	<u>\$ 57,236,160</u>
Carrying value of investments -	
Pooled and nonpooled funds	\$ 6,679,374
Deposits classified as investments	<u>68,371,316</u>
	<u>\$ 75,050,690</u>
As reported on the government-wide statement of net assets:	
Investments	\$ 6,216,068
Interest receivable	2,633
Restricted investments	68,096,263
Restricted interest receivable	<u>13,125</u>
	<u>74,328,089</u>
As reported on the fiduciary fund statement of fiduciary assets:	
Investments	<u>722,601</u>
	<u>\$ 75,050,690</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

**Component Units:**

Governmental type-

Carrying value of deposits -		
Advertising and Promotion		
Commission	\$	97,755
Public Library		978,725
Carrying value of investments -		
Public Library		300,959
		300,959
	\$	1,377,439

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

Cash	\$	1,050,452
Investments		326,983
Interest receivable		4
		4
	\$	1,377,439

Business type-

Carrying value of deposits -		
Parking Authority	\$	310,739
Airport Commission		2,178,191
Carrying value of investments -		
Parking Authority		92,244
Airport Commission		205,056
		205,056
	\$	2,786,230

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

Cash	\$	1,736,846
Investments		260,097
Interest receivable		43
Restricted cash		491,976
Restricted investments		296,986
Restricted interest receivable		282
		282
	\$	2,786,230

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

**Note 3: Capital Assets**

Capital assets activity for the year ended December 31, 2010 was as follows:

**Primary Government:**

	<b>December 31, 2009</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>December 31, 2010</b>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 25,949,786	\$ 65,970	\$ -	\$ 26,015,756
Construction in progress	28,294,446	17,910,454	(21,600,537)	24,604,363
Total capital assets not being depreciated	<u>54,244,232</u>	<u>17,976,424</u>	<u>(21,600,537)</u>	<u>50,620,119</u>
Capital assets being depreciated				
Buildings	71,867,413	64,446	746,960	72,678,819
Improvements other than buildings	12,741,621	98,894	297,104	13,137,619
Infrastructure	274,604,521	-	20,556,473	295,160,994
Machinery and equipment	25,856,159	1,424,833	(575,143)	26,705,849
Total depreciable capital assets at historical cost	<u>385,069,714</u>	<u>1,588,173</u>	<u>21,025,394</u>	<u>407,683,281</u>
Less accumulated depreciation for				
Buildings	14,653,388	1,502,341	-	16,155,729
Improvements other than buildings	6,260,179	447,440	-	6,707,619
Infrastructure	58,377,833	6,876,056	-	65,253,889
Machinery and equipment	17,241,405	1,658,084	(540,604)	18,358,885
Total accumulated depreciation	<u>96,532,805</u>	<u>10,483,921</u>	<u>(540,604)</u>	<u>106,476,122</u>
Capital assets being depreciated, net	<u>288,536,909</u>	<u>(8,895,748)</u>	<u>21,565,998</u>	<u>301,207,159</u>
Governmental activities capital assets, net	<u>\$ 342,781,141</u>	<u>\$ 9,080,676</u>	<u>\$ (34,539)</u>	<u>\$ 351,827,278</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

**Primary Government:**

	<b>December 31, 2009</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>December 31, 2010</b>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 11,964,252	\$ 76,087	\$ -	\$ 12,040,339
Construction in progress	59,793,440	36,751,974	(10,331,739)	86,213,675
	<u>71,757,692</u>	<u>36,828,061</u>	<u>(10,331,739)</u>	<u>98,254,014</u>
Total capital assets not being depreciated				
	<u>71,757,692</u>	<u>36,828,061</u>	<u>(10,331,739)</u>	<u>98,254,014</u>
Capital assets being depreciated:				
Water system	312,690,097	929,383	4,071,899	317,691,379
Sewer system	152,328,566	12,833,971	3,902,117	169,064,654
Buildings	1,919,359	78,836	-	1,998,195
Improvements other than buildings	18,659,052	-	2,357,723	21,016,775
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	25,585,041	1,671,536	(142,128)	27,114,449
	<u>511,892,067</u>	<u>15,513,726</u>	<u>10,189,611</u>	<u>537,595,404</u>
Total depreciable capital assets at historical cost				
	<u>511,892,067</u>	<u>15,513,726</u>	<u>10,189,611</u>	<u>537,595,404</u>
Less accumulated depreciation for:				
Water system	69,546,445	5,318,829	-	74,865,274
Sewer system	54,667,742	2,950,290	-	57,618,032
Buildings	698,417	64,737	-	763,154
Improvements other than buildings	9,958,030	13,997	-	9,972,027
Leasehold improvements	701,985	32,052	-	734,037
Machinery and equipment	16,731,656	1,148,196	(139,950)	17,739,902
	<u>152,304,275</u>	<u>9,528,101</u>	<u>(139,950)</u>	<u>161,692,426</u>
Total accumulated depreciation				
	<u>152,304,275</u>	<u>9,528,101</u>	<u>(139,950)</u>	<u>161,692,426</u>
Capital assets being depreciated, net				
	<u>359,587,792</u>	<u>5,985,625</u>	<u>10,329,561</u>	<u>375,902,978</u>
Business-type activities capital assets, net				
	<u>\$ 431,345,484</u>	<u>\$ 42,813,686</u>	<u>\$ (2,178)</u>	<u>\$ 474,156,992</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

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

Governmental activities:	
General government -	
Administration	\$ 28,633
Legal	1,271
Finance	181,191
Public safety -	
Police	559,130
Fire	303,931
Public works -	
Operations	5,909
Streets	7,077,853
Traffic Control	19,015
Community services -	
Health and social services	3,829
Parks and recreation	1,272,651
Convention center	833,864
Transit	183,552
Housing and rehabilitation	<u>13,092</u>
Total governmental activities depreciation expense	<u>10,483,921</u>
Business type activities:	
Water and Sewer	8,609,225
Sanitation	<u>918,876</u>
Total business-type activities depreciation expense	<u>9,528,101</u>
Total depreciation expense	<u><u>\$ 20,012,022</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 47):	
Additions for capital assets not being depreciated	\$ 17,976,424
Additions for capital assets being depreciated	<u>1,588,173</u>
	<u><u>\$ 19,564,597</u></u>
Capital outlay reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 34,187,241
Less: capital contributions to the water and sewer fund	<u>(14,622,644)</u>
	<u><u>\$ 19,564,597</u></u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

Capital asset activity for the year ended December 31, 2010 for the major enterprise funds was as follows:

**Primary Government:**

	<u>December 31, 2009</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2010</u>
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 11,590,480	\$ 76,087	\$ -	\$ 11,666,567
Construction in progress	59,634,514	34,553,177	(7,974,016)	86,213,675
	<u>71,224,994</u>	<u>34,629,264</u>	<u>(7,974,016)</u>	<u>97,880,242</u>
Total capital assets not being depreciated:				
	<u>71,224,994</u>	<u>34,629,264</u>	<u>(7,974,016)</u>	<u>97,880,242</u>
Capital assets being depreciated:				
Water system	312,690,097	929,383	4,071,899	317,691,379
Sewer system	152,328,566	12,833,971	3,902,117	169,064,654
Machinery and equipment	8,748,030	281,918	(111,355)	8,918,593
	<u>473,766,693</u>	<u>14,045,272</u>	<u>7,862,661</u>	<u>495,674,626</u>
Total depreciable capital assets at historical cost				
	<u>473,766,693</u>	<u>14,045,272</u>	<u>7,862,661</u>	<u>495,674,626</u>
Less accumulated depreciation for:				
Water system	69,546,445	5,318,829	-	74,865,274
Sewer system	54,667,742	2,950,290	-	57,618,032
Machinery and equipment	6,461,276	340,106	(109,177)	6,692,205
	<u>130,675,463</u>	<u>8,609,225</u>	<u>(109,177)</u>	<u>139,175,511</u>
Total accumulated depreciation				
	<u>130,675,463</u>	<u>8,609,225</u>	<u>(109,177)</u>	<u>139,175,511</u>
Capital assets being depreciated, net				
	<u>343,091,230</u>	<u>5,436,047</u>	<u>7,971,838</u>	<u>356,499,115</u>
Total water and sewer fund capital assets, net				
	<u>\$ 414,316,224</u>	<u>\$ 40,065,311</u>	<u>\$ (2,178)</u>	<u>\$ 454,379,357</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

	<b>December 31, 2009</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>December 31, 2010</b>
Sanitation Fund:				
Capital assets not being depreciated:				
Land	\$ 373,772	\$ -	\$ -	\$ 373,772
Construction in progress	158,926	2,198,797	(2,357,723)	-
Total capital assets not being depreciated:	<u>532,698</u>	<u>2,198,797</u>	<u>(2,357,723)</u>	<u>373,772</u>
Capital assets being depreciated:				
Buildings	1,919,359	78,836	-	1,998,195
Improvements other than buildings	18,659,052	-	2,357,723	21,016,775
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	16,837,011	1,389,618	(30,773)	18,195,856
Total depreciable capital assets at historical cost	<u>38,125,374</u>	<u>1,468,454</u>	<u>2,326,950</u>	<u>41,920,778</u>
Less accumulated depreciation for:				
Buildings	698,417	64,737	-	763,154
Improvements other than buildings	9,958,030	13,997	-	9,972,027
Leasehold improvements	701,985	32,052	-	734,037
Machinery and equipment	10,270,380	808,090	(30,773)	11,047,697
Total accumulated depreciation	<u>21,628,812</u>	<u>918,876</u>	<u>(30,773)</u>	<u>22,516,915</u>
Capital assets being depreciated, net	<u>16,496,562</u>	<u>549,578</u>	<u>2,357,723</u>	<u>19,403,863</u>
Total sanitation fund capital assets, net	<u>\$ 17,029,260</u>	<u>\$ 2,748,375</u>	<u>\$ -</u>	<u>\$ 19,777,635</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

**Component Units-**

	<b>December 31, 2009</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>December 31, 2010</b>
Governmental Activities:				
Public Library				
Capital assets not being depreciated:				
Land	\$ 422,132	\$ -	\$ -	\$ 422,132
Construction in progress	7,163	-	(7,163)	-
Capital assets not being depreciated	<u>429,295</u>	<u>-</u>	<u>(7,163)</u>	<u>422,132</u>
Capital assets being depreciated:				
Equipment	809,447	249,323	-	1,058,770
Transportation equipment	<u>139,952</u>	<u>-</u>	<u>-</u>	<u>139,952</u>
Total depreciable capital assets at historical cost	1,066,481	249,323	-	1,198,722
Less accumulated depreciation	<u>681,513</u>	<u>57,453</u>	<u>-</u>	<u>738,966</u>
Capital assets being depreciated, net	<u>384,968</u>	<u>191,870</u>	<u>-</u>	<u>459,756</u>
Governmental activities capital assets, net				
Public Library	<u>\$ 814,263</u>	<u>\$ 191,870</u>	<u>\$ (7,163)</u>	<u>\$ 881,888</u>

	<b>December 31, 2009</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>December 31, 2010</b>
Business-type activities:				
Parking Authority				
Capital assets not being depreciated:				
Land	\$ 1,359,161	\$ -	\$ -	\$ 1,359,161
Capital assets being depreciated:				
Buildings	2,317,331	22,277	-	2,339,608
Machinery and equipment	<u>73,525</u>	<u>-</u>	<u>-</u>	<u>73,525</u>
Total depreciable capital assets at historical cost	<u>2,390,856</u>	<u>22,277</u>	<u>-</u>	<u>2,413,133</u>
Less accumulated depreciation for:				
Buildings	1,324,434	55,192	-	1,379,626
Machinery and equipment	<u>66,485</u>	<u>-</u>	<u>-</u>	<u>66,485</u>
Total accumulated depreciation	<u>1,390,919</u>	<u>55,192</u>	<u>-</u>	<u>1,446,111</u>
Capital assets being depreciated, net	<u>999,937</u>	<u>(32,915)</u>	<u>-</u>	<u>967,022</u>
Business-type activities capital assets, net				
Parking Authority	<u>\$ 2,359,098</u>	<u>\$ (32,915)</u>	<u>\$ -</u>	<u>\$ 2,326,183</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

	<u>December 31, 2009</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2010</u>
Airport Commission:				
Capital assets				
not being depreciated:				
Land	\$ 6,058,806	\$ -	\$ -	\$ 6,058,806
Construction in progress	<u>2,585,830</u>	<u>1,793,102</u>	<u>(3,693,575)</u>	<u>685,357</u>
Total capital assets not being depreciated	<u>8,644,636</u>	<u>1,793,102</u>	<u>(3,693,575)</u>	<u>6,744,163</u>
Capital assets being depreciated:				
Buildings	20,291,784	1,247,204	-	21,538,988
Runways & other airport infrastructure	38,190,730	557,515	3,331,742	42,079,987
Equipment, furniture & fixtures, and other	<u>9,174,657</u>	<u>45,491</u>	<u>198,832</u>	<u>9,418,980</u>
Total depreciable capital assets at historical cost	<u>67,657,171</u>	<u>1,850,210</u>	<u>3,530,574</u>	<u>73,037,955</u>
Less accumulated depreciation for:				
Buildings	8,137,766	715,441	-	8,853,207
Runways & other airport infrastructure	26,630,586	1,157,098	-	27,787,684
Equipment, furniture & fixtures, and other	<u>5,343,525</u>	<u>523,905</u>	<u>(162,573)</u>	<u>5,704,857</u>
Total accumulated depreciation	<u>40,111,877</u>	<u>2,396,444</u>	<u>(162,573)</u>	<u>42,345,748</u>
Capital assets being depreciated, net	<u>27,545,294</u>	<u>(546,234)</u>	<u>3,693,147</u>	<u>30,692,207</u>
Business-type activities capital assets, net				
Airport Commission	<u>\$ 36,189,930</u>	<u>\$ 1,246,868</u>	<u>\$ (428)</u>	<u>\$ 37,436,370</u>

Construction-in-progress is composed of the following:

	<u>Primary Appropriation</u>	<u>Expended to December 31, 2010</u>	<u>Committed</u>
Primary government:			
Governmental activities	\$ 60,442,848	\$ 24,604,363	\$ 35,838,485
Business-type activities			
Sanitation capital improvements	4,954,278	-	4,954,278
Water and sewer capital improvements	<u>114,368,640</u>	<u>86,213,675</u>	<u>28,154,965</u>
Total	<u>\$179,765,766</u>	<u>\$ 110,818,038</u>	<u>\$ 68,947,728</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

The City's governmental construction projects include major street and drainage improvements. The governmental projects also include the radio communication system purchase project authorized by the Sales and Use Tax Refunding and Construction Bonds, Series 2006 and 2008. Funding is in place for these projects. The water and sewer capital improvement projects include the wastewater projects that are being funded by the Sales and Use Tax Refunding and Construction Bonds, Series 2006, 2008, 2009, and 2010. These assets are being transferred to the Water and Sewer Fund as contributed capital from the general government fund. Funds are available for these projects. The water and sewer capital improvement projects also include the waterline improvements in the southern areas of the City, wet weather wastewater improvements, and plant designs that are funded by the 2007 and 2008 water and sewer system revenue bonds. 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 has issued additional sales and use tax bonds, Series 2010, to fund additional wastewater improvements. The City plans to issue additional debt in future years for the remainder of the projects. The sanitation project currently includes engineering work and design for a new and expanded scale house for operations at the landfill.

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

	<u>Business-Type</u>			<u>Total</u>
	<u>Governmental</u>	<u>Water and Sewer</u>	<u>Sanitation</u>	
Primary Government:				
Net book value	\$ 351,827,278	\$ 454,379,357	\$ 19,777,635	\$ 474,156,992
Current and noncurrent debt	(70,686,135)	(184,984,179)	(1,395,876)	(186,380,055)
Restricted assets - unspent bond/net proceeds	24,522,856	27,165,022	-	27,165,022
Invested in capital assets, net of related debt	<u>\$ 305,663,999</u>	<u>\$ 296,560,200</u>	<u>\$ 18,381,759</u>	<u>\$ 314,941,959</u>
Component Units:				
Net book value	\$ 881,888	39,762,553		
Current and noncurrent debt	-	(3,987,776)		
Invested in capital assets, net of related debt	<u>\$ 881,888</u>	<u>\$ 35,774,777</u>		

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

**Note 4: Long-Term Liabilities**

Changes in long-term liabilities for the year ended December 31, 2010 were as follows:

**Primary Government-**

	Balance December 31, 2009	Increases	Decreases	Balance December 31, 2010	Amount Due in One Year
<b>Governmental Activities:</b>					
Bonds Payable -					
Sales tax bonds	\$ 81,970,000	\$ 3,595,000	\$ 16,330,000	\$ 69,235,000	\$ 13,655,000
Add issuance premium	1,138,248	16,217	247,464	907,001	-
Sales tax bonds payable, net	<u>83,108,248</u>	<u>3,611,217</u>	<u>16,577,464</u>	<u>70,142,001</u>	<u>13,655,000</u>
Notes Payable	970,000	-	475,000	495,000	495,000
Capital leases payable	96,209	-	47,075	49,134	49,134
Compensated Absences	2,127,069	117,224	36,009	2,208,284	2,209
Claims Payable - General Fund					
Legal	82,500	-	-	82,500	82,500
Employee insurance/workers' compensation	1,449,140	4,876	-	1,454,016	1,454,016
OPEB liabilities	2,320,310	2,086,783	-	4,407,093	-
Other	<u>574,015</u>	<u>-</u>	<u>167,377</u>	<u>406,638</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 90,727,491</u>	<u>\$ 5,820,100</u>	<u>\$ 17,302,925</u>	<u>\$ 79,244,666</u>	<u>\$ 15,737,859</u>
<b>Business-Type Activities</b>					
Bonds Payable -					
Revenue bonds	\$ 190,680,000	\$ -	\$ 6,930,000	\$ 183,750,000	\$ 7,230,000
Less issuance discounts	(36,850)	-	(2,457)	(34,393)	-
Add issuance premium	2,693,596	-	157,279	2,536,317	-
Less deferral on refunded issue	<u>(453,201)</u>	<u>-</u>	<u>(66,760)</u>	<u>(386,441)</u>	<u>(37,700)</u>
Revenue bonds payable, net	<u>192,883,545</u>	<u>-</u>	<u>7,018,062</u>	<u>185,865,483</u>	<u>7,192,300</u>
Capital leases payable	759,641	14,483	259,552	514,572	250,364
Compensated absences	1,224,144	52,666	80,463	1,196,347	11,963
Claims Payable-Employee insurance and worker's compensation					
	342,600	203,905	37,700	508,805	508,805
OPEB liabilities	1,132,532	989,401	-	2,121,933	-
Closure/postclosure landfill costs	<u>4,125,504</u>	<u>350,000</u>	<u>-</u>	<u>4,475,504</u>	<u>-</u>
Total other long-term liabilities	<u>7,584,421</u>	<u>1,610,455</u>	<u>377,715</u>	<u>8,817,161</u>	<u>771,132</u>
Total business-type activities long-term liabilities	<u>\$ 200,467,966</u>	<u>\$ 1,610,455</u>	<u>\$ 7,395,777</u>	<u>\$ 194,682,644</u>	<u>\$ 7,963,432</u>

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

Current Liabilities:	
Current portion of long-term debt	\$ 7,192,300
Noncurrent liabilities:	
Due within one year	771,132
Due in more than one year	<u>186,719,212</u>
Total business-type activities long-term liabilities	<u>\$ 194,682,644</u>

**City of Fort Smith, Arkansas**  
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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, 2010 for the major enterprise funds were as follows:

	Balance December 31,			Balance December 31,		Amount Due in One Year
	2009	Increases	Decreases	2010		
<b>Water and Sewer Fund:</b>						
Bonds Payable -						
Revenue bonds	\$ 188,600,000	\$ -	\$ 5,910,000	\$ 182,690,000	\$ 6,170,000	
Less issuance discounts	(36,850)	-	(2,457)	(34,393)	-	
Add issuance premium	2,693,596	-	157,279	2,536,317	-	
Less deferral on refunded issue	(377,803)	-	(29,062)	(348,741)	-	
Revenue bonds payable, net	<u>190,878,943</u>	<u>-</u>	<u>6,035,760</u>	<u>184,843,183</u>	<u>6,170,000</u>	
Capital leases payable	202,873	14,483	76,360	140,996	67,029	
Compensated absences	974,704	27,425	63,633	938,496	9,385	
OPEB liabilities	780,342	669,101	-	1,449,443	-	
Other long-term liabilities	1,957,919	711,009	139,993	2,528,935	76,414	
Total water and sewer fund	<u>\$ 192,836,862</u>	<u>\$ 711,009</u>	<u>\$ 6,175,753</u>	<u>\$ 187,372,118</u>	<u>\$ 6,246,414</u>	
<b>Sanitation Fund:</b>						
Bonds Payable -						
Revenue bonds	\$ 2,080,000	\$ -	\$ 1,020,000	\$ 1,060,000	\$ 1,060,000	
Less deferral on refunded issue	(75,398)	-	(37,698)	(37,700)	(37,700)	
Revenue bonds payable, net	<u>2,004,602</u>	<u>-</u>	<u>982,302</u>	<u>1,022,300</u>	<u>1,022,300</u>	
Capital leases payable	556,768	-	183,192	373,576	183,335	
Compensated absences	249,440	25,241	16,830	257,851	2,578	
OPEB liabilities	352,190	320,300	-	672,490	-	
Closure/postclosure landfill costs	4,125,504	350,000	-	4,475,504	-	
Other long-term liabilities	5,283,902	695,541	200,022	5,779,421	185,913	
Total sanitation fund	<u>\$ 7,288,504</u>	<u>\$ 695,541</u>	<u>\$ 1,182,324</u>	<u>\$ 6,801,721</u>	<u>\$ 1,208,213</u>	

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
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Reconciliation of changes in long-term liabilities for the major enterprise funds to the statement of fund net assets for proprietary funds:

	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>
Current Liabilities		
Revenue bonds payable	\$ 6,170,000	\$ 1,022,300
Capital leases payable	67,029	183,335
Accrued vacation and sick leave	9,385	2,578
Noncurrent Liabilities:		
Landfill closure and postclosure care	-	4,475,504
Revenue bonds, net	178,673,183	-
Capital leases payable	73,967	190,241
Accrued vacation and sick leave	929,111	255,273
OPEB liabilities	1,449,443	672,490
Total long-term liabilities for major enterprise funds	<u>\$ 187,372,118</u>	<u>\$ 6,801,721</u>

Changes in long-term liabilities for the year ended December 31, 2010, for the component units were as follows:

	<u>Balance December 31, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2010</u>	<u>Amount Due in One Year</u>
Component Units:					
Business-type activities-					
Parking Authority:					
Bonds Payable -					
Revenue bonds payable, net	\$ 815,000	\$ -	\$ 100,000	\$ 715,000	\$ 105,000
Less issuance discounts	(15,100)	-	(1,888)	(13,212)	-
Bonds payable, net	<u>799,900</u>	<u>-</u>	<u>98,112</u>	<u>701,788</u>	<u>105,000</u>
Compensated Absences	2,228	-	156	2,072	21
Total	<u>802,128</u>	<u>-</u>	<u>98,268</u>	<u>703,860</u>	<u>105,021</u>
Airport Commission:					
Bonds payable -					
Revenue Bonds	3,440,000	-	125,000	3,315,000	130,000
Less issuance discounts	(32,740)	-	(1,656)	(31,084)	-
Bonds payable, net	<u>3,407,260</u>	<u>-</u>	<u>123,344</u>	<u>3,283,916</u>	<u>130,000</u>
Total	<u>3,407,260</u>	<u>-</u>	<u>123,344</u>	<u>3,283,916</u>	<u>130,000</u>
Total Component Units	<u>\$ 4,209,388</u>	<u>\$ -</u>	<u>\$ 221,612</u>	<u>\$ 3,987,776</u>	<u>\$ 235,021</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 were \$216,000 for the year ended December 31, 2010. The future minimum lease payments for the lease are as follows:

2011	\$ 226,000
2012	<u>38,000</u>
	<u>\$ 264,000</u>

**Capital Leases**

The City has entered into lease agreements for the acquisition of capital assets in 2002 through 2010. 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:

	<u>Primary Government</u>	
	<u>Governmental</u> <u>Activities</u>	<u>Business - Type</u> <u>Activities</u>
Buildings	\$ 303,585	\$ -
Machinery and Equipment	-	883,009
Less accumulated depreciation	<u>(124,807)</u>	<u>(233,108)</u>
Total	<u>\$ 178,778</u>	<u>\$ 649,901</u>

**City of Fort Smith, Arkansas**  
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The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2010 were as follows:

	<b>Governmental Activities</b>	<b>Business - Type Activities</b>
2011	\$ 51,284	\$ 275,070
2012	-	259,285
2013	-	18,839
Total future minimum lease payments	51,284	553,194
Less interest	(2,150)	(38,622)
Net present value of future minimum lease payments	\$ 49,134	\$ 514,572

**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 at 4% payable semiannually. The total costs of issuance were \$20,238 that is being amortized over the life of the notes. The deferred charges have been amortized at December 31, 2010.

The maturity schedule for the notes payable is:

	<b>Principal</b>	<b>Interest</b>
2011	\$ 495,000	\$ 9,900

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, 2010 was \$544,134. The limit as of December 31, 2010 was \$85.3 million; therefore management believes the City is in compliance with state statutes for short-term financing at December 31, 2010.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
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***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 September 1, 2013, with interest ranging from 3.8% to 5%, 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 being amortized over the refunded debt's life using the straight-line method. The total deferred amount on refunding has been amortized.

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 \$2,650,000 bonds were called during 2010.

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 September 1, 2014, with interest ranging from 3.75% 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. A total of \$355,000 bonds were called during 2010.

On September 30, 2009, the City issued \$29,150,000 Sales and Use Tax Construction Bonds, Series 2009 with interest rates ranging from 2.3% to 2.5%. The bonds are payable solely from the same sales tax that supports the 2006, 2008, and 2010 sales tax bonds. However, the 2009 Bonds will be redeemed after all outstanding 2006, 2008, and 2010 bonds are retired. The bonds were issued for additional wastewater improvements.

The 2009 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.

**City of Fort Smith, Arkansas**  
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On January 7, 2010, the City issued an additional \$3.595 million in Sales and Use Tax Bonds, Series 2010. The 2010 Bonds were issued to provide more funding for wastewater improvements in accordance with the EPA guidelines and directives. The 2010 Bonds were issued on parity with the 2006 and 2008 Sales and Use Tax Bonds and the 1% local sales and use tax pledged for the 2006 and 2008 Bonds is also pledged for the 2010 Bonds. The 2010 Bonds carry interest rates of 1.3%, payable semiannually, and mature September 1, 2011. The 2010 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 \$100,000 in bonds was called during 2010.

**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, 2010. The City is required to maintain a debt service reserve equal to \$790,750 during the life of the 2008 Bonds, \$1,457,500 during the life of the 2009 Bonds, and \$179,750 during the life of the 2010 Bonds. The City held investments equal to these amounts at December 31, 2010.

**Maturity Schedule** – The debt service requirements for the Sales Tax Bonds at December 31, 2010 is as follows:

**Sales Tax Bonds Maturity Schedule**

	<b>Principal</b>	<b>Interest</b>
2011	\$ 13,655,000	\$ 2,387,917
2012	12,490,000	1,832,051
2013	26,790,000	1,252,901
2014	16,300,000	401,675
 Total	 69,235,000	 \$ 5,874,544
 Add unamortized bond premium	 907,001	
 Net bonds outstanding at December 31, 2010	 \$ 70,142,001	

**City of Fort Smith, Arkansas**  
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Revenue Bonds - Business-Type Activities

Revenue bonds outstanding at December 31, 2010, are comprised of the following individual issues:

Water and Sewer:

\$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	\$ 4,470,000
\$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 4.5% to 5.25% payable semiannually	16,985,000
\$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 4% to 4.25% payable semiannually	15,960,000
\$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	21,875,000
\$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	116,070,000

Sanitation:

\$6,305,000 of Series 2002 Solid Waste Revenue Refunding Bonds; due in annual installments at varying amounts through December 1, 2011, with interest at 4.05% payable semiannually	<u>1,060,000</u>
Bonds outstanding, December 31, 2010	183,750,000
Unamortized bond discount	(34,393)
Unamortized bond premium	2,536,317
Deferred amount on refunding	<u>(386,400)</u>
Net bonds outstanding, December 31, 2010	<u>\$ 185,865,483</u>

**City of Fort Smith, Arkansas**  
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*Water and Sewer-*

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 on 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 deferred amount on refunding was fully amortized during 2008. 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.

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 were 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 deferred amount on refunding has been amortized. 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 2002 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 2002, 2005A, and 2005B bonds.

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

**City of Fort Smith, Arkansas**  
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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 \$348,741 as of December 31, 2010. The 2008 Bonds were issued as additional bonds on a parity of security with the 2002, 2005A, 2005B, and 2007 bonds. The amount of funds in the 2002A escrow account was \$60.06 million at December 31, 2010.

The Series 2002, 2005A, 2005B, 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.

Per the Bond Authorizing Ordinances, the City covenants that the rates shall, if and when necessary, from time to time, be increased in such manner as will produce net revenues (net revenues being defined as gross revenues of the System less the amounts required to pay the costs of operation, maintenance, and repair of the System, including all expense items properly attributable to the operation and maintenance of the System in accordance with generally accepted accounting principles applicable to municipal water and sewer systems (excluding depreciation, interest and amortization expenses)) at least equal to 110% of current year's debt service on all System Bonds and the amount needed to make the deposits into the Depreciation Fund and the Debt Service Reserve and to reimburse bond insurers for any amounts owed in connection with a Qualified Surety Bond.

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, 2010, 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 \$2,641,524 related to the Series 2002 Bonds, \$1,760,500 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 \$2,641,524, \$1,760,500, \$727,354, \$1,891,369 and \$11,712,104 at December 31, 2010 for this purpose.

**City of Fort Smith, Arkansas**  
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**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, 2010.

***Sanitation-***

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 \$37,700 as of December 31, 2010. 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 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, 2010, 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 \$551,610 as of December 31, 2010. The City held investments equal to this amount in the Sanitation Fund at December 31, 2010.

**City of Fort Smith, Arkansas**  
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***Maturity Schedule***

Aggregate debt service requirements at December 31, 2010 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>
2011	\$ 6,170,000	\$ 8,828,312	\$ 1,060,000	\$ 42,930
2012	6,450,000	8,551,125	-	-
2013	5,350,000	8,254,400	-	-
2014	5,570,000	8,035,101	-	-
2015	5,810,000	7,794,478	-	-
2016-2020	33,080,000	34,956,660	-	-
2021-2025	41,630,000	26,407,362	-	-
2026-2030	53,330,000	14,706,376	-	-
2031-2032	25,300,000	1,913,000	-	-
<b>Total</b>	<b><u>\$ 182,690,000</u></b>	<b><u>\$ 119,446,814</u></b>	<b><u>\$ 1,060,000</u></b>	<b><u>\$ 42,930</u></b>

	<u>Total Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 7,230,000	\$ 8,871,242
2012	6,450,000	8,551,125
2013	5,350,000	8,254,400
2014	5,570,000	8,035,101
2015	5,810,000	7,794,478
2016-2020	33,080,000	34,956,660
2021-2025	41,630,000	26,407,362
2026-2030	53,330,000	14,706,376
2031-2032	25,300,000	1,913,000
<b>Total</b>	<b><u>\$ 183,750,000</u></b>	<b><u>\$ 119,489,744</u></b>

***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, 2010, bonds payable were \$3,315,000. The bonds are due in annual installments at varying amounts through October 1, 2026, with interest ranging from 4.90% to 6.25%, payable

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
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semiannually. The bonds outstanding net of amortized discount at December 31, 2010, were \$3,283,916.

Maturities of revenue bonds payable for succeeding years are as follows:

	<b>Principal</b>	<b>Interest</b>
2011	\$ 130,000	\$ 204,028
2012	140,000	196,618
2013	145,000	188,497
2014	155,000	180,015
2015	165,000	170,870
2016-2020	985,000	688,190
2021-2025	1,030,000	306,757
2026	565,000	51,875
 Total Payments	 3,315,000	 \$ 1,986,850
 Less unamortized bond discount	 (31,084)	
 Net bond outstanding, December 31, 2010	 \$ 3,283,916	

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 \$492,258, which are classified as restricted assets on the balance sheet, as of December 31, 2010. The Airport Commission held investments equal to this amount at December 31, 2010.

**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

**City of Fort Smith, Arkansas**  
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and by the revenues derived from parking meters located in the City. The restricted account required by the bond ordinance is as follows:

**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, 2010, 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, 2010, Parking Authority Revenue Bonds payable was \$715,000. The bonds are due in annual installments at varying amounts through December 1, 2017, with interest ranging from 4.45% to 4.75%, payable semiannually. The bonds outstanding net of unamortized discount at December 31, 2010, was \$701,788.

Debt service requirements for the bonds at December 31, 2010 were as follows:

	<u>Principal</u>	<u>Interest</u>
2011	\$ 105,000	\$ 33,013
2012	110,000	28,340
2013	115,000	23,390
2014	120,000	18,042
2015	125,000	12,463
2016-2017	<u>140,000</u>	<u>7,125</u>
Total Payments	715,000	<u>\$ 122,373</u>
Less unamortized bond discount	<u>(13,212)</u>	
Net bond outstanding, December 31, 2010	<u>\$ 701,788</u>	

# **City of Fort Smith, Arkansas**

## **Notes to Basic Financial Statements**

### **December 31, 2010**

#### ***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, 2010, the City has recorded \$233,029 as arbitrage payable. This liability is included as other long-term liabilities in the Sales and Use Tax Construction Fund.

#### ***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, 2010, there were thirteen series of Industrial Development Revenue Bonds outstanding with an aggregate principal amount payable of \$208,600,000, 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 and the Fort Smith Public Library participate in the City's health plans by making contributions as required by the City. At December 31, 2010 the net assets were \$4,356,885 and \$170,285 in the Employee Insurance and Workers' Compensation Funds, respectively. The claims liability balances of

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
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\$1,399,016 and \$563,805 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, salvages 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 2010 are detailed below:

	<b>Employee Insurance</b>	<b>Workers' Compensation</b>
Self-insurance liability, December 31, 2008	\$ 1,098,896	\$ 622,266
Current year claims and changes in estimate	6,934,364	722,495
Claim payments	(7,011,013)	(533,921)
Self-insurance liability, December 31, 2009	1,022,247	810,840
Current year claims and changes in estimate	8,103,861	268,464
Claim payments	(7,727,092)	(515,499)
Self-insurance liability, December 31, 2010	\$ 1,399,016	\$ 563,805

**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.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

**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 three 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 \$2,352,116 for 2010.

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 2010 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 2010.

Covered payroll for the clerk was \$80,778 for the fiscal year ended December 31, 2010. There is one retired clerk receiving benefits from APERS.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
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**(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 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, 2010 are:

	<b>Fire</b>	<b>Police</b>
Active Members:		
Vested	4	1
Retirees and beneficiaries	130	107
Total	134	108

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 2010 plan year were based upon the December 31, 2009, actuarial report.

**City of Fort Smith, Arkansas**  
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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 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, 2010, 2009, and 2008, and amounts required by the City and active participants of the Old Plans for 2010, 2009, and 2008 were as follows:

	<b>Fire Plan</b>			<b>Police Plan</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Employer actuarially required contribution rates	36.97%	34.30%	33.24%	27.75%	24.05%	23.79%
Employer contributions as a percentage of annual covered payroll	36.97%	34.30%	33.24%	27.75%	24.05%	23.79%
Employer contributions to LOPFI	\$214,956	\$226,519	\$223,824	\$ 68,162	\$ 85,670	\$ 89,004
Annual Pension Cost (APC)	\$214,956	\$226,519	\$223,824	\$ 68,162	\$ 85,670	\$ 89,004
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	-	-	-	-	-	-

The Fire portion of the Old Plan, as of December 31, 2009, the most recent actuarial valuation date, was 29% funded. The actuarial accrued liability for benefits was \$40,306,539, and the actuarial value of assets was \$11,682,884, resulting in an unfunded actuarial accrued liability (UAAL) of \$28,623,655. The covered payroll (annual payroll of active employees covered by the plan) was \$7,235,164 and the ratio of the UAAL to the covered payroll was 396%.

The Police portion of the Old Plan, as of December 31, 2009, the most recent actuarial valuation date, was 35% funded. The actuarial accrued liability for benefits was \$35,656,105, and the actuarial value of assets was \$12,404,021, resulting in an unfunded actuarial accrued liability (UAAL) of \$23,252,084. The covered payroll (annual payroll of active employees covered by the plan) was \$8,129,433 and the ratio of the UAAL to the covered payroll was 286%.

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, presents

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
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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 the year ended December 31, 2010, for the Old Plans:

	<b>Old Fire and Police Plans</b>
Valuation date	December 31, 2009
Cost method	Entry age
Asset valuation method	Smooth market over a period of 5 years
Amortization method	Level percentage
Amortization period	28 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%

**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.

Members and participants of the new plans at December 31, 2010 are:

	<b>Fire</b>	<b>Police</b>
Active Members:		
Vested	80	95
Retirees and beneficiaries	1	3
Total	81	98

# City of Fort Smith, Arkansas

## Notes to Basic Financial Statements

### December 31, 2010

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 2.94% 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 3.28% of final average pay for each year of credited service that began January 1, 2004 and after. The total benefit cannot exceed 100% 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 8.5% 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, 2010, 2009, and 2008, and amounts required by the City and active participants of the New Plans for 2010, 2009, and 2008 were as shown on the following page:

	<u>Fire Plan</u>			<u>Police Plan</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Employer actuarially required contribution rates	36.97%	34.30%	33.24%	27.75%	24.05%	23.79%
Employer contributions as a percentage of annual covered payroll	36.97%	34.30%	33.24%	27.75%	24.05%	23.79%
Employer contributions to LOPFI	\$ 2,459,884	\$ 2,174,691	\$ 1,855,784	\$ 2,187,755	\$ 1,892,713	\$ 1,616,132
Annual Pension Cost (APC)	\$ 2,459,884	\$ 2,174,691	\$ 1,855,784	\$ 2,187,755	\$ 1,892,713	\$ 1,616,132
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	-	-	-	-	-	-

The Fire portion of the New Plan, as of December 31, 2009, the most recent actuarial valuation date, was 57% funded. The actuarial accrued liability for benefits was \$32,868,368 and the actuarial value of assets was \$18,635,161 resulting in an unfunded actuarial accrued liability (UAAL) of \$14,233,207. The covered payroll (annual payroll of active employees covered by the plan) was \$6,653,731 and the ratio of the UAAL to the covered payroll was 214%.

The Police portion of the New Plan, as of December 31, 2009, the most recent actuarial valuation date, was 71% funded. The actuarial accrued liability for benefits was \$32,229,734, and the actuarial value of assets was \$22,975,883, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,253,851. The covered payroll (annual payroll of active employees covered by the plan) was \$7,883,803 and the ratio of the UAAL to the covered payroll was 117%.

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Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

	<b>New Fire and Police Plans</b>
Valuation date	December 31, 2009
Cost method	Entry age
Asset valuation method	Smooth market over a period of 5 years
Amortization method	Level percentage
Amortization period	28 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 year

**Note 8: Other Postemployment Benefits (OPEB)**

***Plan Description***

The City of Fort Smith sponsors and administers an informal single-employer defined benefit healthcare plan that provides coverage for medical, dental and vision benefits. 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. In addition, members employed at least 5 years with age plus service exceeding 70 at retirement are eligible for benefits. 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.

***Contributions:*** The contribution requirements of plan members are established by the Board of Directors 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. Employees are required to elect the coverage at the time of termination. The City is not required to make contributions to the plan on behalf of the retirees. The plan has 904 active participants and 42 retirees and beneficiaries receiving benefits who pay monthly premiums between \$435 for

**City of Fort Smith, Arkansas**  
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single coverage and \$1,200 for family coverage. Administrative costs of the plan are financed through investment earnings and employer contributions.

***Summary of Significant Accounting Policies***

*Basis of Accounting:* The financial statements of the plan are presented as a trust fund in the City’s Comprehensive Annual Financial Report (CAFR) and are prepared on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

*Method Used to Value Investments:* Fund investments are reported at fair value. The City’s investment policies are defined in Note 2 of the financial statements.

***Funded Status and Funding Progress***

*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)	\$ 3,229,852
30 - year amortization of net OPEB obligation	(278,252)
Interest on net OPEB obligation	241,699
	3,193,299
Annual OPEB cost	3,193,299
Total annual employer contribution	117,115
Increase in net OPEB obligation	3,076,184
Net OPEB obligation - beginning of year	3,452,842
Net OPEB obligation - end of year	\$ 6,529,026

**City of Fort Smith, Arkansas**  
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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 \$4,407,093 and for business-type activities at \$2,121,933. 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 (\$1,449,443) and for the Sanitation Fund (\$672,490).

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

Normal cost	\$	1,705,695
Amortization of transition obligation		1,524,157
Annual required contribution	\$	3,229,852

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010, 2009 and 2008 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2010	\$ 3,193,299	3.67%	\$ 6,529,026
12/31/2009	2,257,547	48.67%	3,452,842
12/31/2008	2,294,100	0.00%	2,294,100

Funded Status and Funding Progress: As of January 1, 2010, the most recent actuarial valuation date, the plan was partially funded. The actuarial accrued liability for benefits was \$23,918,052, and the actuarial value of assets was \$720,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$23,198,052. The covered payroll (annual payroll of active employees covered by the plan) was \$38,966,530, and the ratio of the UAAL to the covered payroll was 59.5%.

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, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

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, 2010, 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 2010 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 payrolls on an open basis. The remaining amortization period at December 31, 2010, was thirty years.

**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, 2010 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. Additionally, the Sales and Use Tax Construction Bonds, Series 2008, 2009, and 2010 included \$14 million, \$29.15 million, and \$3.595 million, respectively, for wastewater improvements as required by the EPA. The City plans to issue an additional \$60 million in sales and use tax 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, 2010**

**Note 10: Individual Fund Disclosures**

Interfund receivables and payables as of December 31, 2010 are as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
Governmental Funds:		
General Fund	\$ 3,189	\$ 2,622
Special Revenue Funds		
Special Grants Fund	-	1,543
CDBG Fund	2,622	1,871
HOME Fund	-	209
Internal Service Funds	<u>434</u>	<u>-</u>
Total	<u>\$ 6,245</u>	<u>\$ 6,245</u>

The \$3,189 receivable in the General Fund represents amounts paid for expenditures incurred by the Community Development Block Grant Fund (\$1,437), the HOME Investment Partnership Act Fund (\$209), and the Special Grants Fund (\$1,543). The \$434 receivable in the Working Capital Fund, an internal service fund, represents charges to the Community Development Block Grant Fund for fuel and supplies. The \$2,622 receivable in the Community Development Block Grant Fund is revenue due from the General Fund at yearend.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

Interfund transfers in (out) for the year ended December 31, 2010, is as follows:

<b>Fund</b>	<b>Transfers</b>	
	<b>In</b>	<b>Out</b>
<b>Primary Government -</b>		
Governmental Funds:		
Major funds:		
General Fund	\$ 2,506,950	\$ 140,000
Special revenue -		
Street Maintenance Fund	-	78,250
Sales Tax Fund	-	2,696,156
Debt service fund -		
Sales & Use Tax Bond Fund	522,854	3,355,576
Capital projects fund -		
Sales & Use Tax Construction Fund	3,355,576	-
Nonmajor fund:		
Capital project fund -		
Sidewalk Construction Fund	<u>423,956</u>	<u>-</u>
Total governmental funds	<u>6,809,336</u>	<u>6,269,982</u>
Proprietary Funds:		
Water and Sewer Fund	-	601,104
Sanitation Fund	<u>140,000</u>	<u>78,250</u>
Total proprietary funds	<u>140,000</u>	<u>679,354</u>
Total	<u><u>\$ 6,949,336</u></u>	<u><u>\$ 6,949,336</u></u>

The transfer out of \$2,696,156 from the Sales Tax Fund includes \$2,272,200 to the General Fund and represents the allocation of overhead costs provided by General Fund programs during 2010 and \$423,956 to the Sidewalk Construction Fund for street related sidewalk projects. The \$3,355,576 transfer from the Sales and Use Tax Bond Fund to the Sales and Use Tax Construction Fund represents the proceeds from the 2010 Sales and Use Tax bonds.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

**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 2049 rather than 2013. The landfill was opened on October 9, 1993. The City's reported landfill closure and postclosure care liability at December 31, 2010, is \$4,475,504. The remaining estimated closure and postclosure care costs of approximately \$31 million will be recognized as the remaining capacity is filled. The percentage of landfill capacity used to date was approximately 10.6% at December 31, 2010. 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, 2010. 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, 2010, is \$7,286,929. 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 \$6,557,000 at December 31, 2010. The City will increase the value of the letter of credit to meet the required level of financial assurance during 2011.

**Note 12: New Applicable GASB Standards**

***GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions***

This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

***GASB Statement No. 57 – OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans***

This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Consistent with this change to the employer-reporting requirements, this Statement also amends a Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

***GASB Statement No. 59 – Financial Instruments Omnibus***

This Statement supersedes Statement No. 31, *2a7-Like External Investment Pools*, paragraph 12 and amends this Statement's paragraph 22; this Statement supersedes Statement 53, *Contracts that Include Nonperformance Penalties*, paragraph 16 and amends this Statement's paragraphs 13, 17, and 64c(5)(a); this Statement amends NCGA Statement 4, *Guarantees of the Indebtedness of Others*, paragraph 9; this Statement amends Statements No. 25 and No. 43, *Unallocated Insurance Contracts*, paragraphs 24 and 44 and paragraphs 22 and 46, respectively; this Statement amends Statement No. 40, *Interest Rate Risk Disclosures for Debt Investment Pools*, paragraph 15 to update and improve the accounting and financial reporting requirements of these pronouncements that address financial instruments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

***GASB Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements***

This Statement will improve financial reporting by addressing issues related to service concession arrangements (SCA). The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

**GASB Statement No. 61 – The Financial Reporting Entity: Omnibus**

This Statement amends Statement No. 14, *The Financial Reporting Entity*, and Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis*, to modify existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity and financial reporting entity display and disclosure requirements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

**GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements**

This Statement establishes accounting and financial reporting standards for the financial statements of states and local governments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

**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, 2010**

	Governmental			Business-Type		
	Advertising and Promotion	Public Library	Total	Parking Authority	Airport Commission	Total
<b>Assets</b>						
Current assets	\$ 138,696	\$ 1,519,862	\$ 1,658,558	\$ 406,605	\$ 3,196,841	\$ 3,603,446
Capital Assets, net of accumulated depreciation, as applicable	-	881,888	881,888	2,326,183	37,436,370	39,762,553
Noncurrent assets	-	-	-	12,686	313,355	326,041
Total Assets	<u>138,696</u>	<u>2,401,750</u>	<u>2,540,446</u>	<u>2,745,474</u>	<u>40,946,566</u>	<u>43,692,040</u>
<b>Liabilities</b>						
Current liabilities	18,684	47,054	65,738	120,442	714,280	834,722
Noncurrent liabilities	-	-	-	598,860	3,153,916	3,752,776
Total liabilities	<u>18,684</u>	<u>47,054</u>	<u>65,738</u>	<u>719,302</u>	<u>3,868,196</u>	<u>4,587,498</u>
<b>Net Assets</b>						
Investment in capital assets, net of related debt	-	881,888	881,888	1,622,323	34,152,454	35,774,777
Restricted	-	-	-	-	972,807	972,807
Unrestricted	120,012	1,472,808	1,592,820	403,849	1,953,109	2,356,958
Total net assets	<u>\$ 120,012</u>	<u>\$ 2,354,696</u>	<u>\$ 2,474,708</u>	<u>\$ 2,026,172</u>	<u>\$ 37,078,370</u>	<u>\$ 39,104,542</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2010**

**Statement of Activities**  
**For the Year Ended December 31, 2010**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines, and	Operating	Governmental Activities		
		Charges for Services	Grants and Contributions	Advertising and Promotion	Public Library	Total
Advertising/Promotion	\$ 740,423	\$ -	\$ 4,170	\$ (736,253)	\$ -	\$ (736,253)
Public Library	2,633,837	131,685	231,935	-	(2,270,217)	(2,270,217)
<b>Total</b>	<b>\$ 3,374,260</b>	<b>\$ 131,685</b>	<b>\$ 236,105</b>	<b>(736,253)</b>	<b>(2,270,217)</b>	<b>(3,006,470)</b>

General revenues						
Property taxes				-	1,271,046	1,271,046
Sales taxes				-	893,521	893,521
Hospitality hotel/motel taxes				678,718	-	678,718
Unrestricted investments earnings				118	1,909	2,027
Other				-	322,422	322,422
<b>Total general revenues</b>				<b>678,836</b>	<b>2,488,898</b>	<b>3,167,734</b>
Change in net assets				(57,417)	218,681	161,264
Net assets, beginning				177,429	2,136,015	2,313,444
Net assets, ending				<b>\$ 120,012</b>	<b>\$ 2,354,696</b>	<b>\$ 2,474,708</b>

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines, and	Capital	Business-Type Activities		
		Charges for Services	Grants and Contributions	Parking Authority	Airport Commission	Total
Parking Authority	\$ 264,226	\$ 189,286	\$ -	\$ (74,940)	\$ -	\$ (74,940)
Airport Commission	4,641,303	2,628,918	3,460,563	-	1,448,178	1,448,178
<b>Total</b>	<b>\$ 4,905,529</b>	<b>\$ 2,818,204</b>	<b>\$ 3,460,563</b>	<b>(74,940)</b>	<b>1,448,178</b>	<b>1,373,238</b>

General revenues						
Unrestricted investment earnings				272	40,623	40,895
Payment from City of Fort Smith				250,000	-	250,000
Other				-	76,696	76,696
<b>Total general revenues</b>				<b>250,272</b>	<b>117,319</b>	<b>367,591</b>
Change in net assets				175,332	1,565,497	1,740,829
Net assets, beginning				1,850,840	35,512,873	37,363,713
Net assets, ending				<b>\$ 2,026,172</b>	<b>\$ 37,078,370</b>	<b>\$ 39,104,542</b>

**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 (b)	Funded Ratio (a)/(b)	Total Funded Excess (Unfunded) Actuarial Liability* (a) - (b)	Annual Covered Payroll (c)	Ratio of Funded Excess (Unfunded) Actuarial Liability to Annual Covered Payroll (4)/(5) (b-a)/(c)
Fire Relief and Pension Plan and Police Relief and Pension Plan (the Old Plans)						
Fire Plan:						
2009	\$ 11,682,884	\$ 40,306,539	29.0%	\$ (28,623,655)	\$ 7,235,164	-395.6%
2008	1,046,343	25,238,443	4.1%	(24,192,100)	7,000,612	-345.6%
2007	2,657,357	21,410,722	12.4%	(18,753,365)	6,111,117	-306.9%
Police Plan:						
2009	\$ 12,404,021	\$ 35,656,105	34.8%	\$ (23,252,084)	\$ 8,129,433	-286.0%
2008	6,207,679	27,638,811	22.5%	(21,431,132)	8,226,122	-260.5%
2007	9,992,121	23,123,175	43.2%	(13,131,054)	7,040,679	-186.5%
Arkansas Local Police and Fire Retirement System (the New Plans)						
Fire Plan:						
2009	\$ 18,635,161	\$ 32,868,368	56.7%	\$ (14,233,207)	\$ 6,653,731	-213.9%
2008	22,453,784	25,238,443	89.0%	(2,784,659)	6,340,207	-43.9%
2007	21,930,847	21,410,722	102.4%	520,125	5,501,795	9.5%
Police Plan:						
2009	\$ 22,975,883	\$ 32,229,734	71.3%	\$ (9,253,851)	\$ 7,883,803	-117.4%
2008	28,028,232	27,638,811	101.4%	389,421	7,869,907	4.9%
2007	26,892,624	23,123,175	116.3%	3,769,449	6,685,543	56.4%
Other Post Employment Benefit Plan (OPEB)						
2010	\$ 1,082,601	\$ 23,918,052	4.5%	\$ (22,835,451)	\$ 38,966,530	-58.6%
2009	720,000	23,918,052	3.0%	(23,198,052)	39,464,105	-58.8%
2008	-	16,351,176	0.0%	(16,351,176)	35,747,692	-45.7%

**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, 2010**

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
<b>Revenues</b>						
Taxes	\$ 6,199,500	\$ 6,608,600	\$ 6,604,632	\$ -	\$ 6,604,632	\$ (3,968)
Sales taxes	15,510,425	15,100,000	14,892,017	-	14,892,017	(207,983)
Licenses and permits	1,378,000	1,319,472	1,343,739	-	1,343,739	24,267
Utility franchise fees	6,952,200	6,100,000	6,492,100	-	6,492,100	392,100
Intergovernmental	4,155,401	7,400,435	3,940,064	-	3,940,064	(3,460,371)
Fines and forfeitures	1,850,000	1,923,447	2,164,608	-	2,164,608	241,161
Fees for services	1,239,850	1,241,264	1,237,853	-	1,237,853	(3,411)
Interest	90,000	24,480	6,550	-	6,550	(17,930)
Miscellaneous	162,000	186,144	332,456	-	332,456	146,312
<b>Total revenues</b>	<b>37,537,376</b>	<b>39,903,842</b>	<b>37,014,019</b>	<b>-</b>	<b>37,014,019</b>	<b>(2,889,823)</b>
<b>Expenditures</b>						
<b>Current:</b>						
General government						
Administration	4,193,702	4,205,385	3,779,346	78,390	3,857,736	347,649
Legal	1,966,670	1,975,570	1,688,924	-	1,688,924	286,646
Finance	2,268,993	2,205,815	1,829,575	16,976	1,846,551	359,264
Public safety						
Police	16,555,610	16,299,219	14,558,433	31,334	14,589,767	1,709,452
Fire	10,105,170	10,194,152	9,098,827	196,930	9,295,757	898,395
Community services						
Health and social services	134,850	149,920	126,401	-	126,401	23,519
Parks and recreation	2,423,710	2,383,772	2,008,078	22,964	2,031,042	352,730
Transit	2,211,430	2,254,786	2,190,282	-	2,190,282	64,504
Other	2,133,414	2,362,198	2,118,170	232,125	2,350,295	11,903
Capital outlay	221,950	2,957,545	1,533,218	1,484,516	3,017,734	(60,189)
Debt service:						
Principal	-	-	475,000	-	475,000	(475,000)
Interest	-	-	27,618	-	27,618	(27,618)
<b>Total expenditures</b>	<b>42,215,499</b>	<b>44,988,362</b>	<b>39,433,872</b>	<b>2,063,235</b>	<b>41,497,107</b>	<b>3,491,255</b>
Excess (deficiency) of revenues over (under) expenditures	<b>(4,678,123)</b>	<b>(5,084,520)</b>	<b>(2,419,853)</b>	<b>(2,063,235)</b>	<b>(4,483,088)</b>	<b>601,432</b>
<b>Other Financing Sources (Uses):</b>						
Transfers in	2,529,150	2,528,020	2,506,950	-	2,506,950	(21,070)
Transfers out	(340,000)	(390,000)	(140,000)	-	(140,000)	250,000
<b>Total other financing sources and uses</b>	<b>2,189,150</b>	<b>2,138,020</b>	<b>2,366,950</b>	<b>-</b>	<b>2,366,950</b>	<b>228,930</b>
Net change in fund balances	(2,488,973)	(2,946,500)	(52,903)	(2,063,235)	(2,116,138)	830,362
Fund Balances, January 1	8,495,513	8,495,513	8,495,513	-	8,495,513	-
Fund Balances, December 31	<u>\$ 6,006,540</u>	<u>\$ 5,549,013</u>	<u>\$ 8,442,610</u>	<u>\$ (2,063,235)</u>	<u>\$ 6,379,375</u>	<u>\$ 830,362</u>

**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, 2010**

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
<b>Revenues</b>						
Taxes	\$ 1,787,200	\$ 1,982,580	\$ 1,927,606	\$ -	\$ 1,927,606	\$ (54,974)
Intergovernmental	3,772,596	3,933,132	4,052,226	-	4,052,226	119,094
Interest	55,000	3,492	3,774	-	3,774	282
Miscellaneous	5,000	3,500	3,601	-	3,601	101
Total revenues	5,619,796	5,922,704	5,987,207	-	5,987,207	64,503
<b>Expenditures</b>						
Current:						
General government						
Administration	242,451	245,275	223,968	1,150	225,118	20,157
Legal	59,250	59,250	40,919	-	40,919	18,331
Finance	355,655	365,544	317,229	9,383	326,612	38,932
Public works						
Operations	459,530	467,990	444,376	3,198	447,574	20,416
Streets	2,980,510	2,934,871	2,616,745	-	2,616,745	318,126
Traffic control	2,203,544	2,249,750	2,016,261	5,749	2,022,010	227,740
Community services						
Parks and recreation	290,910	297,085	261,432	3,648	265,080	32,005
Other	50,000	50,000	15,719	-	15,719	34,281
Capital Outlay	223,750	222,800	70,909	24,767	95,676	127,124
Total expenditures	6,865,600	6,892,565	6,007,558	47,895	6,055,453	837,112
Excess (deficiency) of revenues over (under) expenditures	(1,245,804)	(969,861)	(20,351)	(47,895)	(68,246)	901,615
<b>Other Financing Uses:</b>						
Transfers out	(78,250)	(78,250)	(78,250)	-	(78,250)	-
Total Other Financing Uses	(78,250)	(78,250)	(78,250)	-	(78,250)	-
Net Change in Fund Balances	(1,324,054)	(1,048,111)	(98,601)	(47,895)	(146,496)	901,615
Fund Balances, January 1	3,133,706	3,133,706	3,133,706	-	3,133,706	-
Fund Balances, December 31	\$ 1,809,652	\$ 2,085,595	\$ 3,035,105	\$ (47,895)	\$ 2,987,210	\$ 901,615

**City of Fort Smith, Arkansas**  
**Notes to Required Supplementary Information**  
**December 31, 2010**

**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 2010, supplemental appropriations (expenditures and transfers out) were adopted by the Board for the General Fund totaling \$2,822,863 to allocate the ARRA funds for transit capital improvements (\$1,765,553), fire department capital assets (\$161,290), aquatics capital assets (\$24,200), the parking lot construction at North 2<sup>nd</sup> Street (\$264,626), and to provide funding for the trolley system (\$213,956); for additional cleanup and demolition operating costs (\$50,000); operating costs associated with administration payroll costs, planning operations, finance consulting services (\$54,099); for police department operations (\$122,071); additional parks operations (\$33,132); and for youth group and elderly funding (\$133,936). During 2010, the Board adopted supplemental appropriations for the Street Maintenance Fund totaling \$26,965 for finance consulting services (\$8,939); for parks operations (\$6,176); for streets and traffic control operations (\$9,027); and for administrative payroll costs and operating costs (\$2,823). 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, 2010**

**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: Department of Justice grants for personnel and equipment, ARRA Energy grant, 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, 2010**

	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	
<b>Assets</b>								
Cash	\$ 79,014	\$ -	\$ 62,428	\$ 28,115	\$ 11,937,822	\$ 65,967	\$ 167,906	\$ 12,341,252
Investments	1,103	9,032	-	496,671	222,702	1,040,085	340,913	2,110,506
Receivables, net of allowance for uncollectibles								
Taxes	-	-	-	-	2,593,429	-	-	2,593,429
Accounts	7,891	400	-	2,076	-	-	-	10,367
Accrued interest	-	-	-	21	515	52	21	609
Due from other funds	2,622	-	-	-	-	-	-	2,622
Due from other governments	59,549	-	33,069	14,399	-	-	-	107,017
<b>Total assets</b>	<u>\$ 150,179</u>	<u>\$ 9,432</u>	<u>\$ 95,497</u>	<u>\$ 541,282</u>	<u>\$ 14,754,468</u>	<u>\$ 1,106,104</u>	<u>\$ 508,840</u>	<u>\$ 17,165,802</u>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities:</b>								
Accounts payable and accrued liabilities	\$ 71,293	\$ -	\$ 33,449	\$ 13,859	\$ 710,059	\$ 34,205	\$ -	\$ 862,865
Due to other funds	1,871	-	209	1,543	-	-	-	3,623
Deferred revenues	70,683	-	61,839	407,093	2,550,588	-	-	3,090,203
Other	2,323	-	-	-	-	-	-	2,323
<b>Total liabilities</b>	<u>146,170</u>	<u>-</u>	<u>95,497</u>	<u>422,495</u>	<u>3,260,647</u>	<u>34,205</u>	<u>-</u>	<u>3,959,014</u>
<b>Fund Balances:</b>								
Reserved for:								
Other purposes	4,009	9,432	-	4,728	-	1,071,899	-	1,090,068
Unreserved, reported in nonmajor:								
Special revenue funds	-	-	-	114,059	11,493,821	-	-	11,607,880
Capital projects funds	-	-	-	-	-	-	508,840	508,840
<b>Total Fund Balances</b>	<u>4,009</u>	<u>9,432</u>	<u>-</u>	<u>118,787</u>	<u>11,493,821</u>	<u>1,071,899</u>	<u>508,840</u>	<u>13,206,788</u>
<b>Total liabilities and fund balances</b>	<u>\$ 150,179</u>	<u>\$ 9,432</u>	<u>\$ 95,497</u>	<u>\$ 541,282</u>	<u>\$ 14,754,468</u>	<u>\$ 1,106,104</u>	<u>\$ 508,840</u>	<u>\$ 17,165,802</u>

# City of Fort Smith, Arkansas

## Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds For the Year Ended December 31, 2010

	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	
<b>Revenues</b>								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,573,495	\$ -	\$ -	\$ 2,573,495
Licenses and permits	-	-	-	-	-	-	145,787	145,787
Intergovernmental	1,159,241	-	952,843	574,920	986,895	888,723	-	4,562,622
Fines and forfeitures	-	-	-	-	134,666	-	-	134,666
Interest	68	11	-	185	15,672	1,834	567	18,337
Contributions	-	400	-	-	1,337,930	-	-	1,338,330
Miscellaneous	3,140	-	-	-	1,128	-	-	4,268
<b>Total revenues</b>	<u>1,162,449</u>	<u>411</u>	<u>952,843</u>	<u>575,105</u>	<u>5,049,786</u>	<u>890,557</u>	<u>146,354</u>	<u>8,777,505</u>
<b>Expenditures</b>								
Current:								
Public safety								
Police	-	-	-	172,140	2,935,234	-	-	3,107,374
Fire	-	-	-	-	3,267,780	-	-	3,267,780
Public works								
Streets	-	-	-	-	-	-	771,436	771,436
Community services								
Parks and Recreation	-	-	-	48,188	-	-	-	48,188
Convention Center	-	-	-	-	-	1,240,671	-	1,240,671
Housing and Rehabilitation	1,159,241	-	952,843	-	-	-	-	2,112,084
Capital Outlay	-	-	-	360,223	-	6,337	-	366,560
<b>Total expenditures</b>	<u>1,159,241</u>	<u>-</u>	<u>952,843</u>	<u>580,551</u>	<u>6,203,014</u>	<u>1,247,008</u>	<u>771,436</u>	<u>10,914,093</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,208</u>	<u>411</u>	<u>-</u>	<u>(5,446)</u>	<u>(1,153,228)</u>	<u>(356,451)</u>	<u>(625,082)</u>	<u>(2,136,588)</u>
<b>Other Financing Sources (Uses)</b>								
Transfers in	-	-	-	-	-	-	423,956	423,956
<b>Total Other Financing Sources and Uses</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>423,956</u>	<u>423,956</u>
<b>Net Change in Fund Balances</b>	<u>3,208</u>	<u>411</u>	<u>-</u>	<u>(5,446)</u>	<u>(1,153,228)</u>	<u>(356,451)</u>	<u>(201,126)</u>	<u>(1,712,632)</u>
Fund Balances, January 1	<u>801</u>	<u>9,021</u>	<u>-</u>	<u>124,233</u>	<u>12,647,049</u>	<u>1,428,350</u>	<u>709,966</u>	<u>14,919,420</u>
Fund Balances, December 31	<u>\$ 4,009</u>	<u>\$ 9,432</u>	<u>\$ -</u>	<u>\$ 118,787</u>	<u>\$ 11,493,821</u>	<u>\$ 1,071,899</u>	<u>\$ 508,840</u>	<u>\$ 13,206,788</u>

**City of Fort Smith, Arkansas**  
**Internal Service Funds**  
**For the Fiscal Year Ended December 31, 2010**

**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 Revenues, Expenses and**  
**Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended December 31, 2010**

	Working Capital	Employee Insurance	Workers' Compensation	Total
<b>Operating Revenues</b>				
Charges for services - internal	\$ 674,940	\$ 6,878,103	\$ 597,191	\$ 8,150,234
Charges for services - external	-	516,756	-	516,756
Total operating revenues	<u>674,940</u>	<u>7,394,859</u>	<u>597,191</u>	<u>8,666,990</u>
<b>Operating Expenses</b>				
Contractual services	-	468,038	99,609	567,647
Materials and supplies	652,314	-	-	652,314
Insurance claims and expenses	-	7,727,092	515,499	8,242,591
Total operating expenses	<u>652,314</u>	<u>8,195,130</u>	<u>615,108</u>	<u>9,462,552</u>
Operating income (loss)	<u>22,626</u>	<u>(800,271)</u>	<u>(17,917)</u>	<u>(795,562)</u>
<b>Nonoperating Revenues</b>				
Investment earnings	-	7,955	864	8,819
Total nonoperating revenues	<u>-</u>	<u>7,955</u>	<u>864</u>	<u>8,819</u>
Income (Loss) Before Transfers	22,626	(792,316)	(17,053)	(786,743)
Transfers In Intrafund	-	-	172,169	172,169
Transfers Out Intrafund	<u>-</u>	<u>(172,169)</u>	<u>-</u>	<u>(172,169)</u>
Change in Net Assets	22,626	(964,485)	155,116	(786,743)
Total net assets, beginning	<u>27,797</u>	<u>5,321,370</u>	<u>15,169</u>	<u>5,364,336</u>
Total net assets, ending	<u>\$ 50,423</u>	<u>\$ 4,356,885</u>	<u>\$ 170,285</u>	<u>\$ 4,577,593</u>

**City of Fort Smith, Arkansas**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year December 31, 2010**

	Working Capital	Employee Insurance	Workers' Compensation	Total
<b>Cash Flows from Operating Activities:</b>				
Cash received from service users	\$ 675,182	\$ 568,931	\$ -	1,244,113
Cash received from city and employee contributions	-	6,878,103	375,092	7,253,195
Cash payments for goods and services	(666,180)	-	-	(666,180)
Cash payments for premiums and other operating expenses	-	(6,863,515)	(762,535)	(7,626,050)
Cash payments for claims paid	-	(618,656)	(165,803)	(784,459)
	<u>9,002</u>	<u>(35,137)</u>	<u>(553,246)</u>	<u>(579,381)</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Transfers in from other funds	-	-	172,169	172,169
Transfers out to other funds	-	(172,169)	-	(172,169)
	<u>-</u>	<u>(172,169)</u>	<u>172,169</u>	<u>-</u>
<b>Cash Flows from Investing Activities</b>				
Proceeds from sales and maturities of investment securities	-	6,528,753	686,963	7,215,716
Outlays for purchases of investment securities	-	(1,677,959)	(486,566)	(2,164,525)
Interest on investments	-	9,831	1,034	10,865
	<u>-</u>	<u>4,860,625</u>	<u>201,431</u>	<u>5,062,056</u>
<b>Net Increase (Decrease) in Cash</b>	<u>9,002</u>	<u>4,653,319</u>	<u>(179,646)</u>	<u>4,482,675</u>
Cash, January 1	862	872,891	218,958	1,092,711
Cash, December 31	<u>\$ 9,864</u>	<u>\$ 5,526,210</u>	<u>\$ 39,312</u>	<u>\$ 5,575,386</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash</b>				
<b>Provided by (Used for) Operating Activities</b>				
Operating income (loss)	\$ 22,626	\$ (800,271)	\$ (17,917)	\$ (795,562)
Change in assets and liabilities				
Accounts receivable	-	52,175	(222,099)	(169,924)
Due from other funds	242	-	-	242
Inventory	(35,617)	-	-	(35,617)
Prepaid items	-	-	(66,194)	(66,194)
Accounts payable and accrued liabilities	21,751	336,190	-	357,941
Liability for claims and judgments	-	376,769	(247,036)	129,733
	<u>(13,624)</u>	<u>765,134</u>	<u>(535,329)</u>	<u>216,181</u>
Net cash provided by (used for) operating activities	<u>\$ 9,002</u>	<u>\$ (35,137)</u>	<u>\$ (553,246)</u>	<u>\$ (579,381)</u>

**City of Fort Smith, Arkansas**  
**Discretely Presented Component Units**  
**For the Fiscal Year Ended December 31, 2010**

**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 (hospitality) 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, 2010**

	<u>Advertising and Promotion</u>	<u>Public Library</u>	<u>Total</u>
<b>Assets</b>			
Cash	\$ 71,727	\$ 978,725	\$ 1,050,452
Investments	26,024	300,959	326,983
Receivables, net of allowance for uncollectibles			
Taxes	38,945	38,658	77,603
Sales taxes	-	141,022	141,022
Accounts	-	19,305	19,305
Accrued interest	4	-	4
Prepaid items	1,996	36,193	38,189
Inventory, at cost	-	5,000	5,000
Capital assets			
Nondepreciable	-	422,132	422,132
Depreciable	-	459,756	459,756
	<u>138,696</u>	<u>2,401,750</u>	<u>2,540,446</u>
<b>Total Assets</b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities	<u>18,684</u>	<u>47,054</u>	<u>65,738</u>
<b>Total Liabilities</b>	<u>18,684</u>	<u>47,054</u>	<u>65,738</u>
<b>Net Assets</b>			
Invested in capital assets	-	881,888	881,888
Unrestricted	<u>120,012</u>	<u>1,472,808</u>	<u>1,592,820</u>
<b>Total Net Assets</b>	<u>\$ 120,012</u>	<u>\$ 2,354,696</u>	<u>\$ 2,474,708</u>

**City of Fort Smith, Arkansas**  
**Combining Statement of Activities – Governmental Component Units**  
**For the Year Ended December 31, 2010**

	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	\$ 740,423	\$ -	\$ 4,170	\$ (736,253)	\$ -	\$ (736,253)
Public Library	2,633,837	131,685	231,935	-	(2,270,217)	(2,270,217)
<b>Total</b>	<b>\$ 3,374,260</b>	<b>\$ 131,685</b>	<b>\$ 236,105</b>	<b>(736,253)</b>	<b>(2,270,217)</b>	<b>(3,006,470)</b>
General revenues						
Property taxes				-	1,271,046	1,271,046
Sales taxes				-	893,521	893,521
Hospitality taxes				678,718	-	678,718
Unrestricted investment earnings				118	1,909	2,027
Other				-	322,422	322,422
Total general revenues				678,836	2,488,898	3,167,734
Change in net assets				(57,417)	218,681	161,264
Net assets, beginning				177,429	2,136,015	2,313,444
Net assets, ending				\$ 120,012	\$ 2,354,696	\$ 2,474,708

**City of Fort Smith, Arkansas**  
**Balance Sheet – Advertising and Promotion**  
**Governmental Component Unit**  
**December 31, 2010**

**Assets:**

Cash	\$	71,727
Investments		26,024
Receivables, net of allowance for uncollectibles		
Taxes		38,945
Accrued interest		4
Prepaid items		1,996
		<u>1,996</u>
Total assets	\$	<u>138,696</u>

**Liabilities and Fund Balance:**

Current:

Accounts payable and accrued liabilities	\$	18,684
		<u>18,684</u>
Total Liabilities		18,684

**Fund Balance:**

Reserved		
Encumbrances		19,402
Prepays		1,996
Unreserved		98,614
		<u>98,614</u>
Total liabilities and fund balance	\$	<u>138,696</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, 2010**

<b>Revenues</b>	
Taxes	\$ 678,718
Interest	118
Contributions	4,170
	<hr/>
Total revenues	683,006
	<hr/>
<b>Expenditures</b>	
Other	720,061
	<hr/>
Total Expenditures	720,061
	<hr/>
Excess of revenues over expenditures	(37,055)
	<hr/>
<b>Other Financing Uses:</b>	
Transfers out to primary government	(20,362)
	<hr/>
Total other financing uses	(20,362)
	<hr/>
Net change in fund balance	(57,417)
	<hr/>
Fund Balance, January 1	177,429
	<hr/>
Fund Balance, December 31	\$ 120,012
	<hr/> <hr/>

**City of Fort Smith, Arkansas**  
**Combining Statement of Net Assets**  
**Business-Type Component Units**  
**December 31, 2010**

<b>Assets</b>	<b>Parking Authority</b>	<b>Airport</b>	<b>Total</b>
<b>Current Assets</b>			
Cash	\$ 50,631	\$ 1,686,215	\$ 1,736,846
Investments	260,097	-	260,097
Receivables, net of allowance for uncollectibles			
Accounts	1,049	262,904	263,953
Accrued interest	43	-	43
Restricted			
Cash	-	491,976	491,976
Investments	92,212	204,774	296,986
Accounts receivable, net of allowances for uncollectibles	-	55,621	55,621
Interest receivable	-	282	282
Grants and other governments	-	424,862	424,862
Prepaid items and deposits	2,573	52,609	55,182
Inventory	-	17,598	17,598
	<u>406,605</u>	<u>3,196,841</u>	<u>3,603,446</u>
<b>Noncurrent Assets</b>			
Deferred charges	12,686	313,355	326,041
Capital assets			
Nondepreciable	1,359,161	6,744,163	8,103,324
Depreciable	967,022	30,692,207	31,659,229
	<u>2,338,869</u>	<u>37,749,725</u>	<u>40,088,594</u>
Total Assets	<u>2,745,474</u>	<u>40,946,566</u>	<u>43,692,040</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	12,691	584,280	596,971
Payable from restricted assets:			
Accrued interest	2,751	-	2,751
Revenue bonds payable, current	105,000	130,000	235,000
	<u>120,442</u>	<u>714,280</u>	<u>834,722</u>
<b>Noncurrent liabilities</b>			
Due within one year	21	-	21
Due in more than one year	598,839	3,153,916	3,752,755
	<u>598,860</u>	<u>3,153,916</u>	<u>3,752,776</u>
Total Liabilities	<u>719,302</u>	<u>3,868,196</u>	<u>4,587,498</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,622,323	34,152,454	35,774,777
Restricted for bond retirement	-	492,258	492,258
Restricted for capital projects	-	480,549	480,549
Unrestricted	403,849	1,953,109	2,356,958
	<u>\$ 2,026,172</u>	<u>\$ 37,078,370</u>	<u>\$ 39,104,542</u>

**City of Fort Smith, Arkansas**  
**Combining Statement of Activities – Business-Type Component Units**  
**For the Year Ended December 31, 2010**

	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	\$ 264,226	\$ 189,286	\$ -	\$ (74,940)	\$ -	\$ (74,940)
Airport	4,641,303	2,628,918	3,460,563	-	1,448,178	1,448,178
Total	<u>\$ 4,905,529</u>	<u>\$ 2,818,204</u>	<u>\$ 3,460,563</u>	<u>(74,940)</u>	<u>1,448,178</u>	<u>1,373,238</u>
General revenues						
				272	40,623	40,895
				-	76,696	76,696
				250,000	-	250,000
Total general revenues				<u>250,272</u>	<u>117,319</u>	<u>367,591</u>
Change in net assets				175,332	1,565,497	1,740,829
Net assets, beginning				<u>1,850,840</u>	<u>35,512,873</u>	<u>37,363,713</u>
Net assets, ending				<u>\$ 2,026,172</u>	<u>\$ 37,078,370</u>	<u>\$ 39,104,542</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, 2010**

	<u>Parking Authority</u>	<u>Airport</u>	<u>Total</u>
<b>Operating Activities</b>			
Cash received from customers	\$ 185,888	\$ 2,565,595	\$ 2,751,483
Cash payments for goods and services	(36,774)	(992,530)	(1,029,304)
Cash paid to employees	(123,663)	(706,278)	(829,941)
Net cash provided by operating activities	<u>25,451</u>	<u>866,787</u>	<u>892,238</u>
<b>Noncapital Financing Activities</b>			
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>
<b>Capital and Related Financing Activities</b>			
Proceeds from capital grants	-	1,951,998	1,951,998
Passenger facility charges received	-	333,723	333,723
Gain on sale of capital assets	-	76,696	76,696
Acquisition and construction of capital assets	(22,277)	(2,638,177)	(2,660,454)
Principal paid on bonds	(96,299)	(125,000)	(221,299)
Interest paid on bonds	(37,413)	(219,451)	(256,864)
Net cash used for capital and related financing activities	<u>(155,989)</u>	<u>(620,211)</u>	<u>(776,200)</u>
<b>Investing Activities</b>			
Proceeds from sales and maturities of investment securities	483,200	903,608	1,386,808
Outlays for purchases of investment securities	(661,564)	-	(661,564)
Interest on investments	336	41,239	41,575
Net cash provided by (used for) investing activities	<u>(178,028)</u>	<u>944,847</u>	<u>766,819</u>
<b>Net increase (decrease) in cash and restricted cash</b>	<u>(58,566)</u>	<u>1,191,423</u>	<u>1,132,857</u>
<b>Cash and restricted cash, January 1</b>	<u>109,197</u>	<u>986,768</u>	<u>1,095,965</u>
<b>Cash and restricted cash, December 31</b>	<u>\$ 50,631</u>	<u>\$ 2,178,191</u>	<u>\$ 2,228,822</u>
<b>Reconciliation of cash and restricted cash at December 31 to statement of net assets</b>			
Cash	\$ 50,631	\$ 1,686,215	\$ 1,736,846
Restricted cash	-	491,976	491,976
Total	<u>\$ 50,631</u>	<u>\$ 2,178,191</u>	<u>\$ 2,228,822</u>

**City of Fort Smith, Arkansas**  
**Combining Statement of Cash Flows – Business-Type Component Units**  
**(Continued)**  
**For the Year Ended December 31, 2010**

	<u>Parking Authority</u>	<u>Airport</u>	<u>Total</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>			
Operating loss	\$ (36,173)	\$(1,801,405)	\$ (1,837,578)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities			
Depreciation	55,192	2,539,675	2,594,867
Other non-operating expense	(3,700)	-	(3,700)
Change in assets and liabilities			
Accounts receivable	302	(63,323)	(63,021)
Inventory	-	(1,902)	(1,902)
Prepaid items	7	5,571	5,578
Accounts payable and accrued liabilities	9,980	188,171	198,151
Liabilities for accrued vacation and sick leave	(157)	-	(157)
 Total adjustments	 <u>61,624</u>	 <u>2,668,192</u>	 <u>2,729,816</u>
 Net cash provided by operating activities	 <u>\$ 25,451</u>	 <u>\$ 866,787</u>	 <u>\$ 892,238</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.

<b>Contents</b>	<b>Page</b>
<b>Financial Trends (Tables 1-5)</b>	
These schedules contain trend information to assist the reader in understanding how the City’s financial performance and well-being have changed over time .....	111
<b>Revenue Capacity (Tables 6-9)</b>	
These schedules contain information to help the reader assess the City’s most significant revenue sources, local sales taxes and property taxes .....	117
<b>Debt Capacity (Tables 10-13)</b>	
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 .....	121
<b>Demographic and Economic Information (Tables 14-15)</b>	
These schedules offer demographic and economic indicators to assist the reader in understanding the environment within which the City’s financial activities take place .....	125
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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 .....	127
<b>Continuing Disclosure Requirement Information (Tables 19-22)</b>	
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 .....	130

**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 Eight Fiscal Years**  
**(Accrual Basis of Accounting)**

	Fiscal Year							
	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008	2009	2010
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	\$ 294,746,494	\$ 305,663,999
Restricted	6,135,903	4,470,232	3,988,372	44,488,640	47,754,213	46,981,658	24,205,366	23,050,850
Unrestricted (deficit)	55,062,995	55,390,169	66,055,588	33,741,938	29,580,570	27,130,241	38,763,651	34,297,504
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>	<u>\$ 357,715,511</u>	<u>\$ 363,012,353</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	\$ 293,549,646	\$ 314,941,959
Restricted	25,199,051	24,005,631	26,844,476	23,486,930	20,514,957	27,385,513	24,102,177	24,385,436
Unrestricted (deficit)	(9,043,315)	(5,371,394)	(12,506,307)	(15,666,417)	1,390,057	(4,385,785)	(3,057,942)	(7,596,655)
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>	<u>\$ 314,593,881</u>	<u>\$ 331,730,740</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	\$ 588,296,140	\$ 620,605,958
Restricted	31,334,954	28,475,863	30,832,848	67,975,570	68,269,170	74,367,171	48,307,543	47,436,286
Unrestricted (deficit)	46,019,680	50,018,775	53,549,281	18,075,521	30,970,627	22,744,456	35,705,709	26,700,849
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>	<u>\$ 672,309,392</u>	<u>\$ 694,743,093</u>

Note: This is the eighth 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 Eight Fiscal Years**  
**(Accrual Basis of Accounting)**

	Fiscal Year							
	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008	2009	2010
<b>Expenses</b>								
Governmental Activities:								
General government	\$ 6,285,719	\$ 6,291,295	\$ 7,204,031	\$ 7,401,742	\$ 8,121,090	\$ 10,384,215	\$ 8,783,548	\$ 9,464,539
Public safety	22,479,701	22,814,182	25,007,200	28,283,667	29,635,609	28,634,055	31,836,140	32,350,902
Public works	9,750,060	8,547,371	8,624,464	11,583,305	10,862,082	12,091,319	12,169,873	13,226,363
Community services	9,881,779	10,319,043	10,723,724	11,465,302	10,559,736	9,637,947	13,438,158	12,165,578
Interest on long-term debt	519,078	128,042	-	671,893	3,757,618	4,109,187	3,917,534	3,838,008
<b>Total governmental activities expenses</b>	<b>48,916,337</b>	<b>48,099,933</b>	<b>51,559,419</b>	<b>59,405,909</b>	<b>62,936,135</b>	<b>64,856,723</b>	<b>70,145,253</b>	<b>71,045,390</b>
Business-Type Activities:								
Water and Sewer	31,172,483	29,270,855	29,678,171	32,920,994	36,693,984	41,745,466	34,198,511	37,974,129
Sanitation	8,466,593	9,300,590	9,075,365	10,507,258	11,455,050	11,465,629	11,403,090	11,670,602
<b>Total business-type activities expenses</b>	<b>39,639,076</b>	<b>38,571,445</b>	<b>38,753,536</b>	<b>43,428,252</b>	<b>48,149,034</b>	<b>53,211,095</b>	<b>45,601,601</b>	<b>49,644,731</b>
<b>Total primary government expenses</b>	<b>\$ 88,555,413</b>	<b>\$ 86,671,378</b>	<b>\$ 90,312,955</b>	<b>\$ 102,834,161</b>	<b>\$ 111,085,169</b>	<b>\$ 118,067,818</b>	<b>\$ 115,746,854</b>	<b>\$ 120,690,121</b>
<b>Program Revenues</b>								
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	\$ 3,644,887	\$ 3,874,758
Public safety	233,786	223,224	219,114	283,460	288,258	266,085	245,863	312,543
Public works	-	466,849	-	50	50	-	1,200	4,605
Community services	754,306	849,429	890,174	1,009,470	1,001,004	1,125,845	1,003,750	1,153,674
Operating grants and contributions	9,786,072	9,837,419	10,413,626	7,006,913	7,524,294	7,928,553	12,754,491	13,142,881
Capital grants and contributions	6,650,958	6,600,991	2,106,374	3,082,171	1,610,147	8,260,531	1,763,263	1,357,800
<b>Total governmental activities program revenues</b>	<b>20,358,617</b>	<b>21,118,948</b>	<b>17,074,950</b>	<b>14,933,835</b>	<b>13,794,279</b>	<b>21,848,990</b>	<b>19,413,454</b>	<b>19,846,261</b>
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	35,652,828	38,509,851
Sanitation	9,393,659	10,474,818	11,129,352	11,811,666	12,561,103	14,095,412	12,560,096	13,246,801
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	3,683,324	512,378
<b>Total business-type activities program revenues</b>	<b>38,555,408</b>	<b>40,794,324</b>	<b>42,907,431</b>	<b>46,411,577</b>	<b>47,997,865</b>	<b>53,218,983</b>	<b>51,896,248</b>	<b>52,269,030</b>
<b>Total primary government program revenues</b>	<b>\$ 58,914,025</b>	<b>\$ 61,913,272</b>	<b>\$ 59,982,381</b>	<b>\$ 61,345,412</b>	<b>\$ 61,792,144</b>	<b>\$ 75,067,973</b>	<b>\$ 71,309,702</b>	<b>\$ 72,115,291</b>
Net (expense) revenue								
Governmental activities	\$ (28,557,720)	\$ (26,980,985)	\$ (34,484,469)	\$ (44,472,074)	\$ (49,141,856)	\$ (43,007,733)	\$ (50,731,799)	\$ (51,199,129)
Business-Type activities	(1,083,668)	2,222,879	4,153,895	2,983,325	(151,169)	7,888	6,294,647	2,624,299
<b>Total primary government net expense</b>	<b>\$ (29,641,388)</b>	<b>\$ (24,758,106)</b>	<b>\$ (30,330,574)</b>	<b>\$ (41,488,749)</b>	<b>\$ (49,293,025)</b>	<b>\$ (42,999,845)</b>	<b>\$ (44,437,152)</b>	<b>\$ (48,574,830)</b>

Table 2 (Continued)

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

	Fiscal Year							
	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008	2009	2010
<b>General Revenues and Other Changes in Net Assets</b>								
Governmental activities:								
Taxes								
Property taxes	\$ 16,117,664	\$ 8,812,154	\$ 8,932,234	\$ 9,392,423	\$ 8,821,508	\$ 9,360,659	\$ 12,267,731	\$ 10,623,101
Sales taxes	35,748,841	30,940,060	31,236,465	40,747,820	53,014,309	57,837,124	52,601,763	52,091,471
Utility franchise fees	5,530,957	5,986,546	6,833,462	7,406,294	6,760,463	7,366,814	5,990,452	6,492,100
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	226,195	10,085
Unrestricted investment earnings	813,104	740,108	1,489,322	3,220,403	6,155,547	3,065,530	538,627	163,172
Gain on sale of capital assets	4,174	24,462	852	22,838	-	-	-	-
Insurance proceeds from hail storm	-	-	-	-	-	-	1,778,572	-
Other	100,331	14,907	768,612	1,088,665	251,941	309,447	1,318,649	1,199,332
Transfers	(579,200)	(589,294)	(206,000)	(24,738,822)	(7,697,893)	(21,629,789)	(34,020,953)	(14,083,290)
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>	<u>40,701,036</u>	<u>56,495,971</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	343,471	89,914
Other	283,977	212,889	317,700	304,583	504,328	1,247,516	1,116,923	339,356
Transfers	579,200	589,294	206,000	24,738,822	7,697,893	21,629,789	34,020,953	14,083,290
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>	<u>35,481,347</u>	<u>14,512,560</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>	<u>\$ 76,182,383</u>	<u>\$ 71,008,531</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	\$ (10,030,763)	\$ 5,296,842
Business-type activities	<u>9,957,397</u>	<u>19,466,364</u>	<u>24,524,884</u>	<u>41,791,096</u>	<u>10,001,316</u>	<u>25,247,910</u>	<u>41,775,994</u>	<u>17,136,859</u>
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>	<u>\$ 31,745,231</u>	<u>\$ 22,433,701</u>

Note: This is the eighth 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
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
2009	10,884,313	52,601,763	5,990,452	69,476,528
2010	11,105,733	52,091,471	6,492,100	69,689,304

(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. The sales taxes for bond retirement were used for governmental activities from 1998 through 2004 and 2006 through 2010. The sales taxes for bond retirement were used for business-type activities from 2001 through 2006.

Table 4

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund										
Reserved	\$ 563,055	\$ 1,101,074	\$ 1,297,557	\$ 2,850,478	\$ 3,152,121	\$ 4,706,017	\$ 2,191,724	\$ 3,654,013	\$ 2,772,912	\$ 2,169,623
Unreserved	3,630,696	4,431,214	5,260,425	5,911,270	7,423,514	7,607,076	6,257,328	7,052,220	5,772,601	6,272,987
Total general fund	4,193,751	5,532,288	6,557,982	8,761,748	10,575,635	12,313,093	8,449,052	10,706,233	8,545,513	8,442,610
All other governmental funds										
Reserved	36,524,914	32,259,904	29,997,170	27,560,991	34,639,037	101,879,344	93,901,326	86,760,617	68,080,708	54,877,969
Unreserved, reported in:										
Special revenue funds	13,988,578	15,563,250	16,934,572	16,062,417	1,648,864	13,477,723	13,646,710	13,603,715	12,771,282	11,607,880
Debt service fund	-	-	-	-	-	3,634,024	-	-	-	-
Capital projects funds	1,816,158	966,281	549,288	367,067	394,212	457,785	457,547	516,855	709,966	508,840
Total all other governmental funds	52,329,650	48,789,435	47,481,030	43,990,475	36,682,113	119,448,876	108,005,583	100,881,187	81,561,956	66,994,689
Total governmental fund balances	\$ 56,523,401	\$ 54,321,723	\$ 54,039,012	\$ 52,752,223	\$ 47,257,748	\$ 131,761,969	\$ 116,454,635	\$ 111,587,420	\$ 90,107,469	\$ 75,437,299

Table 5

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

	2001	2002	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008	2009	2010
<b>Revenues</b>										
Taxes (1)	\$ 48,151,682	\$ 47,694,830	\$ 49,189,546	\$ 45,012,256	\$ 46,694,358	\$ 57,108,031	\$ 68,510,896	\$ 74,585,914	\$ 69,476,528	\$ 69,689,304
Licenses and permits	1,462,282	1,343,203	1,338,949	1,271,411	1,499,151	1,473,234	1,501,022	2,126,151	1,559,950	1,489,526
Intergovernmental	13,943,553	11,900,040	16,638,318	16,120,435	12,952,988	12,734,833	13,395,035	13,608,213	13,117,444	12,881,250
Fines and forfeitures	1,615,757	1,744,309	2,081,628	1,888,668	2,064,332	2,063,755	2,858,829	2,188,504	2,098,901	2,299,274
Charges for services	720,524	786,492	881,942	941,582	978,987	1,099,840	1,088,811	1,215,016	1,172,312	1,237,853
Investment earnings	2,864,102	1,515,915	846,138	755,355	1,530,732	3,326,046	6,294,463	3,114,332	566,378	166,106
Contributions	930,455	831,586	785,030	774,010	808,149	2,166,420	1,027,818	3,926,800	1,511,328	1,338,330
Miscellaneous	360,903	590,805	858,521	696,478	250,361	470,606	316,373	274,696	189,946	341,329
Total revenues	<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>	<u>89,692,787</u>	<u>89,442,972</u>
<b>Expenditures</b>										
General government	4,791,577	5,215,541	5,741,344	5,908,918	6,879,247	7,522,720	8,190,325	8,317,788	8,226,444	7,879,961
Public safety	19,956,251	19,892,329	21,064,548	22,076,641	24,139,684	26,003,929	28,062,350	26,885,795	30,697,704	30,032,414
Public works	18,805,624	23,702,402	5,874,858	4,550,486	4,600,934	5,433,522	5,202,463	5,820,879	5,254,628	5,870,159
Community services	4,997,754	5,536,507	6,105,744	6,550,085	6,463,376	7,194,025	6,387,764	5,586,246	9,338,549	7,987,136
Other	2,004,322	1,739,626	1,763,635	2,113,409	2,334,916	3,245,313	3,776,800	3,550,903	1,830,124	2,335,524
Capital outlay	7,133,868	3,415,681	23,747,366	21,153,521	14,068,089	23,933,708	32,939,098	29,323,932	31,766,713	34,187,241
Debt service										
Principal	9,220,000	8,178,002	7,785,000	6,540,000	-	-	14,355,000	17,110,000	17,785,000	16,805,000
Interest	1,391,728	937,122	519,078	128,042	-	671,893	3,757,618	3,141,156	2,917,861	3,040,386
Issuance costs	-	-	-	-	-	-	-	-	259,839	75,892
Total expenditures	<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>	<u>108,076,862</u>	<u>108,213,713</u>
Excess (deficiency) of revenues over (under) expenditures	<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>	<u>(18,384,075)</u>	<u>(18,770,741)</u>
<b>Other financing sources and (uses)</b>										
Transfers in	3,296,518	2,263,625	1,939,996	2,459,809	4,101,090	63,067,680	2,602,260	17,313,147	29,689,472	6,809,336
Transfers out	(4,853,708)	(2,844,728)	(2,519,196)	(2,798,714)	(4,307,000)	(88,464,556)	(10,300,153)	(39,169,188)	(64,000,227)	(6,269,982)
Insurance proceeds from hail storm	-	-	-	-	-	-	-	-	1,778,572	-
Premiums on bond issuance	-	-	-	-	-	-	-	-	236,307	16,217
Proceeds from bond issuance	-	-	-	-	-	88,299,286	-	15,685,899	29,150,000	3,595,000
Capital leases	-	589,455	277,990	613,023	1,241,713	341,156	(58,278)	-	-	-
Total other financing sources (uses)	<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>	<u>(3,145,876)</u>	<u>4,150,571</u>
Net change in fund balances	<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>	<u>\$ (21,529,951)</u>	<u>\$ (14,620,170)</u>
Debt service as a % of noncapital expenditures	17.3%	14.0%	17.0%	13.9%	-	1.3%	35.1%	40.4%	32.6%	26.9%

(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**

<b>Fiscal Year</b>	<b>Total Tax Levy (1)</b>	<b>Current Tax Collections</b>	<b>Percent of Levy Collections</b>	<b>Delinquent Tax Collections</b>	<b>Total Tax Collections</b>	<b>Collection Percent of Current Levy</b>	<b>Outstanding Delinquent Taxes</b>	<b>Outstanding Delinquent Taxes as a Percent of Current Levy</b>
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%
2009	8,328,466	7,702,929	92.49%	305,640	8,008,569	96.16%	402,909	4.84%
2010	9,518,247	9,035,518	94.93%	411,376	9,446,894	99.25%	527,023	5.54%

(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	
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%
2009	837,275,432	4,186,377,160	335,318,153	1,676,590,765	1,172,593,585	5,862,967,925	20.00%
2010	873,592,440	4,367,962,200	336,466,947	1,682,334,735	1,210,059,387	6,050,296,935	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 Property	Personal Property	Sebastian County		FS School District		FS Public Library		U of A Fort Smith		Real Property	Personal Property
			Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property		
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
2009	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2010	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 Property	Personal Property	Sebastian County		Fort Smith School District		FS Public Library		U of A Fort Smith		Real Property	Personal Property
			Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property		
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
2009	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2010	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)	2010			2001		
	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation
Oklahoma Gas & Electric	\$ 18,861,841	1	1.61%	\$ 12,673,137	1	1.46%
AT&T Mobility/Southwestern Bell Telephone	16,894,149	2	1.44%	8,392,151	6	0.97%
Whirlpool Corporation	15,669,696	3	1.34%	11,736,275	3	1.35%
Fort Smith Health Management Assoc. LLC	13,458,940	4	1.15%			
Alltel Communications, Inc.	11,483,059	5	0.98%			
OK Foods, Inc.	10,006,150	6	0.85%			
FS Mall Partners (Central Mall)	9,954,945	7	0.85%	6,726,050	7	0.77%
Gerber Products Company	8,506,986	8	0.73%	12,313,345	2	1.42%
Halliburton Energy Services	8,123,485	9	0.69%			
Baldor Electric Company	8,116,412	10	0.69%			
Golden Living				9,532,310	5	1.10%
Wal-Mart				9,606,115	4	1.10%
Planters Peanuts				6,388,220	8	0.73%
Hiram Walker & Sons/Pernod Ricard USA				5,790,220	9	0.67%
Arkansas Best Corporation				5,216,855	10	0.60%
	<u>\$ 121,075,663</u>		10.33%	<u>\$ 88,374,678</u>		10.16%

(1) Sebastian County Assessor's Office.

(2) Property taxes collected in 2010 are based upon 2009 assessed valuation of \$1,172,593,585. Property taxes collected in 2001 were based upon the 2000 assessed valuation of \$869,619,409.

Table 10

**City of Fort Smith, Arkansas**  
**Computation of Direct and Estimated Overlapping Debt**  
**December 31, 2010**  
**(Unaudited)**

Taxing Jurisdiction	Total Outstanding Bonded Debt (1)	Estimated Percent Applicable (2)	Direct and Estimated Overlapping Bonded Debt
Direct:			
City of Fort Smith	\$ 69,235,000	100%	\$ 69,235,000
Overlapping:			
Fort Smith Special School District	49,562,886	100%	49,562,886
Greenwood School District	39,539,647	5%	1,976,982
Sebastian County	-	76%	-
Total Overlapping	<u>89,102,533</u>		<u>51,539,868</u>
Total direct and estimated overlapping bonded debt	<u>\$ 158,337,533</u>		<u>\$ 120,774,868</u>
Ratio, direct and estimated overlapping debt to fiscal 2009 assessed valuation (3)			10%
Per capita direct and estimated overlapping bonded debt (4)			<u>\$ 1,431</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, \$1,172,593,585.

Table 11

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net assessed value (1)	\$ 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	\$ 1,172,593,585	\$ 1,210,059,387
Plus exempt property (2)	-	-	-	-	-	-	-	-	-	-	-
Total assessed value	<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>	<u>\$ 1,172,593,585</u>	<u>\$ 1,210,059,387</u>
Debt limit - 25% of total assessed value (3)	\$ 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	\$ 293,148,396	\$ 302,514,847
Amount of debt applicable to limit	-	-	-	-	-	-	-	-	-	-	-
Debt Margin	<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>	<u>\$ 293,148,396</u>	<u>\$ 302,514,847</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.

Table 12

**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			
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	3.2%	3,189
2009	81,970,000	970,000	96,209	190,680,000	-	759,641	274,475,850	3.1%	3,253
2010	69,235,000	495,000	49,134	183,750,000	-	514,572	254,043,706	3.5%	2,947

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.

**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	
<b>Water and Sewer System</b>	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%
	2009	37,118,841	21,489,095	15,629,746	5,665,000	9,335,000	15,000,000	104%
	2010	38,661,437	20,872,208	17,789,229	5,910,000	9,089,126	14,999,126	119%
<b>Solid Waste System</b>	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%
	2009	12,675,503	10,058,856	2,616,647	945,000	113,716	1,058,716	247%
	2010	13,390,293	10,476,471	2,913,822	1,020,000	83,220	1,103,220	264%

(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 does not include capitalized interest or accrued interest.

2010 reconciliation of interest paid reported on this schedule to the statement of revenues, expenses, and changes in fund net assets for the proprietary funds:

	Water & Sewer	Sanitation
Interest paid - this schedule	\$ 9,089,126	\$ 83,220
Capitalized interest	(767,329)	-
Accrued interest - 12/31/09	(2,272,282)	(6,935)
Accrued interest - 12/31/10	2,207,078	3,578
Interest expense - statement of revenues, expenses, and changes in fund net assets	<u>\$ 8,256,593</u>	<u>\$ 79,863</u>

Table 14

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

<b>Fiscal Year</b>	<b>City Population (1)</b>	<b>County Population (1)</b>	<b>Personal Income (2) (in thousands)</b>	<b>Per Capita Income (2)</b>	<b>Median Age (3)</b>	<b>Education Level in Years of Schooling (3)</b>	<b>School Enrollment (4)</b>	<b>Unemployment Rate (2)</b>
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	28,738	35.4	12	13,633	4.9%
2007	84,375	121,766	8,435,449	30,122	35.4	12	13,900	5.3%
2008	84,375	121,766	8,937,040	31,602	35.4	12	13,759	6.1%
2009	84,375	121,766	9,054,458	30,896	35.4	12	13,792	8.2%
2010	86,209	125,744	9,172,166 *	24,692 *	35.4	12	14,109	8.5%

## 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	2010			2001		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Sparks Health Systems	2,400	1	1.8%	2,800	3	2.2%
Baldor Electric Company	2,393	2	1.8%	1,711	4	1.4%
O. K. Industries	1,800	3	1.4%	4,500	2	3.6%
Fort Smith Public Schools	1,783	4	1.3%	1,594	7	1.3%
St. Edward Mercy Medical Center	1,487	5	1.1%	1,703	5	1.3%
Rheem-Ruud	1,157	6	0.9%	1,651	6	1.3%
Whirlpool Corporation	1,130	7	0.8%	4,575	1	3.6%
University of Arkansas at Fort Smith	951	8	0.7%			
Arkansas Best Corp.	936	9	0.7%	876	9	0.7%
City of Fort Smith	916	10	0.7%			
Golden Living	-			870	10	0.7%
Riverside Furniture	-			1,325	8	1.0%
Total	14,953		11.2%	21,605		17.1%

Data Sources:

Chamber of Commerce

U.S. Department of Labor, employment totals:

2010	133,300
2001	126,455

Table 16

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

<b>Function</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
General government	113	118	122	123	124	124	128	125	125	127
Public safety:										
Police										
Officers	150	150	154	160	160	168	168	168	168	170
Civilians	45	47	46	47	47	46	46	46	52	59
Fire										
Firefighters and officers	125	125	125	125	126	126	129	129	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	46	46	46	46	46	46	46	46	46	46
Traffic control	13	13	13	12	13	13	13	13	13	13
Parks and recreation	45	44	45	47	53	54	57	57	58	58
Transit	34	35	35	35	35	36	36	36	36	36
Water and sewer	181	181	182	183	185	191	191	191	191	192
Sanitation	84	83	79	75	76	77	78	78	78	78
<b>Total</b>	<b>844</b>	<b>850</b>	<b>855</b>	<b>861</b>	<b>873</b>	<b>889</b>	<b>900</b>	<b>897</b>	<b>904</b>	<b>916</b>

Table 17

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

Function	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Sub-stations (2)	-	-	-	-	-	8	8	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	21	22	22	22	22	21	21	21	21	21
Streets										
Streets (miles)	541	603	582	590	558	562	566	578	590	590
Streetlights	5,383	5,383	5,589	5,285	5,957	5,971	5,971	6,029	6,029	6,029
Traffic signals	122	123	123	133	136	135	135	142	146	146
Parks and recreation										
Parks acreage (square feet)	292	295	295	315	260	273	273	273	273	273
Parks	18	20	20	26	26	26	26	25	25	25
Swimming pools	2	1	1	1	1	1	1	1	1	1
Water splashpad	-	-	-	1	1	1	1	1	1	1
Tennis courts	14	14	14	14	14	14	14	14	14	14
Skatepark	-	-	1	1	1	1	1	1	1	1
Community centers	4	4	4	4	4	5	5	5	6	6
Convention center -										
Theater -seats	1,375	1,375	1,331	1,331	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)	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Transit buses	18	18	18	17	20	20	20	20	20	20
Water and sewer										
Water mains (miles)	576	576	584	584	584	560	560	627	626	626
Average daily production capacity (thousands of gallons)	45,000	55,000	55,000	55,000	55,000	54,100	54,100	55,000	59,000	41,999
Average daily consumption (thousands of gallons)	29,511	29,511	27,384	26,986	28,876	28,097	29,197	28,876	37,004	26,473
Sanitary sewers (miles)	481	481	488	503	503	505	505	505	516	516
Storm sewers	NA	NA	NA	7,900	7,900	7,900	7,900	7,900	7,900	7,900
Sanitation										
Collection trucks	56	52	52	52	52	52	52	52	52	53
Landfill capacity (in cubic yards) (1)	9,506,239	9,186,033	68,036,250	67,716,006	67,337,973	67,197,006	66,853,337	66,405,305	66,151,721	65,872,831

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**

<b>Function</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Police:										
Physical arrest	6,877	7,865	8,113	9,362	10,417	10,512	10,834	10,848	9,537	9,853
Parking violations	15,424	12,308	11,722	10,905	3,487	1,732	3,887	3,094	5,702	7,622
Traffic violations	16,249	16,191	18,466	19,287	19,289	20,442	21,129	24,191	19,593	16,296
Fire										
Number of calls answered	5,953	6,517	7,022	6,699	6,461	7,326	7,619	7,200	7,825	8,026
Transit										
Passenger trips	149,341	147,620	158,652	163,503	173,556	155,515	173,917	208,600	177,991	191,221
Water and sewer										
New connections	456	529	529	438	464	1,391	458	346	345	450
Average daily production (thousands of gallons)	29,511	29,511	27,384	26,986	28,876	28,097	29,197	23,567	23,934	26,473
Average daily sewage flow (thousands of gallons)	16,900	15,130	15,400	14,760	15,500	15,290	16,400	18,231	19,473	16,844
Sanitation										
Waste disposal (cubic yards/day)	3,020	2,586	2,401	3,011	3,475	3,848	3,657	3,620	3,710	4,101

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
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
2009	18,777,493	15,046,777	18,777,493	52,601,763
2010	18,599,727	14,892,017	18,599,727	52,091,471
Total	<u>\$ 176,045,340</u>	<u>\$ 139,808,677</u>	<u>\$ 95,783,681</u>	<u>\$ 488,557,650</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 more funding for the radio project and the wastewater projects. In September 2009, additional sales and use tax bonds were issued for more wastewater projects. The 2009 Bonds will be paid with the sales and use tax once the 2006 and 2008 Bonds are redeemed. The 2009 Bonds interest payments are currently being supported by a temporary sewer rate that is in effect until the 2006 and 2008 Bonds are redeemed. In January 2010, the City issued additional sales and use tax bonds for even more wastewater projects. The 2006, 2008, and 2010 Bonds are supported by the 1% sales and use tax. Once these bonds are redeemed, the 1% sales and use tax will support the 2009 Bonds and the temporary sewer rate will be discontinued.

Table 20

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

<b>Fiscal Year</b>	<b>Annual # Sanitation System Customers</b>	<b>Cubic Yardage of Waste at Landfill</b>	<b>Useful Life of Landfill Remaining</b>	<b>Remaining Storage Capacity at Landfill</b>
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
2009	312,972	1,124,130	39 yrs	66,151,721 cubic yards
2010	317,124	1,229,905	39 yrs	65,872,831 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
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
2009	23,934,000	37,616,000	8,735,804,000	19,473,000
2010	26,473,000	41,999,000	8,340,570,000	16,844,000

<b>Water Customers</b>					
Fiscal Year	Residential	Commercial	Wholesale	Other	Total
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
2009	28,431	4,261	13	10	32,715
2010	28,877	4,108	13	10	33,008

<b>Sewer Customers</b>				
Fiscal Year	Residential	Commercial	Government	Total
2006	25,533	3,681	10	29,224
2007	25,790	3,661	10	29,461
2008	26,076	3,662	10	29,748
2009	26,171	3,688	10	29,869
2010	26,699	3,618	10	30,327

Table 21 (Continued)

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

<b>For 2009:</b>					<b>% of Gross</b>
<b>Entity</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>		<b>Revenues</b>
City of Van Buren	\$ 3,583,674	\$ -	\$ 3,583,674		10.24%
OK Foods	1,944,881	142,100	2,086,981		5.96%
Gerber Products	1,156,488	-	1,156,488		3.30%
St. Edward Mercy Medical Center	255,787	242,016	497,803		1.42%
Gerdau Macsteel	242,150	150,451	392,601		1.12%
Sparks Medical Center	231,320	243,709	475,029		1.36%
Whirlpool	91,997	101,393	193,390		0.55%
Twin Rivers Packaging	62,813	84,413	147,226		0.42%
Hiram Walker	64,051	18,093	82,144		0.23%
Hiland Dairy	60,668	18,949	79,617		0.23%
Top Ten Users	<u>\$ 7,693,829</u>	<u>\$ 1,001,124</u>	<u>\$ 8,694,953</u>		<u>24.84%</u>

<b>For 2010:</b>					<b>% of Gross</b>
<b>Entity</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>		<b>Revenues</b>
City of Van Buren	\$ 3,927,763	\$ -	\$ 3,927,763		11.22%
OK Foods	1,963,290	133,837	2,097,127		5.99%
Gerber Products	1,152,850	-	1,152,850		3.29%
St. Edward Mercy Medical Center	347,632	266,794	614,426		1.76%
Gerdau Macsteel	363,053	237,585	600,638		1.72%
Sparks Medical Center	247,193	227,549	474,742		1.36%
Whirlpool	117,569	107,010	224,579		0.64%
Sebastian County Park/Jail	146,545	65,337	211,882		0.61%
Twin Rivers Packaging	68,132	94,314	162,446		0.46%
Mars Petcare US	83,767	62,150	145,917		0.42%
The Links Fort Smith	60,621	83,916	144,537		0.41%
James River Dixie	49,748	65,984	115,732		0.33%
Top Ten Users	<u>\$ 8,528,163</u>	<u>\$ 1,344,476</u>	<u>\$ 9,872,639</u>		<u>28.21%</u>

Table 22

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

	2003	2004	2005	2006	2007	2008	2009	2010
Revenues	\$ 30,133,031	\$ 32,780,080	\$ 33,972,924	\$ 36,218,142	\$ 37,164,047	\$ 38,953,983	\$ 36,683,453	\$ 37,014,019
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>	<u>41,671,672</u>	<u>39,433,872</u>
Excess (deficiency) of revenues over (under) expenditures	(591,099)	(252,778)	(690,216)	(2,091,035)	(5,895,023)	299,183	(4,988,219)	(2,419,853)
Other financing sources (uses)	<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>	<u>2,777,499</u>	<u>2,366,950</u>
Net change in fund balances	1,025,694	2,203,766	1,816,887	1,734,458	(3,864,041)	2,257,181	(2,210,720)	(52,903)
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>	<u>10,706,233</u>	<u>8,495,513</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>	<u><u>\$ 8,495,513</u></u>	<u><u>\$ 8,442,610</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, 2010.

- (1) Arkansas Municipal Accounting Law of 1973, § 14-59-101 et seq.;
- (2) Arkansas District Courts and City Courts Accounting Law, § 16-10-210 et seq.;
- (3) Improvement contracts, §§ 22-9-202 – 22-9-204;
- (4) Budgets, purchases, and payments of claims, etc., § 14-58-201 et seq. and 14-58-301 et seq.;
- (5) Investment of public funds, § 19-1-501 et seq.; and
- (6) Deposit of public funds, §§ 19-8-101 – 19-8-107.

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

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

In our opinion, the City of Fort Smith, Arkansas complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2010.

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.

*BKD, LLP*

June 29, 2011

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