

City of Fort Smith, Arkansas
Comprehensive Annual Financial Report
Year Ended December 31, 2007

Prepared by the
City of Fort Smith, Arkansas
Finance Department

City Board of Directors

C. Ray Baker, Mayor

Steve Tyler
Andre' Good
Rick Parrish
Bill Maddox
Gary Campbell
Kevin Settle
Cole Goodman, M.D.

City Administrator
Ray Gosack, Acting

Director of Finance
Kara Bushkuhl

City of Fort Smith, Arkansas
Year Ended December 31, 2007

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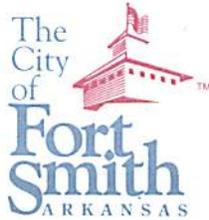
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**INTRODUCTORY
SECTION**



June 9, 2008

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) in the United States of America 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, 2007.

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

The City's financial statements have been audited by **BKD, LLP**, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the City's financial statements for the fiscal year ended December 31, 2007 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. **BKD, LLP** concluded, based upon the audit, that there was a reasonable basis for rendering unqualified ("clean") opinions on the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund and aggregate remaining fund information that collectively comprise the City's basic financial

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statements as of and for the fiscal year ended December 31, 2007. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

Profile of the City

Fort Smith is located in western Arkansas on the border of Oklahoma and is the second largest city in the state. The City was incorporated in 1842 and is the county seat for Sebastian County. Fort Smith is 159 miles west of Little Rock and 145 miles southeast of Tulsa, Oklahoma. The City serves as the central focus for a six-county economic and trade region in the west central area of Arkansas and the east central area of Oklahoma. The City encompasses 92.4 square miles and has an estimated population of 83,426. 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. At the present time, the Deputy City Administrator is serving as Acting City Administrator during the vacancy of the City Administrator position.

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 continues to enjoy economic growth in all sectors of its economy although it has slowed somewhat in the last year in light of the current economic downturn in our nation. The Fort Smith Regional Chamber of Commerce adopted a new economic development and marketing strategy for the region. The goal of the plan is to promote the City's quality of place to attract educated and talented residents to the region. This labor pool will then attract new, highly desirable jobs to the area.

Wal-Mart opened its third Supercenter in the City earlier this year. This store is the sixth Supercenter in the immediate area. An additional 300,000 square feet of retail space will be built adjacent to the new Wal-Mart Supercenter. Target is constructing its first store in the City as a part of a 300,000 square foot shopping center. Target and other retailers are expected to open in October 2008. A barge manufacturer is constructing manufacturing facilities on the banks of the Arkansas River in the City. This new manufacturer is expected to initially employ 200 persons with potential growth of another 200 jobs. Mars Petcare has an \$80 million manufacturing facility under construction at Chaffee Crossing. This manufacturer will initially employ 200 persons with potential growth of another 200 jobs. Two new hotels on the City's east side near Interstate 540 and the Fort Smith Airport are under construction. The 188th Fighter Wing of the Arkansas Air National Guard recently received a new flying mission through the Base Realignment and Closure Commission. The unit has replaced 14 obsolete F-16 fighter aircraft with 18 A-10 attack aircraft. This change preserves 1,000 full time and part-time jobs and adds 150 new positions. Sparks Regional Medical Center has completed a major expansion to its health care campus near downtown Fort Smith. Two large-scale residential subdivisions in and near the City are under development with lots being absorbed faster than expected. The

recent acquisition by the City of the South Sebastian Water Users System is spurring further development in the City's southern edges.

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 Sales and Use Tax Bonds fund a new radio communication system for public safety and public service purposes as well as major wastewater improvements in accordance with an EPA administrative order. This has proven to be a very effective way to fund projects and the City saves on interest charges because Arkansas sales tax bond issues have mandatory redemption requirements. The 2006 Bonds are expected to be redeemed prior to maturity.

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

Other Information

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2006. The Certificate of Achievement is the highest form of recognition for excellence in local government financial reporting. This was the twenty-first 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, 2007. This was the nineteenth 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 *
Acting City Administrator



Kara Bushkuhl *
Director of Finance

* For security reasons, this is not an original signature.

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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, 2006

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.



Cherie S. Cox

President

Jeffrey R. Emmer

Executive Director

City of Fort Smith, Arkansas
List of Elected and Appointed Officials
December 31, 2007

Elected Officials

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

Appointed Officials

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

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**FINANCIAL
SECTION**



Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fort Smith, Arkansas as of and for the year ended December 31, 2007, 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 \$2,098,509 and \$2,567,412, respectively, and represents 88% and 78% of the aggregate discretely presented component units' (governmental activities) total assets and revenues at December 31, 2007 and for the year then ended, respectively. Those statements were audited by other accountants whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for the Fort Smith Public Library, is based solely on the report of the other accountants.

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

In our opinion, based on our audits and the report of other accountants, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fort Smith, Arkansas as of December 31, 2007, 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 9, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying supplementary information, including the schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

BKD, LLP

June 9, 2008

City of Fort Smith, Arkansas
Management's Discussion and Analysis
December 31, 2007

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, 2007. 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 2007 by \$600,627,452 (net assets). Of this amount, \$30,970,627 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 \$29,580,570. The City's business-type activities have unrestricted net assets of \$1,390,057.
- The City's total net assets increased by \$34,723,547 in 2007. Net assets of the governmental activities increased by \$24,722,231 in 2007 compared to a net decrease of \$2.2 million in 2006 ending net assets. Net assets of the business-type activities increased by \$10,001,316 in 2007 that was a 76% decrease from the 2006 change in assets.
- As of the close of 2007, the City's governmental funds reported combined ending fund balances of \$116,454,635 that was a decrease of \$15,434,342 from the prior year. The unreserved portion of the fund balances is \$26,523,492 that represents 22.8% of the total and is available for spending at the Board's discretion.
- At the end of 2007, the unreserved fund balance for the General Fund was \$6,257,328 or 14.5% of total General Fund expenditures. There was a decrease of \$3,864,041 in total General Fund balance between years.
- The City's total bonded indebtedness increased by \$2.55 million during the current year. The increase includes the issuance of \$24.47 million Water and Sewer Revenue Bonds, Series 2007 and is offset by the call and maturity of outstanding Sales and Use Tax Bonds, Series 2006 which totaled \$13.93 million as well as the maturity of revenue bonds during the year of \$7.99 million.
- The City's governmental component units reported net assets of \$2,397,497 at December 31, 2007 that was an increase of \$174,159 from 2006.
- The City's business-type component units reported net assets of \$34,585,168 at December 31, 2007 that was a \$414,654 decrease from 2006.

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, 2006 Sales and Use Tax Construction Fund, and the 2006 Sales and Use Tax Bond Fund which are considered to be major funds. Data from the other seven (7) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for its water and sewer system and its solid waste system. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions for fuel and duplicating services, medical, dental and life insurance benefits, and workers' compensation claims. The services provided by the internal service funds predominantly benefit the governmental rather than the business-type functions. They have been included within the *governmental activities* in the government-wide financial statements exclusive of an allocation of services to business-type activities. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements provide separate information for the Water and Sewer Fund and the Sanitation Fund, both of which are considered to be major funds of the City. The Working Capital, Employee Insurance and Workers' Compensation Funds are the City's internal service funds and are reported in a single aggregated presentation.

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

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 30-80 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 81-84 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 85-101 of this report.

Government-Wide Financial Analysis

City of Fort Smith Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assets	\$ 136,561,557	\$ 77,053,906	\$ 62,574,295	\$ 80,788,635	\$ 199,135,852	\$ 157,842,541
Capital assets	301,763,444	261,926,275	354,757,225	326,355,745	656,520,669	588,282,020
Total assets	438,325,001	338,980,181	417,331,520	407,144,380	855,656,521	746,124,561
Liabilities:						
Long-term liabilities	68,007,927	2,674,222	153,469,655	177,467,591	221,477,582	180,141,813
Other liabilities	17,259,600	5,778,241	16,291,887	33,899,224	33,551,487	39,677,465
Total liabilities	85,267,527	8,452,463	169,761,542	211,366,815	255,029,069	219,819,278
Net Assets:						
Invested in capital assets, net of related debt	275,722,692	260,483,758	225,664,963	181,439,396	501,387,655	441,923,154
Restricted	47,754,213	3,988,372	20,514,957	26,844,476	68,269,170	30,832,848
Unrestricted (deficit)	29,580,570	66,055,588	1,390,057	(12,506,307)	30,970,627	53,549,281
Total net assets	\$ 353,057,475	\$ 330,527,718	\$ 247,569,977	\$ 195,777,565	\$ 600,627,452	\$ 526,305,283

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 \$600,627,452 at the close of 2007.

The largest portion of the City's net assets (83.5%) reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, machinery and equipment, and infrastructure), plus unspent bond proceeds, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (12.1 %) represents resources that are subject to restrictions as to how they may be used. The remaining balance is unrestricted.

At the end of the current fiscal year, the City is able to report positive balances in 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 positive balances in net assets at the end of 2007. However, in 2006, the business-type activities reported a deficit in net assets.

There was an increase of \$2,199,874 in restricted net assets reported in connection with the City's business-type activities. This increase resulted from the 2007 Water and Sewer Revenue Bonds issuance.

The City's net assets increased by \$34,723,547 during 2007. Total revenues increased by 2.3% between years. Revenues generated by fees and charges increased by 2.5% due primarily to rate increases. Sales tax revenue on a government-wide basis increased by 2.8%.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program revenues						
Fees, fines, and charges for services	\$ 4,659,838	\$ 4,784,551	\$ 45,800,004	\$ 44,456,698	\$ 50,459,842	\$ 49,241,249
Operating grants and contributions	7,524,294	7,006,913	-	-	7,524,294	7,006,913
Capital grants and contributions	1,610,147	3,082,171	2,197,861	1,954,879	3,808,008	5,037,050
	<u>13,794,279</u>	<u>14,873,635</u>	<u>47,997,865</u>	<u>46,411,577</u>	<u>61,792,144</u>	<u>61,285,212</u>
General revenues						
Property taxes	8,821,508	9,392,423	-	-	8,821,508	9,392,423
Sales taxes	53,014,309	40,747,820	-	10,812,656	53,014,309	51,560,476
Utility franchise fees	6,760,463	7,406,294	-	-	6,760,463	7,406,294
Grants and contributions not restricted to specific programs	6,558,212	5,139,979	-	-	6,558,212	5,139,979
Unrestricted investment earnings	6,155,547	3,220,403	1,950,264	2,951,710	8,105,811	6,172,113
Gain (loss) on sale of capital assets	(13,463)	22,838	-	-	(13,463)	22,838
Other	<u>251,941</u>	<u>1,148,865</u>	<u>504,328</u>	<u>304,583</u>	<u>756,269</u>	<u>1,453,448</u>
Total revenues	<u>95,342,796</u>	<u>81,952,257</u>	<u>50,452,457</u>	<u>60,480,526</u>	<u>145,795,253</u>	<u>142,432,783</u>
Expenses						
General government	8,107,627	7,401,742	-	-	8,107,627	7,401,742
Public safety	29,635,609	28,283,667	-	-	29,635,609	28,283,667
Public works	10,862,082	11,583,305	-	-	10,862,082	11,583,305
Community services	10,559,736	11,465,302	-	-	10,559,736	11,465,302
Interest on long-term debt	3,757,618	671,893	-	-	3,757,618	671,893
Water and sewer	-	-	36,693,984	32,920,994	36,693,984	32,920,994
Sanitation	-	-	11,455,050	10,507,258	11,455,050	10,507,258
Total expenses	<u>62,922,672</u>	<u>59,405,909</u>	<u>48,149,034</u>	<u>43,428,252</u>	<u>111,071,706</u>	<u>102,834,161</u>
Increase in net assets before transfers	<u>32,420,124</u>	<u>22,546,348</u>	<u>2,303,423</u>	<u>17,052,274</u>	<u>34,723,547</u>	<u>39,598,622</u>
Transfers	<u>(7,697,893)</u>	<u>(24,738,822)</u>	<u>7,697,893</u>	<u>24,738,822</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>24,722,231</u>	<u>(2,192,474)</u>	<u>10,001,316</u>	<u>41,791,096</u>	<u>34,723,547</u>	<u>39,598,622</u>
Net assets - January 1	<u>328,335,244</u>	<u>330,527,718</u>	<u>237,568,661</u>	<u>195,777,565</u>	<u>565,903,905</u>	<u>526,305,283</u>
Net assets - December 31	<u>\$ 353,057,475</u>	<u>\$ 328,335,244</u>	<u>\$ 247,569,977</u>	<u>\$ 237,568,661</u>	<u>\$ 600,627,452</u>	<u>\$ 565,903,905</u>

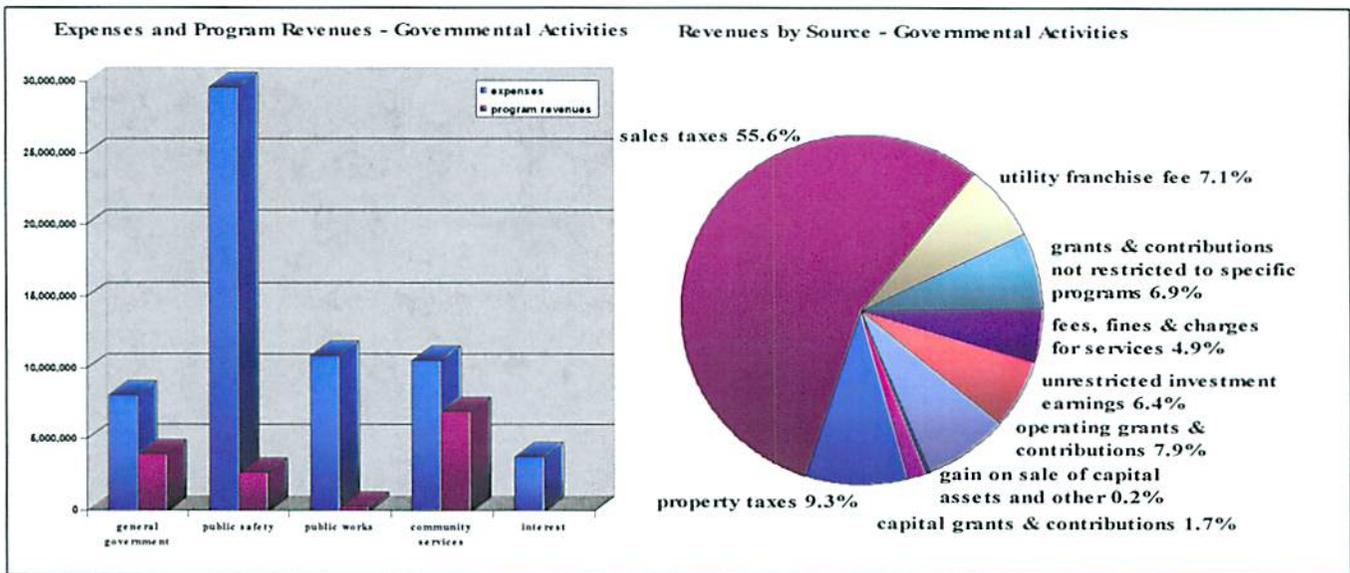
Governmental Activities. Governmental activities increased the City's net assets by \$24,722,231. Key elements of the net increase are as follows:

- Net capital asset acquisition exceeded depreciation by \$23,859,298.
- Deferred revenue at the fund level recognized at the government-wide level increased net assets by \$9,817,341.
- A \$7,669,893 transfer to the Water and Sewer Fund for wastewater improvements provided by the 2006 Sales & Use Tax Construction Fund offset the increase.

Sales tax revenue allocated for governmental purposes reflects a 30.1% increase between years. A majority of the increase is due to the entire year sales tax revenue of \$18,929,527 allocated to the debt service fund during 2007 for the 2006 Sales & Use Tax Bonds. The sales tax revenue allocated to the debt service fund for 2006 was \$7.6 million with the remainder of the sales tax, \$10.8 million being allocated to the Water and Sewer Fund during 2006. The City's share of the county sales tax, accounted for in the General Fund, increased 3% in 2007 over 2006. The City's sales tax that is allocated for street projects and accounted for in the Sales Tax Fund increased 2.8% between 2006 and 2007.

Utility franchise fees decreased by \$645,831 or 8.7% during 2007 primarily due to mild weather patterns during the year.

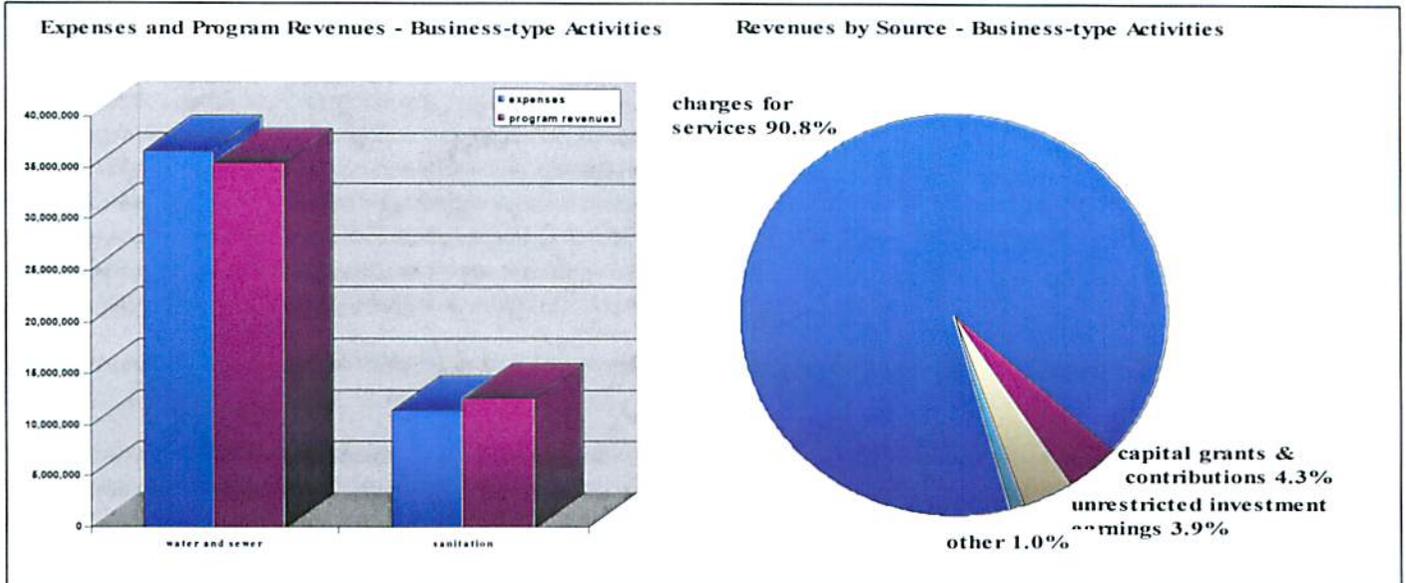
The reported 2007 expenses were \$3,286,001 more than in 2006. The increase is a result of the first full year interest payments for the 2006 Promissory Notes and the 2006 Sales & Use Tax Bonds during the year.



Business-Type Activities. Business-type activities increased the City's net assets by \$10,001,316. Key elements of the increase are as follows:

- The water and sewer system contributed \$7,816,123 to total net assets. The most significant increase in net assets was the \$7,669,893 transfer in from 2006 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 \$2,869,537 in 2007.
- The solid waste system added \$1,604,147 to total net assets. The operating income for the system in 2007 totaled \$1,301,310.

Water and sewer system service charges contribute 66% of the revenue to business-type activities. The solid waste system service charges accounted for 25% of the revenue to business-type activities. Current year expenses for the business-type activities were 95.4% 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, 2007, the City's governmental funds reported combined ending fund balances of \$116,454,635 a decrease of \$15,434,342 in comparison with the prior year. Of this amount, \$26,523,492 represents *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balances is reserved to indicate that it is not available for new spending because it has already been committed for capital projects and other purposes.

The General Fund is the chief operating fund of the City. At December 31, 2007, unreserved fund balance of the General Fund was \$6,257,328, while the total fund balance was \$8,449,052. 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 14.5% of total General Fund expenditures, including transfers out, while total fund balances represents 19.5% of that same amount. The fund balances of the City's General Fund decreased by \$3,864,041 during 2007.

Key factors in this decrease are as follows:

- Franchise fee revenue was \$645,831 less in 2007 compared to the 2006 revenue. The decrease was due to the mild weather during the entire year. This was offset somewhat by the unexpected, additional \$341,506 in court fines and forfeitures between years.

- The City allocated an additional \$1,296,305 to the Parks capital expenditures compared to the prior year. Most of the additional funds were for the Carol Ann Cross park dam and lake improvements.
- The City's share of the construction of the new Sebastian County Courthouse was \$1,164,626 during 2007. This was the first year that funds were transferred to the County. The City's district court offices, operations, and courtrooms will be housed in this building.
- The personnel costs for the Police and Fire departments were \$1,279,322 more in 2007 than in 2006 to provide for pay increases, additional overtime costs, and insurance costs.

The Street Maintenance Fund and the Sales Tax Fund, both special revenue funds, are presented as major funds and account for 31.9% 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 \$733,494 between years. The decrease was due to more project expenditures during the year.

The 2006 Sales & Use Tax Construction Fund is also presented as a major fund and accounts for 39.6% 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. The fund balance decreased by \$12.6 million from the prior year as there were more wastewater projects in progress during 2007 and the major portion of the radio communication system costs were incurred during 2007.

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 \$227,715,257 and \$18,801,992 for the Water and Sewer Fund and the Sanitation Fund, respectively. The increase in net assets was \$7,816,123 for the Water and Sewer Fund and \$1,604,147 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 \$48,624,741 (total expenditures plus transfers out) compared to the original budget total of \$46,799,468. The increase in appropriations of \$1,825,273 is summarized briefly as follows:

- \$840,336 for park capital improvement projects related to the Carol Ann Cross Park dam and lake rehabilitation and construction.
- \$280,350 for additional salary and overtime costs primarily in the City's Fire Department.
- \$475,000 for additional capital projects including the Malilieu Church demolition project, police department equipment funded by federal seizure award money, and the addition of a third district courtroom in the new county courts building.
- \$100,000 for the federal Marshal's Museum and \$18,466 for library funding to promote economic development efforts.
- The remaining \$111,121 was related to additional legal expenditures incurred during 2007.

Revenue estimates for the General Fund were decreased from an original budget of \$38,761,824 to the final estimate of \$36,618,264. The \$2,143,560 decrease was due to an unexpected \$1,081,246 reduction in franchise fees and a \$1,368,305 decrease in federal transit funding due to the postponement of the

transfer station relocation and construction. These decreases were offset by a onetime additional turnback allocation from the state in the amount of \$501,655

Total actual revenue for the General Fund was \$545,783 more than the final budget estimates. The increased revenues were due to the release of federally seized forfeitures totaling \$898,000 that is included in fines and forfeitures. This was offset by an even further decrease in franchise fees of \$292,000. Total actual expenditures were \$3,356,288 less than the final appropriated budget of the General Fund. Actual expenditures were lower due to: the reclassification of promissory note expenditures of \$1.4 million as parks and recreation capital; delayed and postponed capital projects of \$675,000; vacant positions in the police department totaling \$520,000; and restriction of administrative and finance operating expenditures in the last half of 2007 that resulted in lower costs of \$504,000 and \$347,000, respectively.

The budget and actual schedule for the General Fund may be found on page 80 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, 2007 amounts to \$656,520,669, 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 4.95%, an 8.6% increase for governmental activities and a 2.1% increase for business-type activities.

City of Fort Smith Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 23,468,039	\$ 22,804,220	\$ 11,210,512	\$ 10,808,713	\$ 34,678,551	\$ 33,612,933
Buildings	58,758,920	58,925,332	1,266,390	1,239,543	60,025,310	60,164,875
Water System	-	-	241,907,062	241,384,808	241,907,062	241,384,808
Sewer System	-	-	75,196,826	74,119,274	75,196,826	74,119,274
Improvement other than buildings	5,959,328	2,830,349	8,807,225	8,881,376	14,766,553	11,711,725
Leasehold improvements	-	-	39,641	55,478	39,641	55,478
Infrastructure	178,176,778	164,783,799	-	-	178,176,778	164,783,799
Machinery and equipment	9,094,753	8,896,181	7,931,041	8,428,035	17,025,794	17,324,216
Construction in progress	26,305,626	19,752,947	8,398,528	2,605,935	34,704,154	22,358,882
Total	\$ 301,763,444	\$ 277,992,828	\$ 354,757,225	\$ 347,523,162	\$ 656,520,669	\$ 625,515,990

Major capital asset events during 2007 included the following:

- Net additions to construction in progress totaled \$12,345,272. Of this amount, \$5,792,593 is attributable to wastewater improvements and \$6,552,679 of this amount is attributable to street projects.
- Additions to improvements other than buildings totaled \$3,073,366 which was due to the improvements to the dam and lake at Carol Ann Cross Park during 2007.
- Depreciation expense totaled \$21,073,206.

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

Long-term debt. At December 31, 2007, the City had \$226,610,000 of long-term bonds outstanding, including \$155,605,000 of bonds secured solely by specified revenue sources, (i.e. revenue bonds).

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

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Sales and Use Tax Bonds	\$ 71,005,000	\$ 84,935,000	\$ -	\$ -
Revenue Bonds	-	-	155,605,000	139,125,000
Total	\$ 71,005,000	\$ 84,935,000	\$ 155,605,000	\$ 139,125,000

The City's total bonded debt increased by \$2,550,000 or 1.1% during 2007. The key factors in this increase were the issuance of \$24,470,000 in Water and Sewer Revenue Bonds, Series 2007. This was offset by the call and maturity of \$13,930,000 in Sales and Use Tax Bonds, Series 2006, and the required principal payments of \$7,990,000 on revenue bonds. The City maintains an "AA-" rating from Standard & Poor's on its water and sewer revenue bonds and an "A" rating from Standard & Poor's on its sales and use tax bonds. 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 \$283,702,879. The City has no general obligation debt at December 31, 2007.

In November 2007, the City issued \$24,470,000 in Water and Sewer Revenue Bonds, Series 2007. The 2007 Bonds were issued to provide water and wastewater improvements for the City's water and sewer system.

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

Economic Factors and the Next Year's Budget and Rates

- The year end unemployment rate for the City was 5.3%, which is an increase from a rate of 4.9% a year ago. This rate compares to the state's average unemployment rate of 5.4% and the national average of 4.6%.
- Although the City is experiencing a decline in revenues affected by climate changes, the City's sales tax revenue during the last quarter of 2007 increased by 2.2% which provided an indication that the City could anticipate a 2% increase in sales tax revenue for 2008.
- Due to the decline in the General Fund balance the City reduced its expenditures and basically eliminated all capital acquisitions for 2008.

These factors were considered when the City prepared its 2008 Budget.

One of the major goals of the Board of Directors is to maintain financial stability in the General Fund by adopting a budget with a minimum unreserved fund balance at 15% of operating expenditures. With this in mind, the City's General Fund budget for 2008 was approved at \$42,148,605 and includes an estimated year end fund balance approximating 7.4%.

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, 2007

Assets

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Cash	\$ 4,170,209	\$ 1,314,831	\$ 5,485,040	\$ 965,153	\$ 491,919
Investments	58,266,838	14,166,387	72,433,225	622,607	1,248,813
Receivables, net of allowance for uncollectibles					
Property taxes	12,121,726	-	12,121,726	254,587	-
Sales taxes	2,806,609	-	2,806,609	93,903	-
Accounts	419,569	4,903,968	5,323,537	36,708	293,002
Accrued interest	636,615	88,173	724,788	1,242	12,046
Grants and other governments	601,794	-	601,794	-	-
Internal balances	(584)	584	-	-	-
Inventory	-	848,605	848,605	5,000	9,406
Prepays and deposits	276,522	3,806	280,328	56,371	53,976
Deferred charges	194,287	1,728,285	1,922,572	-	623,731
Other assets	-	-	-	-	-
Restricted assets					
Cash	-	120,997	120,997	-	97,463
Investments	55,502,924	39,308,265	94,811,189	-	495,470
Receivables, net of allowances for uncollectibles	-	31,917	31,917	-	281,628
Sales taxes	1,565,049	-	1,565,049	-	-
Interest	-	7,786	7,786	-	8,066
Prepaid items and deposits	-	50,690	50,690	-	-
Capital assets					
Nondepreciable	49,773,665	19,609,040	69,382,705	422,132	8,883,459
Depreciable	251,989,779	335,148,185	587,137,964	43,496	27,164,606
Total Assets	\$ 438,325,001	\$ 417,331,520	\$ 855,656,521	\$ 2,501,199	\$ 39,663,585

City of Fort Smith, Arkansas
Statement of Net Assets (Continued)
December 31, 2007

Liabilities and Net Assets

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Liabilities					
Accounts payable and accrued expenses	\$ 6,031,199	\$ 3,625,544	\$ 9,656,743	\$ 103,702	\$ 463,258
Other current liabilities	-	12,347	12,347	-	-
Accrued interest	533,559	1,838,528	2,372,087	-	4,103
Current portion of long-term debt	8,170,000	9,260,000	17,430,000	-	200,000
Deposits	-	1,029,969	1,029,969	-	-
Unearned revenues	738,122	-	738,122	-	-
Noncurrent liabilities					
Due within one year	1,786,719	525,500	2,312,219	-	984
Due in more than one year	68,007,927	153,469,655	221,477,582	-	4,410,072
Total Liabilities	85,267,527	169,761,542	255,029,069	103,702	5,078,417
Net Assets					
Invested in capital assets, net of related debt	275,722,692	225,664,963	501,387,655	465,628	32,042,617
Restricted for					
Capital projects	40,303,589	1,203,314	41,506,903	-	281,628
Debt service	7,450,624	19,311,643	26,762,267	-	506,701
Unrestricted	29,580,570	1,390,057	30,970,627	1,931,869	1,754,222
Total Net Assets	\$ 353,057,475	\$ 247,569,977	\$ 600,627,452	\$ 2,397,497	\$ 34,585,168

City of Fort Smith, Arkansas
Statement of Activities
For the Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units	
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Governmental Activities	Business-Type Activities	
					Governmental Activities	Business-Type Activities			Total
Primary Government:									
Governmental Activities									
General Government									
Administration	\$ 4,436,749	\$ 925,180	\$ 23,170	\$ 23,055	\$ (3,465,344)		\$ (3,465,344)		
Legal	1,199,419	1,840,929	530,934	-	1,172,444		1,172,444		
Finance	2,471,459	604,417	-	-	(1,867,042)		(1,867,042)		
Public safety									
Police	18,065,259	215,796	927,021	963,169	(15,959,273)		(15,959,273)		
Fire	11,570,350	72,462	424,128	52,324	(11,021,436)		(11,021,436)		
Public works									
Operations	424,974	-	-	-	(424,974)		(424,974)		
Streets	8,623,665	50	-	94,554	(8,529,061)		(8,529,061)		
Traffic Control	1,813,443	-	-	165,369	(1,648,074)		(1,648,074)		
Community services									
Health and Social Services	636,817	-	51,973	-	(584,844)		(584,844)		
Parks and Recreation	3,556,842	193,167	11,799	121,852	(3,230,024)		(3,230,024)		
Convention Center	2,385,785	624,106	1,837,268	-	75,589		75,589		
Transit	1,773,968	183,731	1,536,583	189,824	136,170		136,170		
Housing and Rehabilitation	2,206,324	-	2,181,418	-	(24,906)		(24,906)		
Debt service									
Interest	3,757,618	-	-	-	(3,757,618)		(3,757,618)		
Total Governmental Activities	62,922,672	4,659,838	7,524,294	1,610,147	(49,128,393)		(49,128,393)		
Business-Type Activities:									
Water and Sewer	36,693,984	33,238,901	-	2,197,861		(1,257,222)	(1,257,222)		
Sanitation	11,455,050	12,561,103	-	-		1,106,053	1,106,053		
Total Business-Type Activities	48,149,034	45,800,004	-	2,197,861		(151,169)	(151,169)		
Total Primary Government	\$ 111,071,706	\$ 50,459,842	\$ 7,524,294	\$ 3,808,008	\$ (49,128,393)	\$ (151,169)	\$ (49,279,562)		
Component Units:									
Governmental									
Advertising & Promotion	\$ 691,051	\$ -	\$ 3,455	\$ -			\$ (687,596)		
Public Library	2,425,750	102,366	393,410	-			(1,929,974)		
Sub-total	3,116,801	102,366	396,865	-			(2,617,570)		
Business-Type									
Parking Authority	259,965	174,580	-	-				\$ (85,385)	
Airport	4,833,184	2,410,055	-	1,595,609				(827,520)	
Sub-total	5,093,149	2,584,635	-	1,595,609				(912,905)	
Total Component Units	\$ 8,209,950	\$ 2,687,001	\$ 396,865	\$ 1,595,609			(2,617,570)	(912,905)	

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Activities (Continued)
For the Year Ended December 31, 2007

General revenues					
Property taxes	8,821,508		8,821,508	1,104,025	
Sales taxes	53,014,309		53,014,309	909,315	
Hotel/Motel taxes				705,954	
Gross receipts utility franchise fees	6,760,463		6,760,463		
Grants and contributions not restricted to specific programs	6,558,212		6,558,212		
Unrestricted investment earnings	6,155,547	1,950,264	8,105,811	37,890	160,716
Loss on sale of capital assets	(13,463)		(13,463)		-
Payment from City of Fort Smith					250,000
Other	251,941	504,328	756,269	34,545	87,535
Transfers	(7,697,893)	7,697,893	-		
Total general revenues and transfers	73,850,624	10,152,485	84,003,109	2,791,729	498,251
 Change in net assets	 24,722,231	 10,001,316	 34,723,547	 174,159	 (414,654)
 Net assets, beginning	 328,335,244	 237,568,661	 565,903,905	 2,223,338	 34,999,822
 Net assets, end of year	 <u>\$ 353,057,475</u>	 <u>\$ 247,569,977</u>	 <u>\$ 600,627,452</u>	 <u>\$ 2,397,497</u>	 <u>\$ 34,585,168</u>

City of Fort Smith, Arkansas
Balance Sheet – Governmental Funds
December 31, 2007

	<u>General</u>	<u>Street Maintenance</u>	<u>Sales Tax</u>	<u>2006 Sales & Use Tax Construction</u>	<u>2006 Sales & Use Tax Bond</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets							
Cash	\$ 919,077	\$ 618,177	\$ 1,223,037	\$ -	\$ -	\$ 954,206	\$ 3,714,497
Investments	4,796,069	3,548,656	31,654,328	-	527,454	14,974,869	55,501,376
Receivables, net of allowance for uncollectibles							
Property taxes	7,826,792	1,832,455	-	-	-	2,462,479	12,121,726
Sales taxes	1,241,560	-	1,565,049	-	-	-	2,806,609
Accounts	368,900	825	-	-	-	3,124	372,849
Accrued interest	19,727	16,614	121,464	410,114	-	58,595	626,514
Due from other funds	27,820	-	-	-	-	256	28,076
Due from other governments	482,873	-	64,709	-	-	54,212	601,794
Restricted assets:							
Investments	338,604	-	-	47,713,696	7,450,624	-	55,502,924
Sales taxes	-	-	-	-	1,565,049	-	1,565,049
Deferred charges	12,143	-	-	-	-	-	12,143
Prepaid items	203,619	-	-	-	-	14,177	217,796
Deposits	10,102	-	5,495	32,500	-	-	48,097
Total Assets	\$ 16,247,286	\$ 6,016,727	\$ 34,634,082	\$ 48,156,310	\$ 9,543,127	\$ 18,521,918	\$ 133,119,450
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued expenses	\$ 1,725,895	\$ 224,635	\$ 1,192,300	\$ 1,644,567	\$ -	455,130	\$ 5,242,527
Retainage payable	32,192	-	537,526	109,698	-	-	679,416
Accrued interest	6,104	-	-	-	-	-	6,104
Due to other funds	-	-	-	-	-	28,660	28,660
Deferred revenues	5,883,721	1,701,527	-	-	-	2,970,215	10,555,463
Other	150,322	-	-	-	-	2,323	152,645
Total Liabilities	7,798,234	1,926,162	1,729,826	1,754,265	-	3,456,328	16,664,815
Fund Balances:							
Reserved for:							
Encumbrances	1,988,105	21,161	-	-	-	146,810	2,156,076
Prepaid items	203,619	-	-	-	-	14,177	217,796
Other purposes - construction projects	-	-	32,904,256	46,402,045	-	800,346	80,106,647
Other purposes - debt service	-	-	-	-	7,450,624	-	7,450,624
Unreserved:							
Designated for subsequent years' expenditures	1,805,966	4,069,404	-	-	2,092,503	-	7,967,873
Undesignated	4,451,362	-	-	-	-	-	4,451,362
Unreserved, reported in nonmajor:							
Special revenue funds	-	-	-	-	-	13,646,710	13,646,710
Capital projects funds	-	-	-	-	-	457,547	457,547
Total Fund Balances	8,449,052	4,090,565	32,904,256	46,402,045	9,543,127	15,065,590	116,454,635
Total Liabilities and Fund Balances	\$ 16,247,286	\$ 6,016,727	\$ 34,634,082	\$ 48,156,310	\$ 9,543,127	\$ 18,521,918	\$ 133,119,450

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, 2007

Total fund balances - governmental funds \$ 116,454,635

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

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

Land	\$ 23,468,039	
Buildings	70,348,271	
Improvements other than buildings	11,355,286	
Machinery and equipment	24,428,561	
Infrastructure	223,914,123	
Accumulated depreciation	<u>(78,056,462)</u>	
	275,457,818	
Construction in progress	<u>26,305,626</u>	
Total	<u><u>\$ 301,763,444</u></u>	301,763,444

Some revenues in the governmental funds are deferred because they are
not collected within the prescribed time period after year end and are not
considered available. On the accrual basis, however, those revenues would
be recognized regardless of when they are collected. 9,817,341

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. 2,064,467

Some assets related to long-term debt are deferred and, therefore, are not
reported in the funds. 182,144

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

Compensated absences	\$ 1,967,210	
Claims payable	82,500	
Notes payable	1,865,000	
Sales tax bonds payable, net	72,005,917	
Interest payable	527,455	
Arbitrage payable	554,339	
Capital leases payable	<u>222,135</u>	
	<u><u>\$ 77,224,556</u></u>	<u><u>(77,224,556)</u></u>

Net assets of governmental activities \$ 353,057,475

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended December 31, 2007

	<u>General</u>	<u>Street Maintenance</u>	<u>Sales Tax</u>	<u>2006 Sales & Use Tax Construction</u>	<u>2006 Sales & Use Tax Bond</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues							
Property taxes	\$ 5,138,690	\$ 1,541,615	\$ -	\$ -	\$ -	\$ 2,055,819	\$ 8,736,124
Sales taxes	15,155,255	-	18,929,527	-	18,929,527	-	53,014,309
Licenses and permits	1,319,940	-	-	-	-	181,082	1,501,022
Utility franchise fees	6,760,463	-	-	-	-	-	6,760,463
Intergovernmental	4,397,346	3,823,143	94,554	-	-	5,079,992	13,395,035
Fines and forfeitures	2,728,076	-	-	-	-	130,753	2,858,829
Fees for services	1,088,811	-	-	-	-	-	1,088,811
Interest	325,198	224,396	1,505,904	2,200,714	353,456	667,423	5,277,091
Increase in fair value of investments	-	-	-	1,017,372	-	-	1,017,372
Contributions	-	-	165,369	-	-	862,449	1,027,818
Miscellaneous	250,268	31,241	-	3,600	-	31,264	316,373
Total Revenues	37,164,047	5,620,395	20,695,354	3,221,686	19,282,983	9,008,782	94,993,247
Expenditures							
Current:							
General government							
Administration	3,573,172	206,857	-	-	-	-	3,780,029
Legal	1,963,944	76,432	-	-	-	-	2,040,376
Finance	2,032,656	337,264	-	-	-	-	2,369,920
Public safety							
Police	14,122,903	-	-	-	-	2,315,694	16,438,597
Fire	9,426,132	-	-	-	-	2,197,621	11,623,753
Public works							
Operations	-	415,852	-	-	-	-	415,852
Streets	-	2,353,394	412,407	-	-	202,078	2,967,879
Traffic Control	-	1,818,732	-	-	-	-	1,818,732
Community services							
Health and Social Services	103,196	-	-	-	-	-	103,196
Parks and Recreation	591,333	265,195	-	-	-	-	856,528
Convention Center	-	-	-	-	-	1,597,255	1,597,255
Transit	1,642,541	-	-	-	-	-	1,642,541
Housing and Rehabilitation	-	-	-	-	-	2,188,244	2,188,244
Other	3,618,740	66,918	-	-	12,900	78,242	3,776,800
Capital Outlay	5,479,565	599,210	18,379,722	8,178,705	-	301,896	32,939,098
Debt Service:							
Principal	425,000	-	-	-	13,930,000	-	14,355,000
Interest	79,888	-	-	-	3,677,730	-	3,757,618
Total Expenditures	43,059,070	6,139,854	18,792,129	8,178,705	17,620,630	8,881,030	102,671,418
Excess (Deficiency) of revenues over (under) expenditures	(5,895,023)	(519,459)	1,903,225	(4,957,019)	1,662,353	127,752	(7,678,171)

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, 2007

	<u>General</u>	<u>Street Maintenance</u>	<u>Sales Tax</u>	<u>2006 Sales & Use Tax Construction</u>	<u>2006 Sales & Use Tax Bond</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other Financing Sources (Uses)							
Transfers in	2,252,260	-	350,000	-	-	-	2,602,260
Transfers out	(163,000)	(417,500)	(2,049,760)	(7,669,893)	-	-	(10,300,153)
Capital lease financing	(58,278)	-	-	-	-	-	(58,278)
Total Other Financing Sources and Uses	<u>2,030,982</u>	<u>(417,500)</u>	<u>(1,699,760)</u>	<u>(7,669,893)</u>	<u>-</u>	<u>-</u>	<u>(7,756,171)</u>
Net Change in Fund Balances	(3,864,041)	(936,959)	203,465	(12,626,912)	1,662,353	127,752	(15,434,342)
Fund Balances, January 1	<u>12,313,093</u>	<u>5,027,524</u>	<u>32,700,791</u>	<u>59,028,957</u>	<u>7,880,774</u>	<u>14,937,838</u>	<u>131,888,977</u>
Fund Balances, December 31	<u>\$ 8,449,052</u>	<u>\$ 4,090,565</u>	<u>\$ 32,904,256</u>	<u>\$ 46,402,045</u>	<u>\$ 9,543,127</u>	<u>\$ 15,065,590</u>	<u>\$ 116,454,635</u>

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, 2007

Net change in fund balances - total governmental funds \$ (15,434,342)

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 costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 32,939,098

The net effect of various transactions, i.e. sales, contributions, capital leases, is to increase net assets. 1,827,895

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. (9,079,800)

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. 14,329,196

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. 85,384

Some expenses, i.e. the increase in compensated absences liability, reported in the statement of activities and changes in net assets do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental funds. 1,023,476

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 \$425,101 and the external activities adjustment of \$(598,473)]. (968,676)

Change in net assets of governmental activities \$ 24,722,231

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City of Fort Smith, Arkansas
Statement of Fund Net Assets –
Proprietary Funds
December 31, 2007

Assets

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Current Assets				
Cash	\$ 569,686	\$ 502,935	\$ 1,072,621	\$ 697,922
Investments	7,954,923	4,920,270	12,875,193	4,056,656
Receivables, net of allowance for uncollectibles				
Accounts	3,809,041	1,071,707	4,880,748	69,940
Accrued interest	51,690	31,767	83,457	14,817
Restricted assets				
Cash	-	120,997	120,997	-
Investments	4,958,942	203,422	5,162,364	-
Receivables, net of allowances for uncollectibles	-	31,917	31,917	-
Interest	681	7,105	7,786	-
Inventory	794,118	-	794,118	54,487
Prepaid items	-	450	450	13,985
Due from other funds	-	-	-	584
	18,139,081	6,890,570	25,029,651	4,908,391
Noncurrent Assets				
Restricted assets				
Investments	29,742,212	4,403,689	34,145,901	-
Prepaid items and deposits	50,690	-	50,690	-
Deferred charges	1,695,798	32,487	1,728,285	-
Capital assets				
Land	10,836,740	373,772	11,210,512	-
Buildings	-	1,842,013	1,842,013	-
Improvements other than buildings	-	18,659,052	18,659,052	-
Leasehold improvements	-	709,952	709,952	-
Machinery and equipment	8,336,470	14,841,272	23,177,742	-
Water system	299,115,368	-	299,115,368	-
Sewer system	125,051,809	-	125,051,809	-
Construction in progress	8,350,594	47,934	8,398,528	-
Less accumulated depreciation	(112,906,187)	(20,501,564)	(133,407,751)	-
	370,273,494	20,408,607	390,682,101	-
Total Assets	\$ 388,412,575	\$ 27,299,177	\$ 415,711,752	\$ 4,908,391

City of Fort Smith, Arkansas
Statement of Fund Net Assets –
Proprietary Funds (Continued)
December 31, 2007

Liabilities and Net Assets

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Current liabilities				
Accounts payable and accrued expenses	\$ 1,695,237	\$ 842,448	\$ 2,537,685	\$ 213,712
Retainage payable	983,403	-	983,403	-
Accrued vacation and sick leave	9,760	5,916	15,676	-
Accrued interest	1,822,876	15,652	1,838,528	-
Claims and judgments	-	-	-	1,577,484
Revenue bonds payable	8,350,000	910,000	9,260,000	-
Capital leases payable	47,240	-	47,240	-
Deposits	1,029,969	-	1,029,969	-
Other	12,347	-	12,347	-
Total Current Liabilities	<u>13,950,832</u>	<u>1,774,016</u>	<u>15,724,848</u>	<u>1,791,196</u>
Noncurrent liabilities				
Accrued vacation and sick leave	966,246	229,343	1,195,589	-
Landfill closure and postclosure care	-	3,676,958	3,676,958	-
Revenue bonds, net	145,712,481	2,816,868	148,529,349	-
Capital leases payable	14,482	-	14,482	-
Other	53,277	-	53,277	-
Total Noncurrent Liabilities	<u>146,746,486</u>	<u>6,723,169</u>	<u>153,469,655</u>	<u>-</u>
Total Liabilities	<u>160,697,318</u>	<u>8,497,185</u>	<u>169,194,503</u>	<u>1,791,196</u>
Net Assets				
Invested in capital assets, net of related debt	213,419,400	12,245,563	225,664,963	-
Restricted for bond retirement	18,584,912	726,731	19,311,643	-
Restricted for asset replacement	500,000	125,471	625,471	-
Restricted for capital projects	-	577,843	577,843	-
Unrestricted (deficit)	(4,789,055)	5,126,384	337,329	3,117,195
Total Net Assets	<u>\$ 227,715,257</u>	<u>\$ 18,801,992</u>	<u>246,517,249</u>	<u>\$ 3,117,195</u>

Reconciliation to government - wide statement of net assets:

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

1,052,728

Net assets of business type activities

\$ 247,569,977

City of Fort Smith, Arkansas
Statement of Revenues, Expenses and Changes in
Fund Net Assets – Proprietary Funds
For the Year Ended December 31, 2007

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Operating Revenues				
Water service	\$ 21,832,685	\$ -	\$ 21,832,685	\$ -
Sewer service	10,901,596	-	10,901,596	-
Charges for services	471,021	12,561,103	13,032,124	9,529,876
Other	33,599	-	33,599	-
Total Operating Revenues	33,238,901	12,561,103	45,800,004	9,529,876
Operating Expenses				
Personnel services	10,906,672	5,466,840	16,373,512	-
Contractual services	2,867,799	1,551,142	4,418,941	872,189
Materials and supplies	4,074,344	3,198,697	7,273,041	639,322
Heat, light, and power	1,517,157	53,100	1,570,257	-
Depreciation	11,003,392	990,014	11,993,406	-
Insurance claims and expenses	-	-	-	6,243,515
Total Operating Expenses	30,369,364	11,259,793	41,629,157	7,755,026
Operating Income	2,869,537	1,301,310	4,170,847	1,774,850
Nonoperating Revenues (Expenses)				
Interest revenue	1,512,623	423,337	1,935,960	144,400
Increase in fair value of investments	4,755	9,549	14,304	-
Interest expense and fiscal charges	(6,245,962)	(187,827)	(6,433,789)	-
Other nonoperating expenses, net	(125,084)	35,278	(89,806)	-
Total Nonoperating Revenues (Expenses)	(4,853,668)	280,337	(4,573,331)	144,400
Income (Loss) Before Contributions and Transfers	(1,984,131)	1,581,647	(402,484)	1,919,250
Capital contributions	2,197,861	-	2,197,861	-
Transfers in	7,669,893	90,000	7,759,893	73,000
Transfers out	(67,500)	(67,500)	(135,000)	-
Change in Net Assets	7,816,123	1,604,147	9,420,270	1,992,250
Total net assets, beginning of year	219,899,134	17,197,845		1,124,945
Total net assets, ending	\$ 227,715,257	\$ 18,801,992		\$ 3,117,195

Reconciliation to government - wide statement of activities:

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

581,046

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

\$ 10,001,316

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City of Fort Smith, Arkansas
Statement of Cash Flows – Proprietary Funds
For the Year Ended December 31, 2007

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Operating Activities				
Cash received from customers	\$ 32,693,146	\$ 12,483,592	\$ 45,176,738	\$ -
Cash received from service users	-	-	-	1,152,931
Cash received from city and employee contributions	-	-	-	9,340,335
Cash payments for goods and services	(8,385,366)	(4,994,652)	(13,380,018)	(620,466)
Cash paid to employees	(10,841,501)	(5,450,338)	(16,291,839)	-
Cash payments for premiums and other operating expenses	-	-	-	(521,976)
Cash payments for claims paid	-	-	-	(6,413,553)
Cash received from other operating revenues	988,169	94,974	1,083,143	-
Net cash provided by operating activities	<u>14,454,448</u>	<u>2,133,576</u>	<u>16,588,024</u>	<u>2,937,271</u>
Noncapital Financing Activities				
Transfers in from other funds	7,669,893	90,000	7,759,893	73,000
Transfers out to other funds	(67,500)	(67,500)	(135,000)	-
Net cash provided by noncapital financing activities	<u>7,602,393</u>	<u>22,500</u>	<u>7,624,893</u>	<u>73,000</u>
Capital and Related Financing Activities				
Proceeds from bonds	24,522,716	-	24,522,716	-
Proceeds from sale of capital assets	2,141	33,230	35,371	-
Acquisition and construction of capital assets	(24,312,716)	(477,082)	(24,789,798)	-
Principal paid on bonds	(5,880,000)	(875,000)	(6,755,000)	-
Interest paid on bonds	(5,696,154)	(177,950)	(5,874,104)	-
Net cash used for capital and related financing activities	<u>(11,364,013)</u>	<u>(1,496,802)</u>	<u>(12,860,815)</u>	<u>-</u>
Investing Activities				
Proceeds from sales and maturities of investment securities	62,459,806	4,235,820	66,695,626	487,334
Outlays for purchases of investment securities	(74,357,105)	(5,514,899)	(79,872,004)	(3,679,806)
Interest on investments	1,626,108	432,886	2,058,994	144,402
Net cash used for investing activities	<u>(10,271,191)</u>	<u>(846,193)</u>	<u>(11,117,384)</u>	<u>(3,048,070)</u>
Net increase in cash and restricted cash	421,637	(186,919)	234,718	(37,799)
Cash and restricted cash, January 1	148,049	810,851	958,900	735,721
Cash and restricted cash, December 31	<u>\$ 569,686</u>	<u>\$ 623,932</u>	<u>\$ 1,193,618</u>	<u>\$ 697,922</u>
Reconciliation of Cash and Restricted Cash at December 31 to Statement of Net Assets				
Cash	\$ 569,686	\$ 502,935	\$ 1,072,621	\$ 697,922
Restricted cash	-	120,997	120,997	-
Total	<u>\$ 569,686</u>	<u>\$ 623,932</u>	<u>\$ 1,193,618</u>	<u>\$ 697,922</u>

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, 2007

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	\$ 2,869,537	\$ 1,301,310	\$ 4,170,847	\$ 1,774,850
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	11,003,392	990,014	11,993,406	-
Miscellaneous revenue (expenses)	894,747	78,491	973,238	(2)
Change in assets and liabilities				
Accounts receivable	(497,064)	(77,511)	(574,575)	792,301
Due from other funds	-	-	-	686
Inventory	(13,607)	-	(13,607)	(3,487)
Prepaid items	50,005	(450)	49,555	(13,985)
Accounts payable and accrued liabilities	134,949	(157,391)	(22,442)	115,282
Deposits	(15,092)	-	(15,092)	-
Accrued vacation and sick leave	26,271	(887)	25,384	-
Liability for claims and judgments	-	-	-	271,626
Other liabilities	1,310	-	1,310	-
Net cash provided by operating activities	\$ 14,454,448	\$ 2,133,576	\$ 16,588,024	\$ 2,937,271

Noncash investing, capital and financing activities:

Enterprise funds:

The Water and Sewer Fund received contributions of capital assets of \$2,197,861 in 2007 and recognized a \$4,755 increase in fair value of investments in 2007. The 2002 advance refunding, the 2004 current refunding, and the 2005 advance refunding of water and sewer revenue bonds resulted in cash flow savings of \$38,830, \$102,792, and \$131,848 respectively, for 2007. The fund incurred a \$43,339 payment on its lease purchase of equipment during 2007.

The Sanitation Fund recognized an increase in fair value of investments of \$9,549 for 2007. During 2007, the 1998 and 2002 advance refundings for solid waste revenue bonds resulted in cash flow savings of \$37,668 and \$102,365, respectively. The fund made the final lease purchase payment for equipment in the amount of \$210,381 in 2007.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

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, 2007

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 79-80 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 79-80 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 79-80 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 79-80 of these notes for condensed financial statements.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2007

Related Organizations

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

Change in Accounting Principles

Effective January 1, 2007, the City implemented the following new financial accounting and reporting standards issued by GASB:

- Statement No. 43, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*

Statement No. 43 establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in Statement No. 26. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 25, with modifications to reflect differences between pension plans and OPEB plans. The implementation had no financial impact on the City during the current year.

- Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*

Statement No. 48 establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. The implementation had no financial impact on the City during the current year.

- Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*

Statement No. 52 establishes standards for accounting and financial reporting for land and other real estate held as investments by endowments. The implementation had no financial impact on the City during the current year.

Government-Wide and Fund Financial Statements

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

Government-Wide Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Expenses that cannot be specifically identified to a particular function are charged to functions based on time spent for that function and are included in the functional categories. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or identifiable activity and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity. All other revenues are reported as general revenues.

Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category, governmental and proprietary, are presented. The emphasis of fund financial statements is on major governmental and major enterprise funds, each displayed in a separate column. All other governmental and enterprise funds are aggregated and reported as nonmajor funds. Internal service funds are also aggregated and reported in a single column.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Street Maintenance Fund* is a special revenue fund which 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 which 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 *2006 Sales and Use Tax Construction Fund* is a capital projects fund that accounts for the proceeds of the 2006 Sales and Use Tax Refunding and Construction Bonds and the projects funded thereby.

The *2006 Sales and Use Tax Bond Fund* is a debt service fund that accounts for resources to repay general government related debt.

The City reports the following major enterprise funds:

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

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

Additionally, the City reports the following fund types:

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

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

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

Measurement Focus and Basis of Accounting

Government-Wide and Proprietary Funds

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

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

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

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

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

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

Interest is capitalized on enterprise fund capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Interest capitalized in 2007 totaled \$372,821.

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

Property Tax Revenue

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

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

The City is permitted by Arkansas State Law to levy taxes up to \$0.50 per \$100 of assessed valuation on real and personal property for general governmental services, \$0.50 per \$100 of assessed valuation on real and personal property for the payment of principal and interest on long-term debt, \$0.10 per \$100 of assessed valuation on real and personal property for the police pension funds and \$0.10 per \$100 of assessed valuation on real and personal property for the fire pension funds. The combined tax rate levied by the City in 2007 to finance the above operations was \$0.70 per \$100 of assessed valuation on real and personal property, leaving a tax margin of \$0.50 per \$100 of assessed valuation on real and personal property. Approximately \$5,674,058 of additional taxes could be raised per year based on the current year's assessed value of \$756,337,274 for real property and \$378,474,240 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
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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 cost of providing these benefits, including premiums, totaled \$6,670,838 in 2007, and are included in operating expenses in the Employee Insurance Fund. The City contributes fully for each employee and shares in the contribution for any dependants. Retired employees may continue coverage under the City's policy, but must bear the entire cost of these contributions.

The City also makes contributions to fund a self-insured workers' compensation program. The City contributed \$322,760 in 2007 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 \$18,929,527 for fiscal year 2007, 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 \$15,155,255 for fiscal year 2007. These taxes are included in the General Fund's sales tax revenues. The City refers the tax to the voters every ten years for reapproval. The tax is currently in place through August 2014 as the tax was reapproved during 2003 for the period August 2004 through August 2014.

In May 2006, the citizens approved a referendum to continue the 1% sales and use tax on retail sales in the City to refund the Sales and Use Tax Construction Bonds, Series 2001, to fund a new radio communications system for public safety and utility purposes, and to fund the wastewater improvements. Sales tax revenues are restricted for the repayment of the Sales and Use Tax Refunding and Construction Bonds, Series 2006. These taxes are collected by the state and remitted to the City net of a collection fee. The taxes for this purpose totaled \$18,929,527 for fiscal year 2007. The Series 2006 Bonds are expected to be retired by 2012.

Statement of Cash Flows

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities, business-type activities and component units. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. In governmental funds, long-term liabilities are only recorded to the extent that they are due and payable. Debt premiums, discounts and deferred losses on refunding are generally deferred and amortized over the shorter of refunded debt or refunded debt's life using the straight-line method which 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:

Investments	\$	55,502,924
Sales taxes receivable		<u>1,565,049</u>
 Total restricted assets - general government	 \$	 <u><u>57,067,973</u></u>

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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The balances of the restricted assets accounts in the enterprise funds are as follows:

Current Assets:	
Cash - sanitation bond account	\$ 120,997
Investments - sanitation bond account	203,422
Investments - water and sewer bond account	4,958,942
Accounts receivable - sanitation cleanup program account	31,917
Interest receivable - sanitation bond account	7,105
Interest receivable - water and sewer bond account	681
Total current assets - restricted	<u>5,323,064</u>
Noncurrent assets:	
Investments - sanitation debt service reserve account	726,731
Investments - sanitation landfill closure and postclosure care account	3,676,958
Investments - water and sewer bond construction account	29,742,212
Prepaid items and deposits - water and sewer operating account	1,466
Prepaid items and deposits - water and sewer bond construction account	49,224
Total noncurrent assets	<u>34,196,591</u>
Total restricted assets - enterprise funds	<u>\$ 39,519,655</u>

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, an unrealized gain of \$1,031,676 is recorded as an increase in fair value of investments for the primary government in 2007, with a \$14,304 increase related to the City's enterprise funds and a \$1,017,372 increase related to the City's governmental funds.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

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, 2007, a total of \$126,714 of the City's deposits was under-collateralized with the First National Bank of Fort Smith and, therefore, was exposed to custodial credit risk. First National Bank has been notified about the additional collateral required. The bank balances and carrying amount of the City's deposits held as of December 31, 2007 were as follows:

Pooled and Nonpooled Funds

Description	Bank Balances	Carrying Amount
Demand deposits	\$ 48,625,185	\$ 48,949,254
Certificates of deposit	79,374,753	79,374,753
	<u>\$ 127,999,938</u>	<u>\$ 128,324,007</u>

Component Units

At year-end, the carrying amount and the bank balance of the Advertising and Promotion Commission deposits was \$356,586. At December 31, 2007, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Public Library's deposits was \$949,818 and the bank balance was \$1,065,596. At December 31, 2007, 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 \$221,801. At December 31, 2007, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Airport Commission's deposits was \$1,530,692 and the bank balance was \$2,216,736. At December 31, 2007, 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
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The City's investments, including accrued interest, held as of December 31, 2007 were as follows:

Pooled and Nonpooled funds

Description	Fair Value	Investment Maturities Less than 1 Year	Investment Maturities 1-5 Years
U.S. Treasury Bills	\$ 1,680,323	\$ 1,680,323	\$ -
U.S. Treasury Notes	43,578,695	23,385,633	20,193,062
	<u>\$ 45,259,018</u>	<u>\$ 25,065,956</u>	<u>\$ 20,193,062</u>

Component Units

At year-end, the Public Library held \$282,598 in mutual funds. The Public Library reports investments at fair value.

At year-end, the Parking Authority fund held \$69,950 in U.S. Treasury Notes and \$24,633 in governmental money market accounts. The Parking Authority reports investments at fair value and the maturity of the notes is May 31, 2008.

At year-end, the Airport Commission held \$409,238 in U.S. Treasury obligations and \$97,463 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, 2007 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
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The following schedules reconcile the carrying amounts of deposits and investments to the government-wide statement of net assets:

Primary Government:

Carrying value of deposits -	
Pooled and nonpooled funds	\$ 128,324,007
Deposits classified as investments	<u>(122,717,970)</u>
	<u><u>\$ 5,606,037</u></u>
Cash as reported on the government-wide statement of net assets	\$ 5,485,040
Restricted cash as reported on the government-wide statement of net assets	<u>120,997</u>
	<u><u>\$ 5,606,037</u></u>
Carrying value of investments -	
Pooled and nonpooled funds	\$ 45,259,018
Deposits classified as investments	<u>122,717,970</u>
	<u><u>\$ 167,976,988</u></u>
As reported on the government-wide statement of net assets:	
Investments	\$ 72,433,225
Interest receivable	724,788
Restricted investments	94,811,189
Restricted interest receivable	<u>7,786</u>
	<u><u>\$ 167,976,988</u></u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

Component Units:

Governmental type-

Carrying value of deposits -		
Advertising and Promotion		
Commission	\$	356,586
Public Library		949,818
Carrying value of investments -		
Public Library		<u>282,598</u>
	<u>\$</u>	<u>1,589,002</u>

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

Cash	\$	965,153
Investments		622,607
Interest receivable		<u>1,242</u>
	<u>\$</u>	<u>1,589,002</u>

Business type-

Carrying value of deposits -		
Parking Authority	\$	221,801
Airport Commission		1,530,692
Carrying value of investments -		
Parking Authority		94,583
Airport Commission		<u>506,701</u>
	<u>\$</u>	<u>2,353,777</u>

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

Cash	\$	491,919
Investments		1,248,813
Interest receivable		12,046
Restricted cash		97,463
Restricted investments		495,470
Restricted interest receivable		<u>8,066</u>
	<u>\$</u>	<u>2,353,777</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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Note 3: Capital Assets

Capital assets activity for the year ended December 31, 2007 was as follows:

Primary Government:

	December 31, 2006	Additions	Deletions/ Transfers	December 31, 2007
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 22,804,220	\$ 663,819	\$ -	\$ 23,468,039
Construction in progress	19,752,947	30,314,322	(23,761,643)	26,305,626
Total capital assets not being depreciated	<u>42,557,167</u>	<u>30,978,141</u>	<u>(23,761,643)</u>	<u>49,773,665</u>
Capital assets being depreciated				
Buildings	69,242,248	-	1,106,023	70,348,271
Improvements other than buildings	7,789,784	14,386	3,551,116	11,355,286
Infrastructure	205,085,081	-	18,829,042	223,914,123
Machinery and equipment	23,694,396	1,946,571	(1,212,406)	24,428,561
Total depreciable capital assets at historical cost	<u>305,811,509</u>	<u>1,960,957</u>	<u>22,273,775</u>	<u>330,046,241</u>
Less accumulated depreciation for				
Buildings	10,316,916	1,547,897	(275,462)	11,589,351
Improvements other than buildings	4,959,435	436,523	-	5,395,958
Infrastructure	40,301,282	5,436,063	-	45,737,345
Machinery and equipment	14,798,215	1,659,317	(1,123,724)	15,333,808
Total accumulated depreciation	<u>70,375,848</u>	<u>9,079,800</u>	<u>(1,399,186)</u>	<u>78,056,462</u>
Capital assets being depreciated, net	<u>235,435,661</u>	<u>(7,118,843)</u>	<u>23,672,961</u>	<u>251,989,779</u>
Governmental activities capital assets, net	<u>\$ 277,992,828</u>	<u>\$ 23,859,298</u>	<u>\$ (88,682)</u>	<u>\$ 301,763,444</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

Primary Government:

	December 31, 2006	Additions	Deletions/ Transfers	December 31, 2007
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 10,808,713	\$ 376,045	\$ 25,754	\$ 11,210,512
Construction in progress	2,605,935	10,130,484	(4,337,891)	8,398,528
Total capital assets not being depreciated	13,414,648	10,506,529	(4,312,137)	19,609,040
Capital assets being depreciated:				
Water system	291,567,540	6,221,305	1,326,523	299,115,368
Sewer system	120,489,981	1,661,831	2,899,997	125,051,809
Buildings	1,756,399	-	85,614	1,842,013
Improvements other than buildings	18,659,052	-	-	18,659,052
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	22,600,977	837,807	(261,042)	23,177,742
Total depreciable capital assets at historical cost	455,783,901	8,720,943	4,051,092	468,555,936
Less accumulated depreciation for:				
Water system	50,182,732	7,025,574	-	57,208,306
Sewer system	46,370,707	3,484,276	-	49,854,983
Buildings	516,856	58,767	-	575,623
Improvements other than buildings	9,777,676	74,151	-	9,851,827
Leasehold improvements	654,474	15,837	-	670,311
Machinery and equipment	14,172,942	1,334,801	(261,042)	15,246,701
Total accumulated depreciation	121,675,387	11,993,406	(261,042)	133,407,751
Capital assets being depreciated, net	334,108,514	(3,272,463)	4,312,134	335,148,185
Business-type activities capital assets, net	\$ 347,523,162	\$ 7,234,066	\$ (3)	\$ 354,757,225

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

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

Governmental activities:	
General government -	
Administration	\$ 47,790
Legal	5,760
Finance	180,761
Public safety -	
Police	525,390
Fire	290,864
Public works -	
Operations	16,220
Streets	5,626,061
Traffic Control	20,368
Community services -	
Health and social services	4,074
Parks and recreation	1,368,496
Convention center	805,212
Transit	173,460
Housing and rehabilitation	15,344
	<hr/>
Total governmental activities depreciation expense	9,079,800
	<hr/>
Business type activities:	
Water and Sewer	11,003,392
Sanitation	990,014
	<hr/>
Total business-type activities depreciation expense	11,993,406
	<hr/>
Total depreciation expense	\$ 21,073,206
	<hr/> <hr/>

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

Capital asset activity (on page 45):	
Additions for capital assets not being depreciated	\$ 30,978,141
Additions for capital assets being depreciated	1,960,957
	<hr/>
	\$ 32,939,098
	<hr/>
Capital outlay reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 32,939,098
Contributed capital assets	-
	<hr/>
	\$ 32,939,098
	<hr/> <hr/>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

Capital asset activity for the year ended December 31, 2007 for the major enterprise funds was as follows:

Primary Government:

	<u>December 31, 2006</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2007</u>
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 10,434,941	\$ 376,045	\$ 25,754	\$ 10,836,740
Construction in progress	<u>2,605,935</u>	<u>9,996,936</u>	<u>(4,252,277)</u>	<u>8,350,594</u>
Total capital assets not being depreciated:	<u>13,040,876</u>	<u>10,372,981</u>	<u>(4,226,523)</u>	<u>19,187,334</u>
Capital assets being depreciated:				
Water system	291,567,540	6,221,305	1,326,523	299,115,368
Sewer system	120,489,981	1,661,831	2,899,997	125,051,809
Machinery and equipment	<u>8,183,063</u>	<u>153,407</u>	<u>-</u>	<u>8,336,470</u>
Total depreciable capital assets at historical cost	<u>420,240,584</u>	<u>8,036,543</u>	<u>4,226,520</u>	<u>432,503,647</u>
Less accumulated depreciation for:				
Water system	50,182,732	7,025,574		57,208,306
Sewer system	46,370,707	3,484,276	-	49,854,983
Machinery and equipment	<u>5,349,356</u>	<u>493,542</u>	<u>-</u>	<u>5,842,898</u>
Total accumulated depreciation	<u>101,902,795</u>	<u>11,003,392</u>	<u>-</u>	<u>112,906,187</u>
Capital assets being depreciated, net	<u>318,337,789</u>	<u>(2,966,849)</u>	<u>4,226,520</u>	<u>319,597,460</u>
Total water and sewer fund capital assets, net	<u>\$ 331,378,665</u>	<u>\$ 7,406,132</u>	<u>\$ (3)</u>	<u>\$ 338,784,794</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

	December 31, 2006	Additions	Deletions/ Transfers	December 31, 2007
Sanitation Fund:				
Capital assets not being depreciated:				
Land	\$ 373,772	\$ -	\$ -	\$ 373,772
Construction in progress	-	133,548	(85,614)	47,934
	<u>373,772</u>	<u>133,548</u>	<u>(85,614)</u>	<u>421,706</u>
Total capital assets not being depreciated:	<u>373,772</u>	<u>133,548</u>	<u>(85,614)</u>	<u>421,706</u>
Capital assets being depreciated:				
Buildings	1,756,399	-	85,614	1,842,013
Improvements other than buildings	18,659,052	-	-	18,659,052
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	14,417,914	684,400	(261,042)	14,841,272
	<u>35,543,317</u>	<u>684,400</u>	<u>(175,428)</u>	<u>36,052,289</u>
Total depreciable capital assets at historical cost	<u>35,543,317</u>	<u>684,400</u>	<u>(175,428)</u>	<u>36,052,289</u>
Less accumulated depreciation for:				
Buildings	516,856	58,767	-	575,623
Improvements other than buildings	9,777,676	74,151	-	9,851,827
Leasehold improvements	654,474	15,837	-	670,311
Machinery and equipment	8,823,586	841,259	(261,042)	9,403,803
	<u>19,772,592</u>	<u>990,014</u>	<u>(261,042)</u>	<u>20,501,564</u>
Total accumulated depreciation	<u>19,772,592</u>	<u>990,014</u>	<u>(261,042)</u>	<u>20,501,564</u>
Capital assets being depreciated, net	<u>15,770,725</u>	<u>(305,614)</u>	<u>85,614</u>	<u>15,550,725</u>
Total sanitation fund capital assets, net	<u>\$ 16,144,497</u>	<u>\$ (172,066)</u>	<u>\$ -</u>	<u>\$ 15,972,431</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

Component Units-

	December 31, 2006	Additions	Deletions/ Transfers	December 31, 2007
Governmental Activities:				
Public Library				
Capital assets not being depreciated:				
Land	\$ 422,132	\$ -	\$ -	\$ 422,132
Capital assets being depreciated:				
Equipment	518,179	-	-	518,179
Transportation equipment	139,952	-	-	139,952
Total depreciable capital assets at historical cost	663,242	-	-	658,131
Less accumulated depreciation	598,600	16,035	-	614,635
Capital assets being depreciated, net	64,642	(16,035)	-	43,496
Governmental activities capital assets, net	\$ 486,774	\$ (16,035)	\$ -	\$ 465,628
Public Library	\$ 486,774	\$ (16,035)	\$ -	\$ 465,628
Business-type activities:				
Parking Authority				
Capital assets not being depreciated:				
Land	\$ 1,359,161	\$ -	\$ -	\$ 1,359,161
Capital assets being depreciated:				
Buildings	1,960,941	9,648	-	1,970,589
Machinery and equipment	73,525	-	-	73,525
Total depreciable capital assets at historical cost	2,034,466	9,648	-	2,044,114
Less accumulated depreciation for:				
Buildings	1,158,858	55,192	-	1,214,050
Machinery and equipment	66,485	-	-	66,485
Total accumulated depreciation	1,225,343	55,192	-	1,280,535
Capital assets being depreciated, net	809,123	(45,544)	-	763,579
Business-type activities capital assets, net	\$ 2,168,284	\$ (45,544)	\$ -	\$ 2,122,740
Parking Authority	\$ 2,168,284	\$ (45,544)	\$ -	\$ 2,122,740

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

	<u>December 31, 2006</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2007</u>
Airport Commission:				
Capital assets				
not being depreciated:				
Land	\$ 6,010,552	\$ -	\$ -	\$ 6,010,552
Construction in progress	127,447	1,386,300	-	1,513,747
Total capital assets not being depreciated	<u>6,137,999</u>	<u>1,386,300</u>	<u>-</u>	<u>7,524,299</u>
Capital assets being depreciated:				
Buildings	17,853,553	1,107,480	-	18,961,033
Runways & other airport infrastructure	34,096,480	-	-	34,096,480
Equipment, furniture & fixtures, and other	8,573,567	241,367	(8,800)	8,806,134
Total depreciable capital assets at historical cost	<u>60,523,600</u>	<u>1,348,847</u>	<u>(8,800)</u>	<u>61,863,647</u>
Less accumulated depreciation for:				
Buildings	6,340,442	552,598	-	6,893,040
Runways & other airport infrastructure	22,908,510	1,383,132	-	24,291,642
Equipment, furniture & fixtures, and other	3,705,167	581,572	(8,800)	4,277,939
Total accumulated depreciation	<u>32,954,119</u>	<u>2,517,302</u>	<u>(8,800)</u>	<u>35,462,621</u>
Capital assets being depreciated, net	<u>27,569,481</u>	<u>(1,168,455)</u>	<u>-</u>	<u>26,401,026</u>
Business-type activities capital assets, net				
Airport Commission	<u>\$ 33,707,480</u>	<u>\$ 217,845</u>	<u>\$ -</u>	<u>\$ 33,925,325</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

Construction-in-progress is composed of the following:

	Primary Appropriation	Expended to December 31, 2007	Committed
Primary government:			
Governmental activities	\$ 150,457,955	\$ 26,305,626	\$ 124,152,329
Business-type activities			
Sanitation capital improvements	6,623,478	47,934	6,575,544
Water and sewer capital improvements	44,966,801	8,350,594	36,616,207
	<u>\$ 202,048,234</u>	<u>\$ 34,704,154</u>	<u>\$ 167,344,080</u>
Total			

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

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

	Governmental	Business-Type		
		Water and Sewer	Sanitation	Total
Primary Government:				
Net book value	\$ 301,763,444	\$ 338,784,794	\$ 15,972,431	\$ 354,757,225
Current and noncurrent debt	(74,093,052)	(154,124,203)	(3,726,868)	(157,851,071)
Restricted assets - unspent bond/note proceeds	48,052,300	28,758,809	-	28,758,809
Invested in capital assets, net of related debt	<u>\$ 275,722,692</u>	<u>\$ 213,419,400</u>	<u>\$ 12,245,563</u>	<u>\$ 225,664,963</u>
Component Units:	Governmental	Business-Type		
Net book value	\$ 465,628	36,653,673		
Current and noncurrent debt	-	(4,611,056)		
Invested in capital assets, net of related debt	<u>\$ 465,628</u>	<u>\$ 32,042,617</u>		

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

Note 4: Long-Term Liabilities

Changes in long-term liabilities for the year ended December 31, 2007 were as follows:

Primary Government-

	Balance December 31, 2006	Increases	Decreases	Balance December 31, 2007	Amount Due in One Year
Governmental Activities:					
Bonds Payable -					
Sales tax bonds	\$ 84,935,000	\$ -	\$ 13,930,000	\$ 71,005,000	\$ 8,170,000
Add issuance premium	1,446,572	-	180,821	1,265,751	-
Less deferral on refunded issue	(441,390)	-	(176,556)	(264,834)	-
Sales tax bonds payable, net	<u>85,940,182</u>	<u>-</u>	<u>13,934,265</u>	<u>72,005,917</u>	<u>8,170,000</u>
Notes Payable	2,290,000	-	425,000	1,865,000	440,000
Capital leases payable	388,004	424,434	590,303	222,135	60,795
Compensated absences	1,896,265	138,250	67,305	1,967,210	88,524
Claims Payable - General Fund					
Legal	82,500	-	-	82,500	82,500
Employee insurance/workers' compensation					
	1,788,147	-	673,247	1,114,900	1,114,900
Other	261,060	445,924	-	706,984	-
Total governmental activities long-term liabilities	<u>\$ 92,646,158</u>	<u>\$ 1,008,608</u>	<u>\$ 15,690,120</u>	<u>\$ 77,964,646</u>	<u>\$ 9,956,719</u>
Business-Type Activities					
Bonds Payable -					
Revenue bonds	\$ 139,125,000	\$ 24,470,000	\$ 7,990,000	\$ 155,605,000	\$ 9,260,000
Less issuance discounts	(87,847)	-	(20,203)	(67,644)	-
Add issuance premium	3,105,743	533,600	299,094	3,340,249	-
Less deferral on refunded issue	(1,742,502)	-	(654,246)	(1,088,256)	-
Revenue bonds payable, net	<u>140,400,394</u>	<u>25,003,600</u>	<u>7,614,645</u>	<u>157,789,349</u>	<u>9,260,000</u>
Capital leases payable	315,442	-	253,720	61,722	47,240
Compensated absences	1,185,881	71,638	46,254	1,211,265	15,676
Claims Payable-Employee insurance and worker's compensation					
	342,600	119,984	-	462,584	462,584
Other	3,906	49,371	-	53,277	-
Closure/postclosure landfill costs	3,122,390	554,568	-	3,676,958	-
Total other long-term liabilities	<u>4,970,219</u>	<u>795,561</u>	<u>299,974</u>	<u>5,465,806</u>	<u>525,500</u>
Total business-type activities long-term liabilities	<u>\$ 145,370,613</u>	<u>\$ 25,799,161</u>	<u>\$ 7,914,619</u>	<u>\$ 163,255,155</u>	<u>\$ 9,785,500</u>

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

Current Liabilities:	
Current portion of long-term debt	\$ 9,260,000
Noncurrent liabilities:	
Due within one year	525,500
Due in more than one year	<u>153,469,655</u>
Total business-type activities long-term liabilities	<u>\$ 163,255,155</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

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, 2007 for the major enterprise funds were as follows:

	Balance December 31, 2006	Increases	Decreases	Balance December 31, 2007	Amount Due in One Year
Water and Sewer Fund:					
Bonds Payable -					
Revenue bonds	\$ 134,315,000	\$ 24,470,000	\$ 7,115,000	\$ 151,670,000	\$ 8,350,000
Less issuance discounts	(77,653)	-	(16,805)	(60,848)	-
Add issuance premium	3,105,743	533,600	299,094	3,340,249	-
Less deferral on refunded issue	(1,478,198)	-	(591,278)	(886,920)	-
Revenue bonds payable, net	<u>135,864,892</u>	<u>25,003,600</u>	<u>6,806,011</u>	<u>154,062,481</u>	<u>8,350,000</u>
Capital leases payable	105,061	-	43,339	61,722	47,240
Compensated absences	949,735	48,287	22,016	976,006	9,760
Other	3,906	49,371	-	53,277	-
Other long-term liabilities	<u>1,058,702</u>	<u>97,658</u>	<u>65,355</u>	<u>1,091,005</u>	<u>57,000</u>
Total water and sewer fund	<u>\$ 136,923,594</u>	<u>\$ 25,101,258</u>	<u>\$ 6,871,366</u>	<u>\$ 155,153,486</u>	<u>\$ 8,407,000</u>
Sanitation Fund:					
Bonds Payable -					
Revenue bonds	\$ 4,810,000	\$ -	\$ 875,000	\$ 3,935,000	\$ 910,000
Less issuance discounts	(10,194)	-	(3,398)	(6,796)	-
Less deferral on refunded issue	(264,304)	-	(62,968)	(201,336)	-
Revenue bonds payable, net	<u>4,535,502</u>	<u>-</u>	<u>808,634</u>	<u>3,726,868</u>	<u>910,000</u>
Capital leases payable	210,381	-	210,381	-	-
Compensated absences	236,146	23,351	24,238	235,259	5,916
Closure/postclosure landfill costs	<u>3,122,390</u>	<u>554,568</u>	<u>-</u>	<u>3,676,958</u>	<u>-</u>
Other long-term liabilities	<u>3,568,917</u>	<u>577,919</u>	<u>234,619</u>	<u>3,912,217</u>	<u>5,916</u>
Total sanitation fund	<u>\$ 8,104,419</u>	<u>\$ 577,919</u>	<u>\$ 1,043,253</u>	<u>\$ 7,639,085</u>	<u>\$ 915,916</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

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	\$ 8,350,000	\$ 910,000
Capital leases payable	47,240	-
Accrued vacation and sick leave	9,760	5,916
Noncurrent Liabilities:		
Landfill closure and postclosure care	-	3,676,958
Revenue bonds, net	145,712,481	2,816,868
Capital leases payable	14,482	-
Accrued vacation and sick leave	966,246	229,343
Other	53,277	-
	<u> </u>	<u> </u>
Total long-term liabilities for major enterprise funds	<u><u>\$ 155,153,486</u></u>	<u><u>\$ 7,639,085</u></u>

Changes in long-term liabilities for the year ended December 31, 2007, for the component units were as follows:

	<u>Balance December 31, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2007</u>	<u>Amount Due in One Year</u>
Component Units:					
Business-type activities-					
Parking Authority:					
Bonds Payable -					
Revenue bonds payable, net	\$ 1,090,000	\$ -	\$ 90,000	\$ 1,000,000	\$ 90,000
Less issuance discounts	(20,763)	-	(1,887)	(18,876)	-
Bonds payable, net	<u>1,069,237</u>	-	<u>88,113</u>	<u>981,124</u>	<u>90,000</u>
Capital leases payable	7,680	-	7,680	-	-
Compensated Absences	1,628	-	644	984	984
Total	<u>1,078,545</u>	-	<u>96,437</u>	<u>982,108</u>	<u>90,984</u>
Airport Commission:					
Bonds payable					
Revenue Bonds	3,770,000	-	105,000	3,665,000	110,000
Less issuance discounts	(37,708)	-	(1,656)	(36,052)	-
Bonds payable, net	<u>3,732,292</u>	-	<u>103,344</u>	<u>3,628,948</u>	<u>110,000</u>
Total	<u>3,732,292</u>	-	<u>103,344</u>	<u>3,628,948</u>	<u>110,000</u>
Total Component Units	<u><u>\$ 4,810,837</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 199,781</u></u>	<u><u>\$ 4,611,056</u></u>	<u><u>\$ 200,984</u></u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

Operating Leases

The City leases office space under a noncancelable-operating lease. Total costs for the lease to the General Fund was \$192,000 for the year ended December 31, 2007. The future minimum lease payments for the lease are as follows:

2008	\$ 192,000
2009	<u>32,000</u>
Total	\$ <u>224,000</u>

Capital Leases

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

The assets acquired through capital lease are as follows:

	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities - W/S	Business - Type Activities - Sanitation	Business-Type Activities
Buildings	\$ 303,585	\$ -	\$ -	\$ -
Machinery and Equipment	406,087	157,856	629,427	50,835
Less accumulated depreciation	<u>(105,211)</u>	<u>(34,202)</u>	<u>(125,885)</u>	<u>(50,835)</u>
Total	<u>\$ 604,461</u>	<u>\$ 123,654</u>	<u>\$ 503,542</u>	<u>\$ -</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, 2007 were as follows:

	<u>Governmental Activities</u>	<u>Business - Type Activities - W/S</u>
2008	\$ 74,110	\$ 52,795
2009	74,110	15,785
2010	51,284	-
2011	<u>51,284</u>	<u>-</u>
Total future minimum lease payments	250,788	68,580
Less interest	<u>(28,653)</u>	<u>(6,858)</u>
Net present value of future minimum lease payments	<u>\$ 222,135</u>	<u>\$ 61,722</u>

Notes Payable

In June 2006, the City issued \$2,290,000 in promissory notes to provide funding for a phone system, the Martin Luther King Park community center, and downtown improvements. The notes payable are due in annual installments at varying amounts through June 1, 2011 with interest ranging from 3.75% to 4% payable semiannually. The total costs of issuance were \$20,238 that is being amortized over the life of the notes. The deferred charges at December 31, 2007 were \$12,143.

The maturity schedule for the notes payable is:

	<u>Principal</u>	<u>Interest</u>
2008	\$ 440,000	\$ 64,778
2009	455,000	47,435
2010	475,000	29,181
2011	<u>495,000</u>	<u>9,900</u>
Total	<u>\$ 1,865,000</u>	<u>\$ 151,294</u>

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, 2007 was

City of Fort Smith, Arkansas
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\$2,087,135. The limit as of December 31, 2007 was \$56.7 million; therefore management believes the City is in compliance with state statutes for short-term financing at December 31, 2007.

Sales and Use Tax Bonds- Governmental Activities

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

The 2006 Bonds were issued to refund the remaining 2001 Sales and Use Tax Bonds, purchase and install a new public safety and utility radio communication system, and fund wastewater improvements in response to an EPA administrative order. The economic loss as a result of the refunding was \$1,708,194. The reacquisition price exceeded the carrying amount of the old debt by \$617,946. The unamortized amount is netted against the refunded debt's life using the straight-line method. The remaining unamortized deferred amount on refunding was \$264,834 at December 31, 2007.

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. There was \$6,065,000 bonds called during 2007.

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, 2007.

Maturity Schedule – The debt service requirements for the 2006 Sales Tax Bonds at December 31, 2007 is as follows:

	<u>Principal</u>	<u>Interest</u>
2008	\$ 8,170,000	\$ 3,164,728
2009	8,555,000	2,777,692
2010	8,970,000	2,361,122
2011	9,390,000	1,942,060
2012	9,825,000	1,510,480
2013-2015	<u>26,095,000</u>	<u>1,842,288</u>
 Total	 71,005,000	 <u>\$ 13,598,370</u>
 Add unamortized bond premium	 1,265,751	
 Less deferred amount on refunding	 <u>(264,834)</u>	
 Net bonds outstanding at December 31, 2007	 <u>\$ 72,005,917</u>	

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

Revenue bonds outstanding at December 31, 2007, are comprised of the following individual issues:

Water and Sewer:

\$26,415,000 of Series 1999 Water and Sewer System Revenue Bonds; due in annual installments at varying amounts through October 1, 2009, with interest ranging from 4.7% to 5% payable semiannually	\$ 2,385,000
\$82,590,000 of Series 2002A Water and Sewer Refunding and Construction Revenue Bonds; \$69,350,000 of which are serial bonds due in annual installments at varying amounts through October 1, 2019 with interest ranging from 5% to 5.25% payable semi-annually; \$13,240,000 of which are term bonds due October 1, 2021 with an interest rate of 5% payable semiannually	70,025,000
\$7,835,000 of Series 2002B Water and Sewer Refunding and Construction Revenue Bonds; due in annual installments at varying amounts through October 1, 2012 with interest ranging from 2.25% to 5.25% payable semiannually	7,710,000
\$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 3% to 5.25% payable semiannually	19,675,000
\$8,700,000 of Series 2004 Water and Sewer Revenue Refunding Bonds; due in annual installments at varying amounts through October 1, 2009; interest ranging from 2% to 4% payable semiannually	2,570,000
\$17,605,000 of Series 2005A Water and Sewer Refunding Revenue Bonds; due in annual installments at varying amounts through October 1, 2019 with interest ranging from 3.25% to 4.25% payable semiannually	17,505,000
\$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	24,470,000

Sanitation:

\$3,055,000 of Series 1998 Solid Waste Refunding Revenue Bonds; due in annual installments at varying amounts through December 1, 2009, with interest ranging from 3.65% to 4.55% payable semiannually	655,000
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\$6,305,000 of Series 2002 Solid Waste Revenue Refunding Bonds; due in annual installments at varying amounts through December 1, 2011, with interest ranging 1.4% to 4.05% payable semiannually	<u>3,280,000</u>
Bonds outstanding, December 31, 2007	155,605,000
Unamortized bond discount	(67,644)
Unamortized bond premium	3,340,249
Deferred amount on refunding	<u>(1,088,256)</u>
 Net bonds outstanding, December 31, 2007	 <u>\$ 157,789,349</u>

Water and Sewer-

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

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

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

City of Fort Smith, Arkansas
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On January 8, 2004, the City issued \$8,700,000 Water and Sewer Revenue Refunding Bonds, Series 2004. The 2004 Bonds were issued to refund the remaining Series 1994 Water and Sewer Refunding and Construction Revenue Bonds which were redeemed at 101% on April 1, 2004. The reacquisition prices exceeded the carrying amounts of the old debt by \$828,717. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The remaining unamortized deferred amount on refunding was \$226,013 as of December 31, 2007. The City completed the refunding to reduce its total debt service payments over the next six (6) years by \$585,727 and to obtain an economic gain of \$529,462.

On June 1, 2005, the City issued \$17,605,000 Water and Sewer Revenue Refunding Bonds, Series 2005A. The 2005A Bonds were issued to refund \$16,375,000 of outstanding Series 1999 Water and Sewer System Revenue Bonds that will be redeemed on October 1, 2009. The reacquisition price exceeded the carrying amount of the old debt by \$1,629,426. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The remaining unamortized deferred amount on refunding was \$543,142 as of December 31, 2007. The City completed the refunding to reduce its total debt service payments over the next five (5) years by \$861,756 and to obtain an economic gain of \$730,371.

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

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

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

The ordinances also contain provisions that, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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financial ratios are met. As of December 31, 2007, management believes the City is in compliance with all applicable requirements.

Restricted accounts required by the bond ordinances are as follows:

Bond Retirement- The City is required to restrict funds for the payment of principal, interest, and trustee and paying agents' fees up to a maximum of \$2,179,462 related to the Series 1999 Bonds, \$11,156,226 related to the Series 2002 Bonds, \$870,000 related to the Series 2004 Bonds, \$1,760,000 related to the 2005A Bonds, \$727,354 related to the 2005B Bonds and \$1,891,369 related to the 2007 Bonds. The City held surety bonds valued at \$2,179,462, \$11,156,226, \$870,000, \$1,760,000, \$727,354 and \$1,891,369 at December 31, 2007 for this purpose.

Asset Replacement- The City is required to deposit 3% of the gross revenues of the water and sewer system for the then preceding month plus \$5,000 per month until the sum of \$500,000 has been accumulated in the Depreciation Fund. Amounts are to be used for replacements made necessary by the depreciation of the system. The City has accumulated \$500,000 for asset replacement as of December 31, 2007.

Sanitation-

In November 1994, the City issued \$4,560,000 in Solid Waste Refunding Revenue Bonds for the purpose of providing a portion of the funds to construct the second phase of the City's landfill. In June 1995, the City issued \$9,185,000 of Solid Waste Refunding and Construction Bonds to redeem the previously outstanding 1993 Temporary Solid Waste Revenue Bonds and to provide financing for future expansion of the Municipal Solid Waste Landfill. In April 1998, the City issued \$3,055,000 of Solid Waste Refunding Revenue Bonds to advance refund the outstanding Series 1994 Solid Waste Revenue Bonds. The net proceeds provided by the refunding debt were issued to purchase securities that were placed in an irrevocable trust, which were used to redeem the debt on December 1, 2001, at 101%. The refunded debt is defeased and the related liabilities have been removed from the Sanitation Fund statement of net assets. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method. The remaining unamortized deferred amount on refunding was \$50,540 as of December 31, 2007.

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 \$150,797 as of December 31, 2007. The City completed the current refunding to reduce its total debt service payments over the next ten (10) years by \$1,020,312 and to obtain an economic gain of \$467,675.

The Series 1998 Solid Waste Bonds may be redeemed at the option of the City on or after December 1, 2003, in whole on any date or in part on any interest payment date, in inverse order of maturity at

City of Fort Smith, Arkansas
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the redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date.

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

The ordinances also contain provisions that, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2007, the City is in compliance with all applicable requirements. Restricted accounts required by the bond ordinance are as follows:

Bond Retirement- The City is required to restrict funds for the payment of principal, interest and trustee and paying agents' fees of \$726,731 as of December 31, 2007. Of this amount, \$175,121 is related to the Series 1998 Bonds and \$551,610 is related to the Series 2002 Bonds. The City held investments equal to these amounts in the Sanitation Fund at December 31, 2007.

City of Fort Smith, Arkansas
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Maturity Schedule

Aggregate debt service requirements at December 31, 2007 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>
2008	\$ 8,350,000	\$ 7,152,200	\$ 910,000	\$ 156,227
2009	8,620,000	6,867,708	945,000	121,338
2010	9,230,000	6,466,434	1,020,000	83,220
2011	9,655,000	6,033,772	1,060,000	42,930
2012	10,115,000	5,576,134	-	-
2013-2017	47,980,000	21,053,492	-	-
2018-2022	46,760,000	8,709,452	-	-
2023-2027	10,960,000	1,340,798	-	-
Total	<u>\$ 151,670,000</u>	<u>\$ 63,199,990</u>	<u>\$ 3,935,000</u>	<u>\$ 403,715</u>

	<u>Total Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 9,260,000	\$ 7,308,427
2009	9,565,000	6,989,046
2010	10,250,000	6,549,654
2011	10,715,000	6,076,702
2012	10,115,000	5,576,134
2013-2017	47,980,000	21,053,492
2018-2022	46,760,000	8,709,452
2023-2027	10,960,000	1,340,798
Total	<u>\$ 155,605,000</u>	<u>\$ 63,603,705</u>

Component Units Revenue Bonds-Business-Type Activities

Airport Commission-

On September 9, 1999, the Airport Commission issued \$5,290,000 of City of Fort Smith, Arkansas Airport Refunding and Improvement Revenue Bonds, Series 1999, dated October 1, 1999. At December 31, 2007, bonds payable were \$3,665,000. The bonds are due in annual installments at varying amounts through October 1, 2026, with interest ranging from 4.90% to 6.25%, payable semiannually. The bonds outstanding net of amortized discount at December 31, 2007, were \$3,628,948.

City of Fort Smith, Arkansas
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Maturities of revenue bonds payable for succeeding years are as follows:

	<u>Principal</u>	<u>Interest</u>
2008	\$ 110,000	\$ 223,580
2009	115,000	217,530
2010	125,000	211,090
2011	130,000	204,028
2012	140,000	196,618
2013-2017	825,000	849,813
2018-2022	1,110,000	562,330
2023-2025	1,110,000	174,063
 Total Payments	 3,665,000	 \$ 2,639,052
 Less unamortized bond discount	 (36,052)	
 Net bond outstanding, December 31, 2007	 \$ 3,628,948	

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 \$506,701, which are classified as restricted assets on the balance sheet, as of December 31, 2007. The Airport Commission held investments equal to this amount at December 31, 2007.

Parking Authority-

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

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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, 2007, 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, 2007, Parking Authority Revenue Bonds payable was \$1,000,000. The bonds are due in annual installments at varying amounts through December 1, 2017, with interest ranging from 3.80% to 4.75%, payable semiannually. The bonds outstanding net of unamortized discount at December 31, 2007, was \$981,124.

Debt service requirements for the bonds at December 31, 2007 were as follows:

	<u>Principal</u>	<u>Interest</u>
2008	\$ 90,000	\$ 45,415
2009	95,000	41,545
2010	100,000	37,413
2011	105,000	33,012
2012	110,000	28,340
2013-2017	500,000	61,020
	<hr/>	<hr/>
Total Payments	1,000,000	<u>\$ 246,745</u>
Less unamortized bond discount	<u>(18,876)</u>	
Net bond outstanding, December 31, 2007	<u>\$ 981,124</u>	

City of Fort Smith, Arkansas
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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, 2007, the City has recorded \$595,621 as arbitrage payable. This liability is included in the Water and Sewer Fund as other long-term liabilities (\$53,277) and in the 2006 Sales and Use Tax Construction Fund (\$542,344).

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, 2007, there were two series of Industrial Development Revenue Bonds outstanding with an aggregate principal amount payable of \$23,500,000, two series of Fair and Exhibition Facilities Bonds outstanding with an aggregate principal amount payable of \$5,865,000, and two series of Residential Housing Facilities Board Multi-Family Housing Revenue Bonds outstanding with an aggregate principal payable of \$6,375,000.

Note 5: Risk Management

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

All funds of the City participate in the City's insurance programs and make payments to the respective self-insurance funds based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for future claims. The Airport Commission participates in the City's health plans by making contributions as required by the City. At December 31, 2007 the net assets were \$3,057,732 and \$28,818 in the Employee Insurance and Workers' Compensation Funds, respectively. The claims liability balances of \$912,908 and \$664,576 reported in the Employee

City of Fort Smith, Arkansas
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Insurance and Workers' Compensation Funds, respectively, are based on the requirements of GASB Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The claims liability includes the effect of specific incremental claims, adjustment expenses, and if probable and material, salvage and subrogation. These liabilities include accruals for claims incurred but not reported, based upon the City's historical claims rate. These liabilities are the City's best estimate based on available information. Changes in the reported liabilities during 2007 are detailed below:

	Employee Insurance	Workers' Compensation
Self-insurance liability, December 31, 2005	\$ 946,815	\$ 166,890
Current year claims and changes in estimate	5,969,151	944,088
Claim payments	(6,153,401)	(638,775)
Self-insurance liability, December 31, 2006	762,565	472,203
Current year claims and changes in estimate	5,986,311	599,920
Claim payments	(5,835,968)	(407,547)
Self-insurance liability, December 31, 2007	\$ 912,908	\$ 664,576

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 \$15,500. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

City of Fort Smith, Arkansas
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Note 7: Pension Plans

(a) Public Employees Retirement System

Plan Description

Effective April 1, 1997, the Public Employees' Retirement System (PERS) was converted to a money purchase retirement plan, a defined contribution plan, that is qualified under Section 401(a) of the Internal Revenue Code (the 401(a) Plan). ICMARC serves as administrator of the 401(a) Plan. All full-time, non-uniformed employees with the exception of the two district judges and the District Court Clerk are covered by the 401(a) Plan. Each participant has a plan account to which the contributions are made and each participant manages their account by selecting various investments options offered by ICMARC. Plan benefits are based upon the total amount of money in an individual's account at retirement. Plan provisions and contribution rates are established by the 401(a) Plan agreement between the Board and ICMARC. Approval from both the Board and ICMARC is required for 401(a) Plan amendments. Employees make no contributions to the 401(a) Plan; however, the City makes contributions equal to 10% of each covered employees' earnings. Employer contributions to the PERS plan totaled \$2,190,317 for 2007.

The present value of each PERS active member 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 2007 were 18% of covered payroll. The judges' contribution rate was 5% for 2007. Beginning January 1, 2008, the district judges' retirement contributions will be 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 2007.

Covered payroll for the judges and clerks was \$273,668 for the fiscal year ended December 31, 2007. There is one retired clerk receiving benefits from APERS.

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

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

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 do not issue separate stand-alone financial statements.

Members and participants of the old plans at December 31, 2007 are:

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

Pension Benefits

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.

Contributions Required and Contributions Made

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 2007 plan year were based upon the December 31, 2005, actuarial report.

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Notes to Basic Financial Statements
December 31, 2007

The actuarially required contributions rate as of December 31, 2007, 2006, and 2005, and amounts required by the City and active participants of the Old Plans for 2007, 2006, and 2005 were as follows:

	Fire Plan			Police Plan		
	2007	2006	2005	2007	2006	2005
Employer actuarially required contribution rates	32.93%	32.23%	28.88%	22.47%	22.42%	20.40%
Employer contributions as a percentage of annual covered payroll	32.93%	32.23%	28.88%	22.47%	22.42%	20.40%
Employer contributions to LOPFI	\$ 235,050	\$ 230,350	\$ 219,263	\$ 82,196	\$ 86,677	\$ 81,628
Annual Pension Cost (APC)	\$ 235,050	\$ 230,350	\$ 219,263	\$ 82,196	\$ 86,677	\$ 81,628
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	-	-	-	-	-	-

The following actuarial methods and assumptions were used to compute the contribution rates for the year ended December 31, 2007, for the Old Plans:

Old Fire and Police Plans

Valuation date	December 31, 2005
Cost method	Entry age
Asset valuation method	Reported book value adjusted to partially recognize the difference between book value and market value
Amortization method	Level percentage
Amortization period	30 years open
Assumptions:	
Inflation rate	4.0%
Investment rate of return	8.0%
Projected salary increases	0.0% - 5.1%
Post-retirement benefit increases	3.0%

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

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

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 plan. The New Plans are defined benefit plans that Arkansas statutes established. The New Plans do not issue separate stand-alone financial statements.

Members and participants of the new plans at December 31, 2007 are:

	Fire	Police
Active Members:		
Vested	101	106
Nonvested	18	46
Retirees and beneficiaries	3	13
Total	122	165

Pension Benefits

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

Contributions Required and Contributions Made

State statutes require active participants of the New Plans to make contributions equivalent to 6% of their gross salary and their contributions are 100% vested. The City is also required by state statute to contribute the remaining amounts necessary to pay benefits when due, as determined by the New Plans’ administrator, as well as fund the Old Plans’ unfunded actuarial accrued liability over a 40-year period.

The actuarially computed contribution rates as of December 31, 2007, 2006, and 2005, and amounts required by the City and active participants of the New Plans for 2007, 2006, and 2005 were as shown on the following page:

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

	<u>Fire Plan</u>			<u>Police Plan</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Employer actuarially required contribution rates	32.93%	32.23%	28.88%	22.47%	22.42%	20.40%
Employer contributions as a percentage of annual covered payroll	32.93%	32.23%	28.88%	22.47%	22.42%	20.40%
Employer contributions to LOPFI	\$ 1,788,281	\$ 1,667,217	\$ 1,391,266	\$ 1,547,612	\$ 1,500,304	\$ 1,254,364
Annual Pension Cost (APC)	\$ 1,788,281	\$ 1,667,217	\$ 1,391,266	\$ 1,547,612	\$ 1,500,304	\$ 1,254,364
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	-	-	-	-	-	-

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

New Fire and Police Plans

Valuation date	December 31, 2005
Cost method	Entry age
Asset valuation method	Reported book value adjusted to partially recognize the difference between book value and market value
Amortization method	Level percentage
Amortization period	30 years open
Assumptions:	
Inflation rate	4.0%
Investment rate of return	8.0%
Projected salary increases	0.0% - 5.1%
Post-retirement benefit increases	3.0% every other year

Note 8: 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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

the contingency is probable and reasonably estimable. At December 31, 2007 the City has accrued a liability in the amount of \$82,500.

Contingencies

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

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

Note 9: Individual Fund Disclosures

Interfund receivables and payables as of December 31, 2007 are as follows:

Fund	Receivables	Payables
Governmental Funds:		
General Fund	\$ 27,820	\$ -
Special Revenue Funds	256	28,660
Internal Service Funds	584	-
Total	\$ 28,660	\$ 28,660

The \$27,820 receivable in the General Fund represents amounts paid for expenditures incurred by the Community Development Block Grant Fund (\$20,956), the HOME Investment Partnership Act Fund (\$6,567), and the Special Grants Fund (\$297). The \$256 receivable in the HOME Investment Partnership Act Fund represents amounts paid for expenditures incurred by the Community Development Block Grant Fund. The \$584 receivable in the Working Capital Fund, an internal

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

service fund, represents charges to the Community Development Block Grant Fund for fuel and supplies.

Interfund transfers in (out) for the year ended December 31, 2007, are as follows:

Fund	Transfers	
	In	Out
Governmental Funds:		
Major funds:		
General Fund	\$ 2,252,260	\$ 163,000
Special revenue - Street Maintenance Fund	-	417,500
Sales Tax Fund	350,000	2,049,760
Capital project fund - 2006 Sales & Use Tax Construction Fund		
	-	7,669,893
Total governmental funds	2,602,260	10,300,153
Proprietary Funds:		
Water and Sewer Fund	7,669,893	67,500
Sanitation Fund	90,000	67,500
Workers' Compensation Fund	73,000	-
Total proprietary funds	7,832,893	135,000
Total	\$ 10,435,153	\$ 10,435,153

The transfer out of \$2,049,760 from the Sales Tax Fund to the General Fund represents the allocation of overhead costs provided by General Fund programs during 2007. The 2006 Sales & Use Tax Construction Fund transfers out of \$7,669,893 to the Water and Sewer Fund represents the transfer of capital assets which is recognized as contributed capital in the Water and Sewer Fund.

Note 10: 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 Waste 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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

on landfill capacity used as of each fiscal year-end, even though such costs will be paid only near or after the date that the landfill stops accepting waste.

The City's permitted landfill capacity was increased from a total of 13,507,000 cubic yards to 72,607,000 cubic yards in 2003. The life of the landfill is now projected to last through 2045 rather than 2013. The landfill was opened on October 9, 1993. The City's reported landfill closure and postclosure care liability at December 31, 2007, is \$3,676,958. The remaining estimated closure and postclosure care costs of approximately \$35 million will be recognized as the remaining capacity is filled. The percentage of landfill capacity used to date was approximately 7.9% at December 31, 2007. 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, 2007. 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, 2007, is \$5,802,897. In order to comply with this requirement, the City held an irrevocable standby letter of credit with BancorpSouth that is pledged to the Arkansas Department of Environmental Quality in the amount of \$5,479,402 at December 31, 2007. The City will increase the value of the letter of credit to meet the required level of financial assurance during 2008.

Note 11: New Applicable GASB Standards

GASB has issued statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes uniform financial reporting standards for other postemployment benefit (OPEB) plans, improve the relevance and usefulness of financial reporting, and supersede statement No. 27. The City will be required to implement this statement in its financial statements for periods beginning after December 15, 2007. Management has estimated that the initial impact on the financial statements will approximate \$3.2 million as of January 1, 2008.

GASB has also issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement establishes standards for accounting and financial reporting for pollution remediation obligations. This statement becomes effective for periods beginning after December 15, 2007. Management has not determined the impact of this statement.

GASB has also issued Statement No. 50, *Pension Disclosures*. This statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. The statement is an amendment of statements No. 25 and No. 27. This statement becomes effective for financial statements for periods beginning after June 15, 2007. Management has not determined the impact of this statement.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

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

Note 12: Subsequent Event

In February 2008, the City was authorized to start the process of issuing water and sewer revenue bonds. The authorization includes the refunding of the 2002 Water and Sewer Refunding and Construction Bonds of approximately \$76.185 million. In addition, the City plans to issue approximately \$45 million in new bonds for the rehabilitation and expansion of the Mountainburg water treatment plant and for neighborhood water line replacements. The City plans to issue the bonds in July 2008.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

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, 2007

	Governmental			Business-Type		
	Advertising and Promotion	Public Library	Total	Parking Authority	Airport Commission	Total
Assets						
Current assets	\$ 402,690	\$ 1,538,978	\$ 1,941,668	\$ 224,995	\$ 2,271,324	\$ 2,496,319
Sales taxes receivable from the City	-	93,903	93,903	-	-	-
Capital Assets, net of accumulated depreciation, as applicable	-	465,628	465,628	2,122,740	33,925,325	36,048,065
Noncurrent assets	-	-	-	112,422	1,006,779	1,119,201
Total Assets	402,690	2,098,509	2,501,199	2,460,157	37,203,428	39,663,585
Liabilities						
Current liabilities	41,344	62,358	103,702	101,022	566,339	667,361
Noncurrent liabilities	-	-	-	892,108	3,518,948	4,411,056
Total liabilities	41,344	62,358	103,702	993,130	4,085,287	5,078,417
Net Assets						
Investment in capital assets, net of related debt	-	465,628	465,628	1,140,632	30,901,985	32,042,617
Restricted	-	-	-	-	788,329	788,329
Unrestricted	361,346	1,570,523	1,931,869	326,395	1,427,827	1,754,222
Total net assets	\$ 361,346	\$ 2,036,151	\$ 2,397,497	\$ 1,467,027	\$ 33,118,141	\$ 34,585,168

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2007

Statement of Activities
For the Year Ended December 31, 2007

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>		
				<u>Advertising and Promotion</u>	<u>Public Library</u>	<u>Total</u>
Advertising/Promotion	\$ 691,051	\$ -	\$ 3,455	\$ (687,596)	\$ -	\$ (687,596)
Public Library	2,425,750	102,366	393,410	-	(1,929,974)	(1,929,974)
Total	<u>\$ 3,116,801</u>	<u>\$ 102,366</u>	<u>\$ 396,865</u>	<u>(687,596)</u>	<u>(1,929,974)</u>	<u>(2,617,570)</u>
General revenues						
Property taxes				-	1,104,025	1,104,025
Sales taxes				-	909,315	909,315
Hospitality hotel/motel taxes				705,954	-	705,954
Unrestricted investments earnings				14,139	23,751	37,890
Other				-	34,545	34,545
Total general revenues				<u>720,093</u>	<u>2,071,636</u>	<u>2,791,729</u>
Change in net assets				32,497	141,662	174,159
Net assets, beginning				<u>328,849</u>	<u>1,894,489</u>	<u>2,223,338</u>
Net assets, ending				<u>\$ 361,346</u>	<u>\$ 2,036,151</u>	<u>\$ 2,397,497</u>

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Fees, Fines, and Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Business-Type Activities</u>		
				<u>Parking Authority</u>	<u>Airport Commission</u>	<u>Total</u>
Parking Authority	\$ 259,965	\$ 174,580	\$ -	\$ (85,385)	\$ -	\$ (85,385)
Airport Commission	4,833,184	2,410,055	1,595,609	-	(827,520)	(827,520)
Total	<u>\$ 5,093,149</u>	<u>\$ 2,584,635</u>	<u>\$ 1,595,609</u>	<u>(85,385)</u>	<u>(827,520)</u>	<u>(912,905)</u>
General revenues						
Unrestricted investment earnings				13,075	147,641	160,716
Payment from City of Fort Smith				250,000	-	250,000
Other				-	87,535	87,535
Total general revenues				<u>263,075</u>	<u>235,176</u>	<u>498,251</u>
Change in net assets				177,690	(592,344)	(414,654)
Net assets, beginning				<u>1,289,337</u>	<u>33,710,485</u>	<u>34,999,822</u>
Net assets, ending				<u>\$ 1,467,027</u>	<u>\$ 33,118,141</u>	<u>\$ 34,585,168</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

	(1)	(2)	(3)	(4)	(5)	(6)
				Total Funded Excess (Unfunded) Actuarial Liability*	Annual Covered Payroll*	Ratio of Funded Excess (Unfunded) Actuarial Liability to Annual Covered Payroll (4)/(5)
Actuarial Valuation Date	Actuarial Value of Plan Assets*	Actuarial Accrued Liability*	Funded Ratio* (1)/(2)	(1) - (2)		
Fire Plan:						
2004	\$ 241,284	\$14,859,192	2%	\$ (14,617,908) **	\$ 5,388,588	-271%
2005	(526,095)	15,688,288	-	(16,214,383) **	6,004,921	-270%
2006	936,574	18,647,516	5%	(17,710,942) **	6,144,341	-288%
Police Plan:						
2004	7,321,013	17,110,325	43%	(9,789,312) **	6,162,300	-159%
2005	7,738,412	18,162,146	43%	(10,423,734) **	7,078,413	-147%
2006	8,342,056	21,290,432	39%	(12,948,376) **	7,253,263	-179%

* Analysis of the dollar amount of actuarial value of Plan assets, actuarial accrued liability and total funded excess (unfunded) actuarial liability in isolation can be misleading. Expressing the actuarial value of Plan assets as a percentage of the actuarial accrued liability provides one indication of each plan's funding status on a going-concern basis. Generally, the greater this percentage, the stronger the plan. Expressing the total funded excess (unfunded) actuarial liability as a percentage of annual covered payroll for the Fire Relief and Pension Plan and Police Relief and Pension Plan approximately adjusts for the effects of inflation and aids analysis of these plans' progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the plan.

** 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 negative amounts presented on this schedule indicate that these plans do not have sufficient assets to cover their present retired persons.

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, 2007

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
Revenues						
Property Taxes	\$ 5,300,000	\$ 5,298,312	\$ 5,138,690	\$ -	\$ 5,138,690	\$ (159,622)
Sales taxes	15,248,121	15,390,130	15,155,255	-	15,155,255	(234,875)
Licenses and permits	1,273,500	1,212,374	1,319,940	-	1,319,940	107,566
Utility franchise fees	8,134,020	7,052,774	6,760,463	-	6,760,463	(292,311)
Intergovernmental	5,339,299	4,315,084	4,397,346	-	4,397,346	82,262
Fines and forfeitures	1,795,000	1,809,900	2,728,076	-	2,728,076	918,176
Fees for services	1,136,720	1,080,766	1,088,811	-	1,088,811	8,045
Interest	330,000	243,760	325,198	-	325,198	81,438
Miscellaneous	205,164	215,164	250,268	-	250,268	35,104
Total revenues	38,761,824	36,618,264	37,164,047	-	37,164,047	545,783
Expenditures						
Current:						
General government						
Administration	4,061,046	4,113,983	3,573,172	36,397	3,609,569	504,414
Legal	1,890,150	1,985,650	1,963,944	6,500	1,970,444	15,206
Finance	2,413,277	2,384,609	2,032,656	4,813	2,037,469	347,140
Public safety						
Police	14,753,908	14,732,666	14,122,903	89,762	14,212,665	520,001
Fire	8,969,527	9,448,377	9,426,132	185,972	9,612,104	(163,727)
Community services						
Health and social services	113,760	113,760	103,196	1,481	104,677	9,083
Parks and recreation	2,322,308	2,044,102	591,333	49,422	640,755	1,403,347
Transit	2,062,330	1,839,890	1,642,541	-	1,642,541	197,349
Other	4,045,117	4,616,583	3,618,740	836,615	4,455,355	161,228
Capital outlay	5,828,045	6,932,121	5,479,565	777,143	6,256,708	675,413
Debt service:						
Principal	-	-	425,000	-	425,000	(425,000)
Interest	-	-	79,888	-	79,888	(79,888)
Total expenditures	46,459,468	48,211,741	43,059,070	1,988,105	45,047,175	3,164,566
Excess (deficiency) of revenues over (under) expenditures	(7,697,644)	(11,593,477)	(5,895,023)	(1,988,105)	(7,883,128)	3,710,349
Other Financing Sources (Uses):						
Transfers in	2,273,010	2,273,203	2,252,260	-	2,252,260	(20,943)
Transfers out	(340,000)	(413,000)	(163,000)	-	(163,000)	250,000
Capital lease financing	-	-	(58,278)	-	(58,278)	(58,278)
Total other financing sources and uses	(500,000)	1,860,203	2,030,982	-	2,030,982	170,779
Net change in fund balances	(8,197,644)	(9,733,274)	(3,864,041)	(1,988,105)	(5,852,146)	3,881,128
Fund Balances, January 1	10,578,635	10,578,635	12,313,093	-	12,313,093	-
Fund Balances, December 31	\$ 2,380,991	\$ 845,361	\$ 8,449,052	\$ (1,988,105)	\$ 6,460,947	\$ 3,881,128

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, 2007

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
Revenues						
Property Taxes	\$ 1,574,160	\$ 1,574,160	\$ 1,541,615	\$ -	\$ 1,541,615	\$ (32,545)
Intergovernmental	3,855,864	3,772,596	3,823,143	-	3,823,143	50,547
Interest	200,000	233,589	224,396	-	224,396	(9,193)
Miscellaneous	10,000	9,200	31,241	-	31,241	22,041
Total revenues	5,640,024	5,589,545	5,620,395	-	5,620,395	30,850
Expenditures						
Current:						
General government						
Administration	214,360	222,681	206,857	5,195	212,052	10,629
Legal	37,775	70,525	76,432	-	76,432	(5,907)
Finance	353,219	364,253	337,264	7,248	344,512	19,741
Public works						
Operations	429,504	448,164	415,852	-	415,852	32,312
Streets	2,863,750	2,830,340	2,353,394	-	2,353,394	476,946
Traffic control	1,985,305	2,055,055	1,818,732	6,451	1,825,183	229,872
Community services						
Parks and recreation	282,939	282,755	265,195	2,266	267,461	15,294
Other	154,978	154,978	66,918	-	66,918	88,060
Capital Outlay	282,725	213,340	599,210	-	599,210	(385,870)
Total expenditures	6,604,555	6,642,091	6,139,854	21,160	6,161,014	481,077
Excess (deficiency) of revenues over (under) expenditures	(964,531)	(1,052,546)	(519,459)	(21,160)	(540,619)	511,927
Other Financing Sources (Uses):						
Transfers in	-	-	-	-	-	-
Transfers out	(417,500)	(417,500)	(417,500)	-	(417,500)	-
Total Other Financing Sources and Uses	(417,500)	(417,500)	(417,500)	-	(417,500)	-
Net Change in Fund Balances	(1,382,031)	(1,470,046)	(936,959)	(21,160)	(958,119)	511,927
Fund Balances, January 1	5,012,164	5,012,164	5,027,524	-	5,027,524	-
Fund Balances, December 31	\$ 3,630,133	\$ 3,542,118	\$ 4,090,565	\$ (21,160)	\$ 4,069,405	\$ 511,927

City of Fort Smith, Arkansas
Notes to Required Supplementary Information
December 31, 2007

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, any revisions that alter the total expenditures of any department must be approved by the Board. During 2007, supplemental appropriations (expenditures and transfers out) were adopted by the Board for the General Fund totaling \$1,825,273 to provide additional funding for park capital improvement projects; additional salary and overtime costs for the fire department, additional capital projects for the police department, Malilieu Church demolition project, and the third courtroom in the new county courts building; economic development programs; and additional legal expenditures. During 2007, supplemental appropriations were adopted by the Board for the Street Maintenance Fund totaling \$37,536 for additional legal expenditures and salary adjustments. 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 which 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 which 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, 2007

Special Revenue Funds:

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

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

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

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

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

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

Capital Projects Fund:

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

City of Fort Smith, Arkansas
Combining Balance Sheet – Nonmajor Governmental Funds
December 31, 2007

	Special Revenue					Capital Projects	Total Nonmajor Governmental Funds	
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Convention Center		Sidewalk Construction
Assets								
Cash	\$ 11,964	\$ -	\$ 172,189	\$ 10,347	\$ 412,131	\$ 304,320	\$ 43,255	\$ 954,206
Investments	109,609	6,502	-	522,616	13,222,121	701,172	412,849	14,974,869
Receivables, net of allowance for uncollectibles								
Property Taxes	-	-	-	-	2,462,479	-	-	2,462,479
Accounts	207	-	-	2,917	-	-	-	3,124
Accrued interest	400	24	-	1,983	50,658	4,022	1,508	58,595
Due from other funds	-	-	256	-	-	-	-	256
Due from other governments	20,973	-	16,472	16,767	-	-	-	54,212
Prepaid items	-	-	-	-	-	14,177	-	14,177
Total assets	143,153	6,526	188,917	554,630	16,147,389	1,023,691	457,612	18,521,918
Liabilities and Fund Balances								
Liabilities:								
Accounts payable and accrued expenses	21,007	-	16,472	-	347,900	69,686	65	455,130
Due to other funds	21,796	-	6,567	297	-	-	-	28,660
Deferred revenues	97,225	-	165,878	419,203	2,287,909	-	-	2,970,215
Other	2,323	-	-	-	-	-	-	2,323
Total liabilities	142,351	-	188,917	419,500	2,635,809	69,686	65	3,456,328
Fund Balances:								
Reserved for:								
Encumbrances	-	-	-	-	-	146,810	-	146,810
Prepaid items	-	-	-	-	-	14,177	-	14,177
Other purposes	802	6,526	-	-	-	793,018	-	800,346
Unreserved, reported in nonmajor:								
Special revenue funds	-	-	-	135,130	13,511,580	-	-	13,646,710
Capital projects funds	-	-	-	-	-	-	457,547	457,547
Total Fund Balances	802	6,526	-	135,130	13,511,580	954,005	457,547	15,065,590
Total liabilities and fund balances	\$ 143,153	\$ 6,526	\$ 188,917	\$ 554,630	\$ 16,147,389	\$ 1,023,691	\$ 457,612	\$ 18,521,918

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2007

	Special Revenue						Capital Projects	Total Nonmajor Governmental Funds
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Convention Center	Sidewalk Construction	
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,055,819	\$ -	\$ -	\$ 2,055,819
Licenses and permits	-	-	-	-	-	-	181,082	181,082
Intergovernmental	1,346,739	-	834,189	125,235	977,845	1,795,984	-	5,079,992
Fines and forfeitures	-	-	-	-	130,753	-	-	130,753
Interest	-	291	-	7,029	598,061	41,284	20,758	667,423
Contributions	-	400	-	-	862,049	-	-	862,449
Miscellaneous	-	-	-	25,750	5,514	-	-	31,264
Total revenues	1,346,739	691	834,189	158,014	4,630,041	1,837,268	201,840	9,008,782
Expenditures								
Current:								
Public safety								
Police	-	-	-	47,016	2,268,678	-	-	2,315,694
Fire	-	-	-	-	2,197,621	-	-	2,197,621
Public works								
Streets	-	-	-	-	-	-	202,078	202,078
Community services								
Convention Center	-	-	-	-	-	1,597,255	-	1,597,255
Housing and Rehabilitation	1,346,739	-	834,189	7,316	-	-	-	2,188,244
Other	-	-	-	78,242	-	-	-	78,242
Capital Outlay	-	-	-	20,195	-	281,701	-	301,896
Debt Service:								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Total expenditures	1,346,739	-	834,189	152,769	4,466,299	1,878,956	202,078	8,881,030
Excess (deficiency) of revenues over (under) expenditures	-	691	-	5,245	163,742	(41,688)	(238)	127,752
Other Financing Sources (Uses)								
Transfers out	-	-	-	-	-	-	-	-
Issuance of long-term debt	-	-	-	-	-	-	-	-
Total Other Financing Sources and Uses	-	-	-	-	-	-	-	-
Net Change in Fund Balances	-	691	-	5,245	163,742	(41,688)	(238)	127,752
Fund Balances, January 1	802	5,835	-	129,885	13,347,838	995,693	457,785	14,937,838
Fund Balances, December 31	\$ 802	\$ 6,526	\$ -	\$ 135,130	\$ 13,511,580	\$ 954,005	\$ 457,547	\$ 15,065,590

City of Fort Smith, Arkansas
Internal Service Funds
For the Fiscal Year Ended December 31, 2007

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

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

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

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Internal Service Funds
December 31, 2007

	<u>Working Capital</u>	<u>Employee Insurance</u>	<u>Workers' Compensation</u>	<u>Total</u>
Assets				
Current Assets				
Cash	\$ 28,211	\$ 579,004	\$ 90,707	\$ 697,922
Investments	-	3,452,137	604,519	4,056,656
Receivables, net of allowance for uncollectibles				
Accounts	-	69,940	-	69,940
Accrued interest	-	12,609	2,208	14,817
Inventory	54,487	-	-	54,487
Prepaid items	-	-	13,985	13,985
Due from other funds	584	-	-	584
	<u>83,282</u>	<u>4,113,690</u>	<u>711,419</u>	<u>4,908,391</u>
Total Current Assets	83,282	4,113,690	711,419	4,908,391
	<u>83,282</u>	<u>4,113,690</u>	<u>711,419</u>	<u>4,908,391</u>
Total Assets	83,282	4,113,690	711,419	4,908,391
Liabilities				
Current Liabilities				
Accounts payable and accrued expenses	52,637	143,050	18,025	213,712
Claims and judgments	-	912,908	664,576	1,577,484
	<u>52,637</u>	<u>1,055,958</u>	<u>682,601</u>	<u>1,791,196</u>
Total Current Liabilities	52,637	1,055,958	682,601	1,791,196
	<u>52,637</u>	<u>1,055,958</u>	<u>682,601</u>	<u>1,791,196</u>
Total Liabilities	52,637	1,055,958	682,601	1,791,196
Net Assets				
Unrestricted	30,645	3,057,732	28,818	3,117,195
	<u>30,645</u>	<u>3,057,732</u>	<u>28,818</u>	<u>3,117,195</u>
Total Net Assets	\$ 30,645	\$ 3,057,732	\$ 28,818	\$ 3,117,195

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, 2007

	Working Capital	Employee Insurance	Workers' Compensation	Total
Operating Revenues				
Charges for services - internal	\$ 647,991	\$ 8,035,177	\$ 322,760	\$ 9,005,928
Charges for services - external	-	523,948	-	523,948
Total Operating Revenues	<u>647,991</u>	<u>8,559,125</u>	<u>322,760</u>	<u>9,529,876</u>
Operating Expenses				
Contractual services	-	834,870	37,319	872,189
Materials and supplies	639,322	-	-	639,322
Insurance claims and expenses	-	5,835,968	407,547	6,243,515
Total Operating Expenses	<u>639,322</u>	<u>6,670,838</u>	<u>444,866</u>	<u>7,755,026</u>
Operating Income (Loss)	<u>8,669</u>	<u>1,888,287</u>	<u>(122,106)</u>	<u>1,774,850</u>
Nonoperating Revenues				
Investment earnings	-	112,755	31,645	144,400
Total Nonoperating Revenues	<u>-</u>	<u>112,755</u>	<u>31,645</u>	<u>144,400</u>
Income (Loss) Before Transfers	8,669	2,001,042	(90,461)	1,919,250
Transfers In	<u>-</u>	<u>-</u>	<u>73,000</u>	<u>73,000</u>
Change in Net Assets	8,669	2,001,042	(17,461)	1,992,250
Total net assets, beginning	<u>21,976</u>	<u>1,056,690</u>	<u>46,279</u>	<u>1,124,945</u>
Total net assets, ending	<u>\$ 30,645</u>	<u>\$ 3,057,732</u>	<u>\$ 28,818</u>	<u>\$ 3,117,195</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows
Internal Service Funds
For the Year December 31, 2007

	Working Capital	Employee Insurance	Workers' Compensation	Total
Operating Activities:				
Cash received from service users	\$ 648,677	\$ 504,254	\$ -	1,152,931
Cash received from city and employee contributions	-	8,829,017	511,318	9,340,335
Cash payments for goods and services	(620,466)	-	-	(620,466)
Cash payments for premiums and other operating expenses	-	(371,154)	(150,822)	(521,976)
Cash payments for claims paid	-	(6,070,089)	(343,464)	(6,413,553)
Net cash provided by operating activities	<u>28,211</u>	<u>2,892,028</u>	<u>17,032</u>	<u>2,937,271</u>
Noncapital Financing Activities				
Transfers in from other funds	-	-	73,000	73,000
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>73,000</u>	<u>73,000</u>
Investing Activities				
Proceeds from sales and maturities of investment securities	-	164,550	322,784	487,334
Outlays for purchases of investment securities	-	(3,002,679)	(677,127)	(3,679,806)
Interest on investments	-	112,756	31,646	144,402
Net cash provided by (used for) investing activities	<u>-</u>	<u>(2,725,373)</u>	<u>(322,697)</u>	<u>(3,048,070)</u>
Net increase (decrease) in cash	28,211	166,655	(232,665)	(37,799)
Cash, January 1	-	412,349	323,372	735,721
Cash, December 31	<u>\$ 28,211</u>	<u>\$ 579,004</u>	<u>\$ 90,707</u>	<u>\$ 697,922</u>
Reconciliation of Operating Income (loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	\$ 8,669	\$ 1,888,287	\$ (122,106)	\$ 1,774,850
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Change in assets and liabilities				
Accounts receivable	-	774,145	18,154	792,299
Due from other funds	686	-	-	686
Inventory	(3,487)	-	-	(3,487)
Prepaid items	-	-	(13,985)	(13,985)
Accounts payable and accrued liabilities	22,343	150,343	(57,404)	115,282
Liability for claims and judgments	-	79,253	192,373	271,626
Net cash provided by (used for) operating activities	<u>\$ 28,211</u>	<u>\$ 2,892,028</u>	<u>\$ 17,032</u>	<u>\$ 2,937,271</u>

City of Fort Smith, Arkansas
Discretely Presented Component Units
For the Fiscal Year Ended December 31, 2007

Governmental Fund Types – Special Revenue Funds

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

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

Proprietary Fund Types – Enterprise Funds

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

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

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Governmental Component Units
December 31, 2007

Assets	Advertising and Promotion	Public Library	Total
Cash	\$ 15,335	\$ 949,818	\$ 965,153
Investments	340,009	282,598	622,607
Receivables, net of allowance for uncollectibles			
Property taxes	45,704	208,883	254,587
Sales taxes	-	93,903	93,903
Accounts	-	36,708	36,708
Accrued interest	1,242	-	1,242
Prepaid items	400	55,971	56,371
Inventory, at cost	-	5,000	5,000
Capital assets			
Nondepreciable	-	422,132	422,132
Depreciable	-	43,496	43,496
Total Assets	402,690	2,098,509	2,501,199
Liabilities			
Current			
Accounts payable and accrued expenses	41,344	62,358	103,702
Total Liabilities	41,344	62,358	103,702
Net Assets			
Invested in capital assets	-	465,628	465,628
Unrestricted	361,346	1,570,523	1,931,869
Total Net Assets	\$ 361,346	\$ 2,036,151	\$ 2,397,497

City of Fort Smith, Arkansas
Combining Statement of Activities – Governmental Component Units
For the Year Ended December 31, 2007

	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	\$ 691,051	\$ -	\$ 3,455	\$ (687,596)	\$ -	\$ (687,596)
Public Library	2,425,750	102,366	393,410	-	(1,929,974)	(1,929,974)
Total	\$ 3,116,801	\$ 102,366	\$ 396,865	(687,596)	(1,929,974)	(2,617,570)
General revenues						
Property taxes				-	1,104,025	1,104,025
Sales taxes				-	909,315	909,315
Hotel/motel taxes				705,954	-	705,954
Unrestricted investment earnings				14,139	23,751	37,890
Other				-	34,545	34,545
Total general revenues				720,093	2,071,636	2,791,729
Change in net assets				32,497	141,662	174,159
Net assets, beginning				328,849	1,894,489	2,223,338
Net assets, ending				\$ 361,346	\$ 2,036,151	\$ 2,397,497

City of Fort Smith, Arkansas
Balance Sheet – Advertising and Promotion
Governmental Component Unit
December 31, 2007

Assets:

Cash	\$ 15,335
Investments	340,009
Receivables, net of allowance for uncollectibles	
Taxes	45,704
Accrued interest	1,242
Prepaid items	400
	<hr/>
Total Assets	<u>\$ 402,690</u>

Liabilities and Fund Balance:

Current:

Accounts payable and accrued expenses	\$ 41,344
	<hr/>
Total Liabilities	<u>41,344</u>

Fund Balance:

Reserved	
Encumbrances	14,940
Prepays	400
Unreserved	346,006
	<hr/>
	361,346
	<hr/>
Total Liabilities and Fund Balance	<u>\$ 402,690</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, 2007

Revenues	
Taxes	\$ 705,954
Unrestricted investment earnings	14,139
Contributions	<u>3,455</u>
Total revenues	<u>723,548</u>
Expenditures	
Current:	
Other	<u>669,872</u>
Total Expenditures	<u>669,872</u>
Excess of revenues over expenditures	<u>53,676</u>
Other Financing Uses:	
Transfers out to primary government	<u>(21,179)</u>
Total other financing uses	<u>(21,179)</u>
Net change in fund balance	32,497
Fund Balance, January 1	<u>328,849</u>
Fund Balance, December 31	<u><u>\$ 361,346</u></u>

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Business-Type Component Units
December 31, 2007

	Parking Authority	Airport	Total
Assets			
Current Assets			
Cash	\$ 32,299	\$ 459,620	\$ 491,919
Investments	188,813	1,060,000	1,248,813
Receivables, net of allowance for uncollectibles			
Accounts	1,229	291,773	293,002
Accrued interest	974	11,072	12,046
Restricted			
Cash	-	97,463	97,463
Accounts receivable, net of allowances for uncollectibles	-	281,628	281,628
Interest receivable	-	8,066	8,066
Prepaid items and deposits	1,680	52,296	53,976
Inventory	-	9,406	9,406
	<u>224,995</u>	<u>2,271,324</u>	<u>2,496,319</u>
Total Current Assets			
Noncurrent Assets			
Restricted			
Investments	94,298	401,172	495,470
Deferred charges	18,124	605,607	623,731
Capital assets			
Nondepreciable	1,359,160	7,524,299	8,883,459
Depreciable	763,580	26,401,026	27,164,606
	<u>2,235,162</u>	<u>34,932,104</u>	<u>37,167,266</u>
Total Noncurrent Assets			
Total Assets	<u>2,460,157</u>	<u>37,203,428</u>	<u>39,663,585</u>
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	6,919	456,339	463,258
Payable from restricted assets:			
Accrued interest	4,103	-	4,103
Revenue bonds payable, current	90,000	110,000	200,000
	<u>101,022</u>	<u>566,339</u>	<u>667,361</u>
Total Current Liabilities			
Noncurrent liabilities			
Due within one year	984	-	984
Due in more than one year	891,124	3,518,948	4,410,072
	<u>892,108</u>	<u>3,518,948</u>	<u>4,411,056</u>
Total Noncurrent Liabilities			
Total Liabilities	<u>993,130</u>	<u>4,085,287</u>	<u>5,078,417</u>
Net Assets			
Invested in capital assets, net of related debt	1,140,632	30,901,985	32,042,617
Restricted for bond retirement	-	506,701	506,701
Restricted for capital projects	-	281,628	281,628
Unrestricted	326,395	1,427,827	1,754,222
	<u>\$ 1,467,027</u>	<u>\$ 33,118,141</u>	<u>\$ 34,585,168</u>
Total Net Assets			

City of Fort Smith, Arkansas
Combining Statement of Activities – Business-Type Component Units
For the Year Ended December 31, 2007

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines, and Charges for Services	Capital Grants and Contributions	Business-Type Activities		
				Parking Authority	Airport Commission	Total
Parking Authority	\$ 259,965	\$ 174,580	\$ -	\$ (85,385)	\$ -	\$ (85,385)
Airport	4,833,184	2,410,055	1,595,609	-	(827,520)	(827,520)
Total	\$ 5,093,149	\$ 2,584,635	\$ 1,595,609	(85,385)	(827,520)	(912,905)
General revenues						
				13,075	147,641	160,716
				250,000	-	250,000
				-	87,535	87,535
Total general revenues				263,075	235,176	498,251
Change in net assets				177,690	(592,344)	(414,654)
Net assets, beginning				1,289,337	33,710,485	34,999,822
Net assets, ending				\$ 1,467,027	\$ 33,118,141	\$ 34,585,168

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City of Fort Smith, Arkansas
Combining Statement of Cash Flows – Business-Type Component Units
For the Year Ended December 31, 2007

	<u>Parking Authority</u>	<u>Airport</u>	<u>Total</u>
Operating Activities			
Cash received from customers	\$ 177,171	\$ 2,337,736	\$ 2,514,907
Cash payments for goods and services	(51,759)	(938,843)	(990,602)
Cash paid to employees	(102,629)	(789,642)	(892,271)
Net cash provided by operating activities	<u>22,783</u>	<u>609,251</u>	<u>632,034</u>
Noncapital Financing Activities			
Operating transfers in from primary government	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Net cash provided by noncapital financing activities	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Capital and Related Financing Activities			
Proceeds from capital grants	-	1,095,609	1,095,609
Passenger facility charges received	-	261,262	261,262
Acquisition and construction of capital assets	(17,328)	(2,735,146)	(2,752,474)
Principal paid on bonds	(88,113)	(105,000)	(193,113)
Interest paid on bonds	(49,240)	(229,248)	(278,488)
Net cash used for capital and related financing activities	<u>(154,681)</u>	<u>(1,712,523)</u>	<u>(1,867,204)</u>
Investing Activities			
Proceeds from sales and maturities of investment securities	329,308	(1,160,000)	(830,692)
Outlays for purchases of investment securities	(453,123)	1,702,506	1,249,383
Interest on investments	13,075	258,781	271,856
Net cash provided by (used for) investing activities	<u>(110,740)</u>	<u>801,287</u>	<u>690,547</u>
Net increase (decrease) in cash and restricted cash	7,362	(301,985)	(294,623)
Cash and restricted cash, January 1	<u>24,937</u>	<u>859,068</u>	<u>884,005</u>
Cash and restricted cash, December 31	<u>\$ 32,299</u>	<u>\$ 557,083</u>	<u>\$ 589,382</u>
Reconciliation of cash and restricted cash at December 31 to statement of net assets			
Cash	\$ 32,299	\$ 459,620	\$ 491,919
Restricted cash	<u>-</u>	<u>97,463</u>	<u>97,463</u>
Total	<u>\$ 32,299</u>	<u>\$ 557,083</u>	<u>\$ 589,382</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows – Business-Type Component Units
(Continued)
For the Year Ended December 31, 2007

	Parking Authority	Airport	Total
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities			
Operating loss	\$ (36,945)	\$ (2,193,640)	\$ (2,230,585)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities			
Depreciation	55,192	2,652,925	2,708,117
Miscellaneous revenue (expense)	2,615	-	2,615
Change in assets and liabilities			
Accounts receivable	(22)	(72,319)	(72,341)
Inventory	-	(4,147)	(4,147)
Prepaid items	(1)	3,991	3,990
Accounts payable and accrued liabilities	2,588	222,441	225,029
Liabilities for accrued vacation and sick leave	(644)	-	(644)
Other liabilities	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by operating activities	<u>\$ 22,783</u>	<u>\$ 609,251</u>	<u>\$ 632,034</u>

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STATISTICAL SECTION

City of Fort Smith, Arkansas

Statistical Section

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

Contents	Page
Financial Trends (Tables 1-5)	
These schedules contain trend information to assist the reader in understanding how the City’s financial performance and well-being have changed over time	105
Revenue Capacity (Tables 6-9)	
These schedules contain information to help the reader assess the City’s most significant revenue sources, local sales taxes and property taxes	111
Debt Capacity (Tables 10-13)	
These schedules present information to help the reader assess the affordability of the City’s current levels of outstanding debt and the City’s ability to issue additional debt in the future	115
Demographic and Economic Information (Tables 14-15)	
These schedules offer demographic and economic indicators to assist the reader in understanding the environment within which the City’s financial activities take place	119
Operating Information (Tables 16-18)	
These schedules contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to services the City provides and the activities it performs	121
Continuing Disclosure Requirement Information (Tables 19-22)	
These schedules provide information required to be disseminated for investors of City debt. By including this data, the CAFR may be used as the document that provides all debt covenant required reports and information.....	124

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

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Table 1

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

	Fiscal Year				
	2003 (Restated)	2004 (Restated)	2005	2006	2007
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
Restricted	6,135,903	4,470,232	3,988,372	44,488,640	47,754,213
Unrestricted (deficit)	55,062,995	55,390,169	66,055,588	33,741,938	29,580,570
Total governmental activities net assets	\$ 294,351,743	\$ 314,580,151	\$ 330,527,718	\$ 328,335,244	\$ 353,057,475
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
Restricted	25,199,051	24,005,631	26,844,476	23,486,930	20,514,957
Unrestricted (deficit)	(9,043,315)	(5,371,394)	(12,506,307)	(15,666,417)	1,390,057
Total business-type activities	\$ 151,786,317	\$ 171,252,681	\$ 195,777,565	\$ 237,568,661	\$ 247,569,977
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
Restricted	31,334,954	28,475,863	30,832,848	67,975,570	68,269,170
Unrestricted (deficit)	46,019,680	50,018,775	53,549,281	18,075,521	30,970,627
Total business-type activities	\$ 446,138,060	\$ 485,832,832	\$ 526,305,283	\$ 565,903,905	\$ 600,627,452

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

Table 2

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

	Fiscal Year				
	2003 (Restated)	2004 (Restated)	2005	2006	2007
Expenses					
Governmental Activities:					
General government	\$ 6,285,719	\$ 6,291,295	\$ 7,204,031	\$ 7,401,742	\$ 8,107,627
Public safety	22,479,701	22,814,182	25,007,200	28,283,667	29,635,609
Public works	9,750,060	8,547,371	8,624,464	11,583,305	10,862,082
Community services	9,881,779	10,319,043	10,723,724	11,465,302	10,559,736
Interest on long-term debt	519,078	128,042	-	671,893	3,757,618
Total governmental activities expenses	<u>48,916,337</u>	<u>48,099,933</u>	<u>51,559,419</u>	<u>59,405,909</u>	<u>62,922,672</u>
Business-Type Activities:					
Water and Sewer	31,172,483	29,270,855	29,678,171	32,920,994	36,693,984
Sanitation	8,466,593	9,300,590	9,075,365	10,507,258	11,455,050
Total business-type activities expenses	<u>39,639,076</u>	<u>38,571,445</u>	<u>38,753,536</u>	<u>43,428,252</u>	<u>48,149,034</u>
Total primary government expenses	<u>\$ 88,555,413</u>	<u>\$ 86,671,378</u>	<u>\$ 90,312,955</u>	<u>\$ 102,834,161</u>	<u>\$ 111,071,706</u>
Program Revenues					
Governmental Activities:					
Charges for services					
General government	\$ 2,933,495	\$ 3,141,036	\$ 3,445,662	\$ 3,551,771	\$ 3,370,526
Public safety	233,786	223,224	219,114	283,460	288,258
Public works	-	466,849	-	50	50
Community services	754,306	849,429	890,174	1,009,470	1,001,004
Operating grants and contributions	9,786,072	9,837,419	10,413,626	7,006,913	7,524,294
Capital grants and contributions	6,650,958	6,600,991	2,106,374	3,082,171	1,610,147
Total governmental activities program revenues	<u>20,358,617</u>	<u>21,118,948</u>	<u>17,074,950</u>	<u>14,933,835</u>	<u>13,794,279</u>
Business-Type Activities:					
Charges for services					
Water and sewer	28,306,482	28,995,627	30,402,025	32,645,032	33,238,901
Sanitation	9,393,659	10,474,818	11,129,352	11,811,666	12,561,103
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
Total business-type activities program revenues	<u>38,555,408</u>	<u>40,794,324</u>	<u>42,907,431</u>	<u>46,411,577</u>	<u>47,997,865</u>
Total primary government program revenues	<u>\$ 58,914,025</u>	<u>\$ 61,913,272</u>	<u>\$ 59,982,381</u>	<u>\$ 61,345,412</u>	<u>\$ 61,792,144</u>
Net (expense) revenue					
Governmental activities	\$ (28,557,720)	\$ (26,980,985)	\$ (34,484,469)	\$ (44,472,074)	\$ (49,128,393)
Business-Type activities	(1,083,668)	2,222,879	4,153,895	2,983,325	(151,169)
Total primary government net expense	<u>\$ (29,641,388)</u>	<u>\$ (24,758,106)</u>	<u>\$ (30,330,574)</u>	<u>\$ (41,488,749)</u>	<u>\$ (49,279,562)</u>

Table 2 (Continued)

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

	Fiscal Year				
	2003 (Restated)	2004 (Restated)	2005	2006	2007
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Property taxes	\$ 16,117,664	\$ 8,812,154	\$ 8,932,234	\$ 9,392,423	\$ 8,821,508
Sales taxes	35,748,841	30,940,060	31,236,465	40,747,820	53,014,309
Utility franchise fees	5,530,957	5,986,546	6,833,462	7,406,294	6,760,463
Unrestricted grants and contributions	1,411,739	1,280,450	1,277,089	5,139,979	6,558,212
Unrestricted investment earnings	813,104	740,108	1,489,322	3,220,403	6,155,547
Gain (loss) on sale of capital assets	4,174	24,462	852	22,838	(13,463)
Other	100,331	14,907	768,612	1,088,665	251,941
Transfers	(579,200)	(589,294)	(206,000)	(24,738,822)	(7,697,893)
Total governmental activities	<u>59,147,610</u>	<u>47,209,393</u>	<u>50,332,036</u>	<u>42,279,600</u>	<u>73,850,624</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
Other	283,977	212,889	317,700	304,583	504,328
Transfers	579,200	589,294	206,000	24,738,822	7,697,893
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>
Total primary government	<u>\$ 70,188,675</u>	<u>\$ 64,452,878</u>	<u>\$ 70,703,025</u>	<u>\$ 81,087,371</u>	<u>\$ 84,003,109</u>
Changes in Net Assets					
Governmental activities	\$ 30,589,890	20,228,408	15,847,567	(2,192,474)	24,722,231
Business-type activities	9,957,397	19,466,364	24,524,884	41,791,096	10,001,316
Total primary government	<u>\$ 40,547,287</u>	<u>\$ 39,694,772</u>	<u>\$ 40,372,451</u>	<u>\$ 39,598,622</u>	<u>\$ 34,723,547</u>

Note: This is the fifth 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
1998	\$ 6,031,319	\$ 26,599,219	\$ 4,237,391	\$ 36,867,929
1999	3,242,972	29,121,222	4,224,932	39,589,126
2000	6,591,586	35,805,269	4,708,407	47,105,262
2001	7,079,863	35,872,020	5,199,799	48,151,682
2002	7,681,552	35,167,253	4,846,025	47,694,830
2003	7,909,748	35,748,841	5,530,957	49,189,546
2004	8,085,650	30,940,060	5,986,546	45,012,256
2005	8,624,431	31,236,465	6,833,462	46,694,358
2006	8,953,917	40,747,820	7,406,294	57,108,031
2007	8,736,124	53,014,309	6,760,463	68,510,896

(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.

Note: The City's most significant own-source revenue is its two (2) one-percent (1%) local sales tax levies and its share of the Sebastian County local sales tax levy of one-percent (1%). All local sales taxes are collected by the state and remitted to the applicable local governments net of a three-percent (3%) collection fee. The taxes are applied to gross sales in accordance with state statutes. All applications of the local sales taxes are based upon state authority. The state does not and will not provide detail data regarding the various commodities that are represented by the local sales taxes the City receives. Therefore, the City includes statistical data about the property tax revenue which is levied by the City on an annual basis.

Table 4

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

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

Table 5

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

	1998	1999	2000	2001	2002	2003 (Restated)	2004 (Restated)	2005	2006	2007
Revenues										
Taxes (1)	\$ 36,867,929	\$ 39,589,126	\$ 47,105,262	\$ 48,151,682	\$ 47,694,830	\$ 49,189,546	\$ 45,012,256	\$ 46,694,358	\$ 57,108,031	\$ 68,510,896
Licenses and permits	964,319	1,188,651	1,374,696	1,462,282	1,343,203	1,338,949	1,271,411	1,499,151	1,473,234	1,501,022
Intergovernmental	14,578,023	15,727,224	10,513,059	13,943,553	11,900,040	16,638,318	16,120,435	12,952,988	12,734,833	13,395,035
Fines and forfeitures	1,757,023	1,694,367	1,720,211	1,615,757	1,744,309	2,081,628	1,888,668	2,064,332	2,063,755	2,858,829
Charges for services	384,289	329,352	340,266	720,524	786,492	881,942	941,582	978,987	1,099,840	1,088,811
Investment earnings	4,174,469	2,980,151	3,921,011	2,864,102	1,515,915	846,138	755,355	1,530,732	3,326,046	6,294,463
Contributions	695,080	1,014,852	1,032,084	930,455	831,586	785,030	774,010	808,149	2,166,420	1,027,818
Miscellaneous	944,074	195,964	166,504	360,903	590,805	858,521	696,478	250,361	470,606	316,373
Total revenues	60,365,206	62,719,687	66,173,093	70,049,258	66,407,180	72,620,072	67,460,195	66,779,058	80,442,765	94,993,247
Expenditures										
General government	3,091,735	3,542,767	4,105,006	4,791,577	5,215,541	5,741,344	5,908,918	6,879,247	7,522,720	8,190,325
Public safety	15,235,568	16,893,976	19,895,794	19,956,251	19,892,329	21,064,548	22,076,641	24,139,684	26,003,929	28,062,350
Public works	15,452,436	15,346,680	13,514,651	18,805,624	23,702,402	5,874,858	4,550,486	4,600,934	5,433,522	5,202,463
Community services	1,981,055	2,105,136	2,411,123	4,997,754	5,536,507	6,105,744	6,550,085	6,463,376	7,194,025	6,387,764
Other	1,242,962	1,749,246	1,332,628	2,004,322	1,739,626	1,763,635	2,113,409	2,334,916	3,245,313	3,776,800
Capital outlay	11,577,002	17,572,527	34,461,654	7,133,868	3,415,681	23,747,366	21,153,521	14,068,089	23,933,708	32,939,098
Debt service										
Principal	2,100,000	5,520,000	6,325,000	9,220,000	8,178,002	7,785,000	6,540,000	-	-	14,355,000
Interest	2,140,216	1,965,305	1,673,421	1,391,728	937,122	519,078	128,042	-	671,893	3,757,618
Total expenditures	52,820,974	64,695,637	83,719,277	68,301,124	68,617,210	72,601,573	69,021,102	58,486,246	74,005,110	102,671,418
Excess (deficiency) of revenues over (under) expenditures	7,544,232	(1,975,950)	(17,546,184)	1,748,134	(2,210,030)	18,499	(1,560,907)	8,292,812	6,437,655	(7,678,171)
Other financing sources and (uses)										
Transfers in	2,080,305	4,162,258	2,449,777	3,296,518	2,263,625	1,939,996	2,459,809	4,101,090	63,067,680	2,602,260
Transfers out	(1,741,890)	(1,681,743)	(3,676,826)	(4,853,708)	(2,844,728)	(2,519,196)	(2,798,714)	(4,307,000)	(88,464,556)	(10,300,153)
Proceeds from bond issuance	-	-	-	-	-	-	-	-	88,299,286	-
Capital leases	-	-	-	-	589,455	277,990	613,023	1,241,713	341,156	(58,278)
Total other financing sources (uses)	338,415	2,480,515	(1,227,049)	(1,557,190)	8,352	(301,210)	274,118	1,035,803	63,243,566	(7,756,171)
Net change in fund balances	\$ 7,882,647	\$ 504,565	\$ (18,773,233)	\$ 190,944	\$ (2,201,678)	\$ (282,711)	\$ (1,286,789)	\$ 9,328,615	\$ 69,681,221	\$ (15,434,342)
Debt service as a % of noncapital expenditures	10.3%	15.9%	16.2%	17.3%	14.0%	17.0%	13.9%	-	1.3%	26.0%

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

Table 6

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

Fiscal Year	Total Tax Levy (1)	Current Tax Collections	Percent of Levy Collections	Delinquent Tax Collections	Total Tax Collections	Collection Percent of Current Levy	Outstanding Delinquent Taxes	Outstanding Delinquent Taxes as a Percent of Current Levy
1998	\$ 5,794,689	\$ 5,622,468	97.03%	\$ 173,623	\$ 5,796,091	100.02%	\$ 227,176	3.92%
1999	5,925,809	5,829,854	98.38%	181,543	6,011,397	101.44%	237,037	4.00%
2000	6,460,708	6,158,209	95.32%	29,427	6,187,636	95.77%	233,346	3.61%
2001	6,348,763	6,004,289	94.57%	121,353	6,125,642	96.49%	56,473	0.89%
2002	6,858,241	6,403,187	93.36%	208,685	6,611,872	96.41%	269,196	3.93%
2003	7,668,913	6,593,969	85.98%	286,387	6,880,356	89.72%	298,067	3.89%
2004	7,805,688	6,839,388	87.62%	268,913	7,108,301	91.07%	306,752	3.93%
2005	7,544,588	7,016,787	93.00%	270,725	7,287,512	96.59%	420,214	5.57%
2006	7,735,932	7,277,449	94.07%	397,572	7,675,021	99.21%	309,621	4.00%
2007	8,221,008	7,744,922	94.21%	337,687	8,082,609	98.32%	138,399	1.68%

(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.

Source: Sebastian County

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	
1997	\$ 506,720,849	\$ 2,533,604,245	\$ 225,555,162	\$ 1,127,775,810	\$ 732,276,011	\$ 3,661,380,055	20.00%
1998	522,018,450	2,610,092,250	239,096,910	1,195,484,550	761,115,360	3,805,576,800	20.00%
1999	535,068,911	2,675,344,555	245,708,442	1,228,542,210	780,777,353	3,903,886,765	20.00%
2000	607,508,450	3,037,542,250	262,110,959	1,310,554,795	869,619,409	4,348,097,045	20.00%
2001	636,575,485	3,182,877,425	293,983,422	1,469,917,110	930,558,907	4,652,794,535	20.00%
2002	643,415,789	3,217,078,945	295,817,178	1,479,085,890	939,232,967	4,696,164,835	20.00%
2003	674,592,414	3,372,962,070	301,118,605	1,505,593,025	975,711,019	4,878,555,095	20.00%
2004	725,381,058	3,626,905,290	307,760,220	1,538,801,100	1,033,141,278	5,165,706,390	20.00%
2005	733,760,780	3,668,803,900	346,331,415	1,731,657,075	1,080,092,195	5,400,460,975	20.00%
2006	722,422,061	3,612,110,305	365,714,785	1,828,573,925	1,088,136,846	5,440,684,230	20.00%
2007	756,337,274	3,781,686,370	378,474,240	1,892,371,200	1,134,811,514	5,674,057,570	20.00%

(1) Fiscal year is year of valuation.

Source: Sebastian County

Table 8

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

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

Fiscal Year (1)	City of Fort Smith		Overlapping Rates								Total Direct & Overlapping Rates	
	Real	Personal	Sebastian County		FS School District		FS Public Library		U of A Fort Smith		Real	Personal
	Property	Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Property	Property
1998	\$ 0.70	\$ 0.70	\$ 0.80	\$ 0.80	\$ 3.65	\$ 3.65	\$ 0.10	\$ 0.10	\$ 0.53	\$ 0.53	\$ 5.78	\$ 5.78
1999	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.53	0.53	5.78	5.78
2000	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.53	0.53	5.78	5.78
2001	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.53	0.53	5.78	5.78
2002	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2003	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2004	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2005	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2006	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2007	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25

Tax levies (millages):

Fiscal Year (1)	City of Fort Smith		Overlapping Rates								Total Direct & Overlapping Rates	
	Real	Personal	Sebastian County		Fort Smith School District		FS Public Library		U of A Fort Smith		Real	Personal
	Property	Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Property	Property
1998	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
1999	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
2000	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
2001	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
2002	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2003	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2004	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2005	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2006	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2007	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50

(1) Fiscal year is year of levy.
 Source: Sebastian County

Table 9

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

Name of Taxpayer (1)	2007			1998		
	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation
FS Mall Partners (Central Mall)	7,657,650	1	0.70%	6,733,995	8	0.92%
Whirlpool Corporation	5,818,980	2	0.53%	11,121,275	2	1.52%
GGNSC Administrative Services	5,519,990	3	0.51%			
Arkansas Best Corporation	3,778,570	4	0.35%	6,050,820	9	0.83%
Gerber Products Company	3,397,150	5	0.31%	8,036,560	3	1.10%
St. Edward Mercy Medical Center	3,187,430	6	0.29%			
The Park Apartments of Fort Smith	3,072,091	7	0.28%			
Widmer Place, Inc.	3,033,900	8	0.28%			
OK Foods, Inc.	2,610,710	9	0.24%			
Norton Propants, Inc.	2,513,910	10	0.23%			
Hiram Walker & Sons/Pernod Ricard USA	2,491,680	11	0.23%	6,947,135	6	0.95%
Graphic Packaging International	2,482,190	12	0.23%			
Zero Mountain, Inc.	2,327,610	13	0.21%			
Wal-Mart				7,315,595	5	1.00%
Planters Lifesavers				6,821,315	7	0.93%
Oklahoma Gas & Electric Co.				11,740,094	1	1.60%
Southwestern Bell Telephone				7,493,086	4	1.02%
Arkansas Oklahoma Gas Corp.				5,901,449	10	0.81%
	<u>47,891,861</u>		4.40%	<u>78,161,324</u>		10.67%

(1) Sebastian County Assessor's Office.

(2) Property taxes collected in 2007 are based upon 2006 assessed valuation of \$1,088,136,846. Property taxes collected in 1998 were based upon the 1997 assessed valuation of \$732,276,011.

City of Fort Smith, Arkansas
Computation of Direct and Estimated Overlapping Debt
December 31, 2007
(Unaudited)

Taxing Jurisdiction	Total Outstanding Bonded Debt (1)	Estimated Percent Applicable (2)	Direct and Estimated Overlapping Bonded Debt
Direct:			
City of Fort Smith	\$ 71,005,000	100%	\$ 71,005,000
Overlapping:			
Fort Smith Special School District	30,895,563	100%	30,895,563
Greenwood School District	14,320,697	5%	716,035
Sebastian County	1,235,000	76%	938,600
Total Overlapping	46,451,260		32,550,198
Total direct and estimated overlapping bonded debt	\$ 117,456,260		\$ 103,555,198
Ratio, direct and estimated overlapping debt to fiscal 2006 assessed valuation (3)			10%
Per capita direct and estimated overlapping bonded debt (4)			\$ 1,241

(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, \$1,088,136,846.

(4) Based on the estimated population for 2006 in Table 14; 83,426.

Source: Overlapping debt is provided by applicable entity.

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net assessed Value (1)	\$ 761,115,360	\$ 780,777,353	\$ 869,619,409	\$ 930,558,907	\$ 939,232,967	\$ 975,711,019	\$ 1,033,141,278	\$ 1,080,092,195	\$ 1,088,136,846	\$ 1,134,811,514
Plus exempt property (2)	-	-	-	-	-	-	-	-	-	-
Total assessed value	\$ 761,115,360	\$ 780,777,353	\$ 869,619,409	\$ 930,558,907	\$ 939,232,967	\$ 975,711,019	\$ 1,033,141,278	\$ 1,080,092,195	\$ 1,088,136,846	\$ 1,134,811,514
Debt limit - 25% of total assessed value (3)	\$ 190,278,840	\$ 195,194,338	\$ 217,404,852	\$ 232,639,727	\$ 2,348,080,242	\$ 243,927,755	\$ 258,285,320	\$ 270,023,049	\$ 272,034,212	\$ 283,702,879
Amount of debt applicable to	-	-	-	-	-	-	-	-	-	-
Debt Margin	\$ 190,278,840	\$ 195,194,338	\$ 217,404,852	\$ 232,639,727	\$ 2,348,080,242	\$ 243,927,755	\$ 258,285,320	\$ 270,023,049	\$ 272,034,212	\$ 283,702,879

(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			
1998	\$ 43,555,000	\$ -	\$ -	\$ 33,965,000	\$ -	\$ -	\$ 77,520,000	6.7%	1,065
1999	38,035,000	-	-	58,600,000	-	-	96,635,000	5.7%	1,327
2000	31,710,000	-	-	55,910,000	-	-	87,620,000	6.7%	1,092
2001	22,490,000	-	-	51,170,000	80,000,000	-	153,660,000	4.1%	1,914
2002	14,325,000	-	576,453	154,200,000	73,680,000	-	242,781,453	2.6%	3,025
2003	6,540,000	-	667,331	151,045,000	68,415,000	440,757	227,108,088	2.9%	2,829
2004	-	-	891,735	144,755,000	58,270,000	298,315	204,215,050	3.4%	2,544
2005	-	-	1,442,517	146,795,000	42,995,000	562,877	191,795,394	3.9%	2,389
2006	84,935,000	2,290,000	388,004	139,125,000	-	315,442	227,053,446	3.5%	2,722
2007	71,005,000	1,865,000	222,135	155,605,000	-	61,722	228,758,857	3.6%	2,742

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	
Water and Sewer System	1998	\$ 14,595,971	\$ 11,178,704	\$ 3,417,267	\$ 1,125,000	\$ 1,325,023	\$ 2,450,023	139%
	1999	17,666,492	11,906,342	5,760,153	1,170,000	1,610,697	2,780,697	207%
	2000	23,046,282	12,557,120	10,489,162	2,050,000	2,561,255	4,611,255	227%
	2001	23,167,106	13,753,378	9,413,728	2,140,000	1,832,688	3,972,688	237%
	2002	28,693,062	14,727,485	13,965,577	2,240,000	2,624,305	4,864,305	287%
	2003	30,461,180	15,104,962	15,356,218	2,370,000	3,990,161	6,360,161	241%
	2004	30,676,280	16,339,330	14,336,950	5,070,000	2,931,611	8,001,611	179%
	2005	32,668,644	17,116,764	15,551,880	5,700,000	3,016,704	8,716,704	178%
	2006	35,439,335	21,269,130	14,170,205	6,820,000	2,776,864	9,596,864	148%
	2007	35,181,555	19,365,972	15,815,583	7,115,000	6,245,962	13,360,962	118%
Solid Waste System	1998	\$ 7,489,476	\$ 5,967,537	\$ 1,521,939	\$ 450,000	\$ 617,605	\$ 1,067,605	143%
	1999	8,220,315	6,533,853	1,686,462	610,000	555,378	1,165,378	145%
	2000	10,155,226	7,134,530	3,020,696	635,000	528,529	1,163,529	260%
	2001	9,591,135	7,345,440	2,245,695	665,000	499,594	1,164,594	193%
	2002	9,803,303	7,054,152	2,749,151	975,000	302,660	1,277,660	215%
	2003	9,511,187	7,003,747	2,507,440	785,000	277,400	1,062,400	236%
	2004	10,622,644	8,069,676	2,553,268	805,000	260,782	1,065,782	240%
	2005	11,441,729	7,775,933	3,665,796	820,000	239,814	1,059,814	346%
	2006	12,216,101	9,108,943	3,107,158	850,000	214,021	1,064,021	292%
	2007	13,122,193	10,269,779	2,852,414	875,000	187,827	1,062,827	268%

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

(2) Excludes depreciation expense and amortization expense.

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

Table 14

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

Fiscal Year	City Population	County Population	Personal Income (in thousands)	Per Capita Income (2)	Median Age	Education Level in Years of Schooling (3)	School Enrollment (4)	Unemployment Rate (2)
1998	72,798	99,590	5,229,608	23,408	34.0	12	12,496	5.3%
1999	72,798	99,590	5,487,943	21,029	34.0	12	12,430	4.0%
2000	80,268	115,071	5,889,283	22,270	34.0	12	12,637	3.6%
2001	80,268	115,071	6,278,630	22,676	34.0	12	12,596	4.2%
2002	81,557	116,964	6,403,948	23,021	35.0	12	12,844	4.9%
2003	81,814	117,256	6,628,057	26,624	35.2	12	12,871	5.4%
2004	81,801	117,527	7,030,000	24,956	35.3	12	12,921	5.0%
2005	82,484	118,600	7,514,000	26,420	35.4	12	13,373	4.2%
2006	83,426	120,322	8,009,000	27,729	35.4	12	13,633	4.9%
2007	83,426	120,322	8,329,000 *	28,838 *	35.4	12	13,900	5.3%

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	2007			1998		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
OK Foods	4,748	1	3.4%	4,000	1	3.2%
Whirlpool Corporation	3,000	2	3.0%	3,624	2	2.9%
Baldor Electric	2,262	3	1.6%	1,711	4	1.4%
Sparks Regional Medical Center	2,170	4	1.6%	2,300	3	1.8%
St. Edward Mercy Medical Center	1,800	5	1.3%	1,600	5	1.3%
Rheem-Ruud	1,774	6	1.3%			
Fort Smith Public Schools	1,702	7	1.2%	1,565	6	1.3%
Arkansas Best Corp.	946	8	0.7%	-		
City of Fort Smith	898	9	0.6%	764	8	0.6%
University of Arkansas at Fort Smith	772	10	0.6%	-		
Gerber Products	761	11	0.5%	625	11	0.5%
Cooper Clinic	730	12	0.5%	-		
Trane Company	680	13	0.5%	850	9	0.7%
Holt Krock Clinic	-			650	10	0.5%
James River Corp.	-			313	12	0.3%
Area Agency on Aging	600	14	0.4%	-		
Golden Ventures/Beverly Enterprises	600	14	0.4%	870	8	0.7%
Bost Human Development Services	600	14	0.4%	-		
Riverside Furniture	550	17	0.4%	1,325	7	1.1%
Total	24,593		18.5%	20,197		16.2%

Data Sources:

Chamber of Commerce

U.S. Department of Labor, employment totals:

2007	138,900
1998	124,901

Table 16

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

Function	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government	101	102	109	113	118	122	123	124	124	128
Public safety:										
Police										
Officers	148	148	152	150	150	154	160	160	168	168
Civilians	43	43	43	45	47	46	47	47	46	46
Fire										
Firefighters and officers:	119	122	125	125	125	125	125	126	126	126
Civilians	3	3	3	3	3	3	3	3	3	3
Public works:										
Operations	5	5	5	5	5	5	5	5	5	5
Streets	44	44	44	46	46	46	46	46	46	46
Traffic control	12	12	12	13	13	13	12	13	13	13
Parks and recreation	28	29	36	45	44	45	47	53	54	57
Transit	24	30	28	34	35	35	35	35	37	37
Water and sewer	162	169	181	181	181	182	183	185	191	191
Sanitation	80	80	85	84	83	79	75	76	77	78
Total	769	787	823	844	850	855	861	873	890	898

Source: Annual budget documents.

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

Function	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Sub-stations (2)	-	-	-	-	-	-	-	-	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	19	20	21	21	22	22	22	22	21	21
Streets										
Streets (miles)	497	497	532	541	603	582	590	558	562	566
Streetlights	5,011	5,011	5,350	5,383	5,383	5,589	5,285	5,957	5,971	5,971
Traffic signals	106	106	122	122	123	123	133	136	135	135
Parks and recreation										
Parks acreage (square feet)	128	128	287	292	295	295	315	260	275	275
Parks	9	9	11	18	20	20	26	26	26	26
Swimming pools	2	2	2	2	1	1	1	1	1	1
Water splashpad	-	-	-	-	-	-	1	1	1	1
Tennis courts	14	14	14	14	14	14	14	14	14	14
Skatepark	-	-	-	-	-	1	1	1	1	1
Community centers	2	2	2	4	4	4	4	4	5	5
Convention center -										
Theater -seats	1,513	1,513	1,375	1,375	1,375	1,331	1,331	1,331	1,331	1,331
Theater -area (square feet)	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200
Exhibit Hall -area (square feet)	13,200	13,200	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Transit buses	9	11	11	18	18	18	17	20	20	20
Water and sewer										
Water mains (miles)	565	570	570	576	576	584	584	584	560	560
Average daily production capacity (thousands of gallons)	4,200	45,000	45,000	45,000	55,000	55,000	55,000	55,000	54,100	54,100
Average daily consumption (thousands of gallons)	22,278	26,629	27,821	29,511	29,511	27,384	26,986	28,876	28,097	29,197
Sanitary sewers (miles)	470	470	470	481	481	488	503	503	505	505
Storm sewers	NA	NA	NA	NA	NA	NA	7,900	7,900	7,900	7,900
Sanitation										
Collection trucks	58	59	58	56	52	52	52	52	52	52
Landfill capacity (in cubic yards) (1)	10,907,000	10,550,000	9,790,000	9,506,000	9,230,000	68,100,000	67,007,000	67,445,222	67,352,018	66,853,337

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.

Sources: Annual budget documents and departmental records.

Table 18

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

Function	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Police:										
Physical arrest	9,512	8,537	8,204	6,877	7,865	8,113	9,362	10,417	10,512	10,834
Parking violations	22,538	21,111	14,819	15,424	12,308	11,722	10,905	3,487	1,732	3,887
Traffic violations	15,476	16,055	15,563	16,249	16,191	18,466	19,287	19,289	20,442	21,129
Fire										
Number of calls answered	4,535	4,751	5,988	5,953	6,517	7,022	6,699	6,461	7,326	7,619
Transit										
Passenger trips	71,023	93,791	111,459	149,341	147,620	158,652	163,503	173,556	155,515	173,917
Water and sewer										
New connections	389	506	506	456	529	529	438	464	1,391	458
Average daily production (thousands of gallons)	26,629	26,629	27,821	29,511	29,511	27,384	26,986	28,876	28,097	29,197
Average daily sewage flow (thousands of gallons)	13,800	13,800	13,800	16,900	15,130	15,400	14,760	15,500	15,290	16,400
Sanitation										
Waste disposal (cubic yards/day)	3,196	3,049	3,020	3,020	2,586	2,401	3,011	3,475	3,848	3,657

Note: Transit operations began in August 1997

Sources: Annual budget documents and departmental records.

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
1998	\$ 13,936,617	\$ 11,243,858	\$ 6,253,603	\$ 31,434,078
1999	14,689,273	11,802,187	7,344,637	33,836,097
2000	15,453,552	12,624,941	7,726,776	35,805,269
2001	15,728,836	12,278,766	12,387,128	40,394,730
2002	15,502,200	11,913,953	15,502,200	42,918,353
2003	15,635,325	12,295,853	15,635,326	43,566,504
2004	16,465,972	13,032,372	16,465,972	45,964,316
2005	17,372,140	13,864,325	17,372,140	48,608,605
2006	18,420,915	14,718,645	18,420,915	51,560,475
2007	18,929,527	15,155,255	18,929,527	53,014,309
Total	\$ 162,134,357	\$ 128,930,155	\$ 117,108,697	\$ 427,102,736

(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 was reaffirmed by the citizens in 1995 for an additional 10 years. 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.

Note: Local sales taxes are collected by the state and remitted to the City net of a three-percent (3%) collection fee.

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

Fiscal Year	Annual # Sanitation System Customers	Cubic Yardage of Waste at Landfill	Useful Life of Landfill Remaining	Remaining Storage Capacity at Landfill
1998	223,480	1,160,034	15 yrs	10,907,000 cubic yards
1999	272,616	1,369,106	14 yrs	10,550,000 cubic yards
2000	236,376	1,106,718	13 yrs	9,790,000 cubic yards
2001	276,564	1,096,082	12 yrs	9,506,000 cubic yards
2002	277,896	938,670	11 yrs	9,230,000 cubic yards
2003	277,896	871,647	42 yrs	68,100,000 cubic yards (1)
2004	299,412	1,092,855	41 yrs	67,007,000 cubic yards
2005	300,624	1,263,149	40.5 yrs	67,445,222 cubic yards (2)
2006	304,620	1,404,524	40 yrs	67,352,018 cubic yards
2007	306,864	1,334,806	40 yrs	66,853,337 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.

(2) The 2005 engineering report indicates that the amount of remaining storage is greater at the end of 2005 than at the end of 2004.

Table 21

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

**Water Use and Sewage Flow
Last Five Fiscal Years
(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
2003	27,384,000	41,247,000	9,995,291,000	15,400,000
2004	26,986,000	37,617,000	9,856,258,000	14,760,000
2005	29,161,000	45,536,000	10,539,665,000	15,500,000
2006	28,097,000	42,941,000	10,283,590,000	15,290,000
2007	29,197,000	39,956,000	9,196,894,000	16,400,000

**Water Users by Category
Last Five Fiscal Years
(Unaudited)**

Fiscal Year	Residential	Commercial	Wholesale	Other	Total
2003	25,933	3,931	12	10	29,886
2004	26,043	3,989	12	10	30,054
2005	26,479	3,979	12	10	30,480
2006	27,748	4,024	13	10	31,795
2007	27,998	4,127	13	10	32,148

**Sewer Users by Category
Last Five Fiscal Years
(Unaudited)**

Fiscal Year	Residential	Commercial	Government	Total
2003	25,732	3,747	10	29,489
2004	25,149	3,869	10	29,028
2005	25,443	3,875	10	29,328
2006	25,533	3,681	10	29,224
2007	25,790	3,661	10	29,461

Table 21 (Continued)

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

**10 Largest Users of the System
For the Fiscal Years Ended December 31, 2006 and 2007
(Unaudited)**

For 2006:				
Entity	Water	Sewer	Total	% of Gross Revenues
City of Van Buren	\$ 3,228,704	\$ -	\$ 3,228,704	9.86%
Gerber Products	1,198,931	1,087,913	2,286,844	6.98%
OK Foods	1,960,353	-	1,960,353	5.99%
Sparks Medical Center	187,290	155,796	343,086	1.05%
Quanex Macsteel	268,220	53,467	321,687	0.98%
St. Edward Mercy Medical Center	221,050	76,238	297,288	0.91%
Whirlpool	137,704	132,175	269,879	0.82%
Southern Steel & Wire	85,170	117,475	202,645	0.62%
Twin Rivers Packaging	81,000	117,818	198,818	0.61%
Ben Geren Regional Park	69,980	-	69,980	0.21%
Top Ten Users	\$ 7,438,402	\$ 1,740,882	\$ 9,179,284	28.03%
For 2007:				
Entity	Water	Sewer	Total	% of Gross Revenues
City of Van Buren	\$ 3,308,734	\$ -	\$ 3,308,734	10.11%
OK Foods	2,047,126	130,687	2,177,813	6.65%
Gerber Products	926,993	814,227	1,741,220	5.32%
Quanex Macsteel	264,068	98,684	362,752	1.11%
St. Edward Mercy Medical Center	224,932	99,293	324,225	0.99%
Sparks Medical Center	200,296	115,015	315,311	0.96%
Whirlpool	115,308	123,079	238,387	0.73%
Twin Rivers Packaging	79,784	111,635	191,419	0.58%
Southern Steel & Wire	76,132	101,511	177,643	0.54%
Highland Dairy	51,955	11,950	63,905	0.20%
Top Ten Users	\$ 7,295,328	\$ 1,606,081	\$ 8,901,409	27.19%

Table 22

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Revenues	\$ 30,133,031	\$ 32,780,080	\$ 33,972,924	\$ 36,218,142	\$ 37,164,047
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>
Excess (deficiency) of revenues over (under) expenditures	(591,099)	(252,778)	(690,216)	(2,091,035)	(5,895,023)
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>
Net change in fund balances	1,025,694	2,203,766	1,816,887	1,734,458	(3,864,041)
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>
Fund balance, December 31	<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>



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, 2007.

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

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

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

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

Our examination was made in accordance with attestation standards established by the American Institute of Certified Public Accounts 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, 2007.

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



June 9, 2008

**SINGLE AUDIT
SECTION**



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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fort Smith, Arkansas, as of and for the year ended December 31, 2007, which collectively comprise its basic financial statements and have issued our report thereon dated June 9, 2008, which contained a reference to the report of another accountant. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other accountants audited the financial statements of the Fort Smith Public Library, as described in our report on the City's financial statements. This report does not include the results of the other accountants' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those accountants.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to the City's management in a separate letter dated June 9, 2008.

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

June 9, 2008





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

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

Compliance

We have audited the compliance of the City of Fort Smith, Arkansas, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the compliance of the City of Fort Smith, Arkansas, based on our audit.

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

In our opinion, the City of Fort Smith, Arkansas, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the City of Fort Smith, Arkansas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

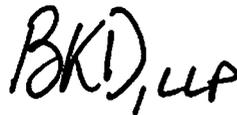
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

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

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

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

June 9, 2008

Handwritten signature in black ink that reads "BKD, LLP". The letters are stylized and slanted to the right.

City of Fort Smith, Arkansas
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2007

<u>Cluster/Program</u>	<u>Federal Agency/Pass-Through Entity</u>	<u>CFDA Number</u>	<u>Grant or Identifying Number</u>	<u>Amount</u>
Community Development Block Grants/Entitlement Grants	U.S. Department of Housing and Urban Development	14.218	B05MC050003	\$ 708,494
		14.218	B06MC050003	<u>638,245</u>
				<u>1,346,739</u>
Home Investment Partnership Program	U.S. Department of Housing and Urban Development	14.239	M02MC050202	55,737
		14.239	M03MC050202	77,373
		14.239	M04MC050202	251,822
		14.239	M05MC050202	142,329
		14.239	M06MC050202	297,092
		14.239	M07MC050202	<u>10,037</u>
				<u>834,180</u>
Outdoor Recreation_Acquisition, Development and Planning	U.S. Department of the Interior/Arkansas Department of Parks and Tourism	15.916	#A-10494-06-B	49,587
Drug Enforcement Task Force	U.S. Department of Justice	N/A		66,860
Organized Crime Drug Enforcement Task Force	U.S. Department of Justice	N/A	SE-AR W-044	617
Organized Crime Drug Enforcement Task Force	U.S. Department of Justice	N/A	SE-AR W-055	577
Organized Crime Drug Enforcement Task Force	U.S. Department of Justice	N/A	SE-AR W-058	<u>859</u>
				<u>2,053</u>
Asset Forfeiture and Money Laundering	U.S. Department of Justice	16.000	AR060100	58,350
Edward Byrne Memorial Justice Assistance Grant Program	U.S. Department of Justice	16.738	2006-OJ-BX-0643	351
Federal Transit Capital Investment Grants	U.S. Department of Transportation	20.500	AR-81-X031	296,620
Federal Transit Metropolitan Planning Grants	U.S. Department of Transportation	20.505	AR-03-X011	14,037
Federal Transit Formula Grants	U.S. Department of Transportation/Arkansas Highway & Transportation Dept.	20.507	AR-90-X062	5,582
		20.507	AR-90-X081	<u>1,141,977</u>
				<u>1,147,559</u>
Nonpoint Source Implementation Grants	U.S. Environmental Protection Agency/Arkansas Soil & Water Conservation	66.460	C-999610312	16,381
		66.460	C-999810314	<u>1,913</u>
				<u>18,294</u>
Assistance to Firefighters Grant	U.S. Department of Homeland Security	97.044	EMW-2006-FG-05722	52,324
Law Enforcement Officer Reimbursement Agreement Program	U.S. Department of Homeland Security	97.090	HSTS01-04-A-LEF-003	<u>151,005</u>
				<u>\$ 4,037,969</u>

City of Fort Smith, Arkansas
Schedule of Expenditures of State Awards
Year Ended December 31, 2007

<u>Granting Agency/Grant Program</u>	<u>Grant Number</u>	<u>Expenditures</u>
Arkansas Department of Pollution Control and Ecology-Solid Waste Management and Recycling Grant Fund Program:		
Equipment, Education, Market Development and Administration	SE03-04,0,04,05-04,06-04	\$ 115
Equipment, Education, Market Development and Administration	SE00-05,03-05,07-05,09-05	4,761
Equipment, Education, Market Development and Administration	SE50-06,51-06	<u>23,055</u>
		<u>27,931</u>
Department of Arkansas Heritage:		
CLG Grant-Historic Preservation Program	CLG 04-02/RETT	2,972
CLG Grant-Historic Preservation Program	CLG 04-02	266
CLG Grant-Historic Preservation Program	CLG 05-03	289
CLG Grant-Historic Preservation Program	CLG 07-04	<u>3,348</u>
		<u>6,875</u>
Arkansas State Highway and Transportation Department		
Jenny Lind Rd./Ingersol	40471	94,554
Alcohol/Other Drug Countermeasures Program	J8-2007-08-09-09	71,112
Alcohol/Other Drug Countermeasures Program	K8-2008-08-09-10	20,854
Miscellaneous Agencies Fund	N/A	30,321
Public Transit Trust Fund	N/A	<u>210,651</u>
		<u>427,492</u>
Arkansas Department of Economic Development		
Hiram Walker	EIF-2004-20	<u>600,000</u>
Arkansas Forestry Commission		
Downtown Tree Project		<u>1,500</u>
Arkansas Department of Parks and Tourism		
Outdoor Recreation Grants Martin Luther King, Jr. Park	AR 050825-056	49,586
Tourism Attraction Feasibility Study	N/A	<u>438</u>
		<u>50,024</u>
	Total State Awards	<u>\$ 1,113,822</u>

City of Fort Smith, Arkansas
Notes to Schedules of Expenditures of Federal and State Awards
December 31, 2007

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

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

(2) **Organization and Accounting Policies**

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

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

(3) **Basis of Accounting**

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

(4) **Relationship to Federal and State Financial Reports**

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

(5) **Relationship to Basic Financial Statements**

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

Total intergovernmental revenue	\$	13,395,035
State turnback revenue		(8,354,196)
Local match		<u>110,952</u>
 Federal and state financial assistance per accompanying schedules	 \$	 <u><u>5,151,791</u></u>

City of Fort Smith, Arkansas
Notes to Schedule of Expenditures of Federal and State Awards (Continued)
December 31, 2007

(6) Subrecipients

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

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant	14.218	\$ 786,113
HOME Investment Partnership	14.239	754,259

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2007

Summary of Auditor's Results

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

2. The independent accountants' report on internal control over financial reporting described:
Significant deficiency(ies) noted considered material weakness(es)? Yes No
Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

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

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
Significant deficiency(ies) noted considered material weakness(es)? Yes No
Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

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

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

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2007

7. The Organization's major programs were:

<u>Cluster/Program</u>	<u>CFDA Number</u>
Federal Transit Formula Grants	20.507

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

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

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2007

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

City of Fort Smith, Arkansas
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2007

Reference Number	Summary of Finding	Status
<p>No matters are reportable.</p>		