



# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2006**

**The City of Fort Smith, Arkansas**

**CITY OF FORT SMITH, ARKANSAS**

Comprehensive Annual Financial Report  
Year Ended December 31, 2006

Prepared By the

**CITY OF FORT SMITH, ARKANSAS  
FINANCE DEPARTMENT**

**CITY BOARD OF DIRECTORS**

C. Ray Baker, Mayor

Ken Pyle  
Velvet Medlock  
Rick Parrish  
Bill Maddox  
Gary Campbell  
Kevin Settle  
Cole Goodman, M.D.

**CITY ADMINISTRATOR  
Randy Reed**

**DIRECTOR OF FINANCE  
Kara Bushkuhl**



CITY OF FORT SMITH, ARKANSAS

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## DEPARTMENT OF FINANCE

Kara Bushkuhl, CPFO  
Director of Finance

June 4, 2007

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

### Introduction

The Comprehensive Annual Financial Report (CAFR) of the City of Fort Smith, Arkansas (the City) for the fiscal year ended December 31, 2006, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the City as measured by the financial activity of its various funds. We believe that all disclosures necessary to enable the reader to gain an understanding of the City's financial affairs have been included. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the CAFR in conformity with generally accepted accounting principles in the United State of America (GAAP). Because the cost of internal 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 are free from material misstatement.

### The Report

The CAFR is presented in four primary sections: Introductory, Financial, Statistical and Single Audit. The introductory section includes this transmittal letter, plan of organization and a list of elected and appointed officials. The financial section includes management's discussion and analysis (MD&A), the basic financial statements, combining and individual fund financial statements and schedules, as well as the independent accountants' report on the basic financial statements and supplementary information. The MD&A is a narrative introduction, overview and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement the MD&A and it should be read in conjunction with the MD&A. The statistical section includes financial and demographic information, usually presented on a multi-year basis, that is relevant to a financial statement reader.

In accordance with state law, the CAFR is presented in conformity with GAAP and audited in accordance with auditing standards generally accepted in the United States of America.

The City of Fort Smith's basic financial statements have been audited by BKD, LLP. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended December 31, 2006 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The auditor's unqualified opinion 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 City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are included in the single audit section of the CAFR.

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## City Profile

Fort Smith is located in western Arkansas on the border of Oklahoma and is the second largest city in Arkansas. The City was incorporated in 1842 and is the county seat for Sebastian County. The City encompasses 69.2 square miles and has a 2000 census population of 80,268. 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.

Since 1967, the City has operated as a City Administrator form of government. The Mayor and the Board of Directors are elected on staggered terms every four years. 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 government.

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 is financially accountable for the legally separate entities of the Advertising and Promotion Commission, Public Library, Parking Authority and the Airport Commission. These entities are included in the financial statements as discretely presented component units. Additional information about these component units may be found in Note 1 (a) in the notes to the basic financial statements.

The Board of Directors adopts an annual budget which serves as Fort Smith'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 resources are allocated based on 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 schedule located in the required supplementary information in the financial section. The City Administrator is authorized to transfer appropriated amounts within individual funds. However, additional appropriations during the year require authorization 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 prosperity in all sectors of its economy. The Fort Smith Regional Chamber of Commerce recently 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.

Walmart has begun construction of its third Supercenter in the City. This store will be the fifth Supercenter in the immediate area. Target has selected a site for its first store in the Fort Smith area. The Target store will be part of a 400,000 square foot shopping center that is expected to include Belk Department Store and Marshall's. Academy Sporting Goods recently constructed a new retail store near the proposed Target site. John Q. Hammons has recently opened a Marriott Courtyard next to the Fort Smith Convention Center. The new hotel expands the marketing opportunity for attracting larger conventions to the City. Graphic Packaging, a new manufacturer of paperboard packaging for the food and beverage industry, recently opened its new state-of-the-art manufacturing plant at Chaffee Crossing in the City. The plant employees 330 people. The 188<sup>th</sup> 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 in the region. Sparks Regional Medical Center is planning for a major expansion to its health care campus near downtown Fort Smith. Two large-scale residential subdivisions in and near the City are under development with lots being absorbed faster than expected. The recent acquisition by the City of the South Sebastian Water Users System is spurring further development in the City's southern edges.

Whirlpool Corp. has announced plans to layoff as many as 1,050 employees at its plant in the City. This is a result of a shift of production capacity to Mexico which has been planned since 2003. The layoffs will be accomplished voluntarily to the extent possible. These layoffs will drop Whirlpool's Fort Smith employment to approximately 3,500 employees. Over the past 20 years, Whirlpool's employment has fluctuated from approximately 2,000 employees to more than 5,000 employees.

The sales tax revenue from the City's local sales tax increased 6% between 2005 and 2006 and the shared county sales tax increased 2% between years. This trend is expected to continue for the near future.

**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 purchase of a new radio communications system for public safety and utility purposes as well as major wastewater improvements in accordance with an EPA administrative order are funded by sales tax bonds. This has proven to be a very effective way to fund projects and the City saves on interest charges because the sales tax bonds have mandatory redemption requirements.

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

**Cash Management Policies and Practices-** Cash temporarily idle during the year was invested in demand deposits, certificates of deposit, and obligations of the U.S. Treasury in accordance with policies established by the Board of Directors. The objective of the City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. The City's average yield on investments was 5.32% for 2006 and maturities average 229 days.

**Risk Management-** The City manages self-insurance programs for providing workers' compensation and health and other medical benefits to employees, retirees, and their dependents and beneficiaries. Employer and employee contributions to the fund were increased during 2006 to cover increased costs of providing medical benefits. Several cost containment efforts were implemented for 2006 to help reduce the cost of providing medical benefits. Safety training continues to be an important aspect for controlling workers' compensation claims.

#### **Other Information**

**Awards-** The Government Finance Officers Association of the United States of America and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fort Smith for its comprehensive annual financial report for the fiscal year ended December 31, 2005. 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 comprehensive annual financial report. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

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

In addition, the City also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget dated January 1, 2006. This was the eighteenth 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, finance, planning, and organization.

*Acknowledgments*- The preparation of the comprehensive annual financial report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. 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.

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,

A handwritten signature in cursive script that reads "Randy Reed".

Randy Reed,  
City Administrator

A handwritten signature in cursive script that reads "Kara Bushkuhl".

Kara Bushkuhl  
Director of Finance

# 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, 2005

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



President

Executive Director



**City of Fort Smith, Arkansas  
List of Elected and Appointed Officials  
December 31, 2006**

**Elected Officials**

Mayor	C. Ray Baker
Director-Ward 1	Ken Pyle
Director-Ward 2	Velvet Medlock
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	Randy Reed
Deputy City Administrator	Dean Kruthof
Deputy City Administrator	Ray Gosack
Advertising and Promotion	Claude Legris
Airport	Kent Penney
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	Al Whitson
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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## 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, 2006, 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 Public Library, which statements reflect total assets and revenues of \$1,935,060 and \$2,500,934, respectively, and represent 5% and 38% of the aggregate discretely presented component units' total assets and revenues at December 31, 2006 and for the year then ended, respectively. The financial statements of this entity was audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for such entity, is based solely on the report of the other auditor.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fort Smith as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 12*, in 2006 the Airport retroactively changed its methods of accounting for contingent rental revenues, passenger facility charge revenues and leasehold improvements paid for by tenants by restating prior years' financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2007, 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 statistical section 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 4, 2007

## Management's Discussion and Analysis

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, 2006. 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 1-4 of this report.

### Financial Highlights

- Primary Government total assets exceeded total liabilities at the close of 2006 by \$565,903,905 (net assets). Of this amount, \$18,075,521 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 \$33,741,938. The City's business-type activities have an unrestricted net deficit of \$15,666,417.
- The City's total net assets increased by \$39,598,622 in 2006. Net assets of the governmental activities decreased by \$2,192,474 in 2006 which was a 0.7% decrease over 2005 ending net assets. Net assets of the business-type activities increased by \$41,791,096 in 2006 which was a 21.3% increase over 2005 ending net assets.
- As of the close of 2006, the City's governmental funds reported combined ending fund balances of \$131,761,969 which was an increase of \$69,681,221 over the prior year. The unreserved portion of the fund balances is \$28,371,380 which represents 21.5% of the total and is available for spending at the Board's discretion.
- At the end of 2006, the unreserved fund balance for the General Fund was \$7,607,076 or 20% of total General Fund expenditures. There was an increase of \$1,734,458 in total General Fund balance between years.
- The City's total bonded indebtedness increased by \$34,270,000 during the current year. The increase includes the issuance of \$84.935 million Sales and Use Tax Bonds, Series 2006 and is offset by the call and refund of the outstanding Sales and Use Tax Bonds, Series 2001 which totaled \$42.995 million.
- The City's governmental component units reported net assets of 2,223,338 at December 31, 2006 which was an increase of \$300,909 from 2005.
- The City's business-type component units reported net assets of \$34,999,822 at December 31, 2006 which was a \$1,736,670 decrease from 2005.

## 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 includes 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 23-25 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 three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on 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 11 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 and the Sales Tax Fund, which are considered to be major funds. Data from the other eight (8) 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 26-29 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 30-33 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 35-77 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's 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 79-82 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 83-104 of this report.

## Government-Wide Financial Analysis

### City of Fort Smith Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 149,754,889	\$ 77,053,906	\$ 47,563,701	\$ 80,788,635	\$ 197,318,590	\$ 157,842,541
Capital assets	277,992,828	261,926,275	347,523,161	326,355,745	625,515,989	588,282,020
<i>Total assets</i>	<u>427,747,717</u>	<u>338,980,181</u>	<u>395,086,862</u>	<u>407,144,380</u>	<u>822,834,579</u>	<u>746,124,561</u>
Long-term liabilities	82,202,792	2,674,222	136,773,954	177,467,591	218,976,745	180,141,813
Other liabilities	17,209,681	5,778,241	20,744,247	33,899,224	37,953,929	39,677,465
<i>Total liabilities</i>	<u>99,412,473</u>	<u>8,452,463</u>	<u>157,518,201</u>	<u>211,366,815</u>	<u>256,930,674</u>	<u>219,819,278</u>
Net Assets:						
Invested in capital assets, net of related debt	250,104,666	260,483,758	229,748,148	181,439,396	479,852,814	441,923,154
Restricted	44,488,640	3,988,372	23,486,930	26,844,476	67,975,570	30,832,848
Unrestricted (deficit)	33,741,938	66,055,588	(15,666,417)	(12,506,307)	18,075,521	53,549,281
<i>Total Net assets</i>	<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>

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 \$565,903,905 at the close of 2006.

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

An additional portion of the City's net assets (12 %) 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. However, the business-type activities reported deficit net assets at the end of 2006 as well as 2005.

There was a decrease of \$3,357,546 in restricted net assets reported in connection with the City's business-type activities. This decrease resulted from the refunding of the 2001 Sales and Use Tax bond issue.

The City's net assets increased by \$39,598,622 during 2006. Total revenues increased by 12.9% between years. Revenue generated by fees and charges increased by 6.8% due primarily to rate increases. Sales tax revenue on a government-wide basis increased by 6.1%.

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

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
<i>Program revenues</i>						
Fees, fines, and charges for services	\$ 4,784,551	\$ 4,554,950	\$ 44,456,698	\$ 41,531,377	\$ 49,241,249	\$ 46,086,327
Operating grants and contributions	7,006,913	10,513,626	-	-	7,006,913	10,513,626
Capital grants and contributions	3,082,171	2,106,374	1,954,879	1,376,054	5,037,050	3,482,428
	<u>14,873,635</u>	<u>17,174,950</u>	<u>46,411,577</u>	<u>42,907,431</u>	<u>61,285,212</u>	<u>60,082,381</u>
<i>General revenues</i>						
Property taxes	9,392,423	8,932,234	-	-	9,392,423	8,932,234
Sales taxes	40,747,820	31,236,465	10,812,656	17,372,140	51,560,476	48,608,605
Utility franchise fees	7,406,294	6,833,462	-	-	7,406,294	6,833,462
Grants and contributions not restricted to specific programs	5,139,979	1,277,089	-	-	5,139,979	1,277,089
Unrestricted investment earnings	3,220,403	1,489,322	2,951,710	2,475,149	6,172,113	3,964,471
Gain on sale of capital assets	22,838	852	-	-	22,838	852
Other	1,148,865	768,612	304,583	317,700	1,453,448	1,086,312
<b>Total revenues</b>	<u>81,952,257</u>	<u>67,712,986</u>	<u>60,480,526</u>	<u>63,072,420</u>	<u>142,432,783</u>	<u>130,785,406</u>
<b>Expenses:</b>						
General government	7,401,742	7,204,031	-	-	7,401,742	7,204,031
Public safety	28,283,667	25,007,200	-	-	28,283,667	25,007,200
Public works	11,583,305	8,624,464	-	-	11,583,305	8,624,464
Community services	11,465,302	10,723,724	-	-	11,465,302	10,723,724
Interest on long-term debt	671,893	-	-	-	671,893	0
Water and sewer	-	-	32,920,994	29,678,171	32,920,994	29,678,171
Sanitation	-	-	10,507,258	9,075,365	10,507,258	9,075,365
<b>Total expenses</b>	<u>59,405,909</u>	<u>51,559,419</u>	<u>43,428,252</u>	<u>38,753,536</u>	<u>102,834,161</u>	<u>90,312,955</u>
Increase in net assets before transfers	22,546,348	16,153,567	17,052,274	24,318,884	39,598,622	40,472,451
Transfers	(24,738,822)	(206,000)	24,738,822	206,000	-	-
Increase (decrease) in net assets	(2,192,474)	15,947,567	41,791,096	24,524,884	39,598,622	40,472,451
<b>Net assets- January 1</b>	<u>330,527,718</u>	<u>314,580,151</u>	<u>195,777,565</u>	<u>171,252,681</u>	<u>526,305,283</u>	<u>485,832,832</u>
<b>Net assets- December 31</b>	<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>

**Governmental Activities.** Governmental activities decreased the City's net assets by \$2,192,474. Key elements of the net decrease are as follows:

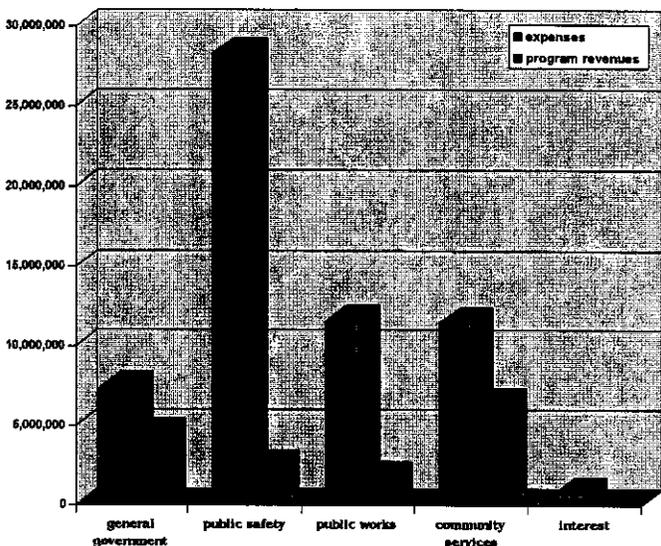
- The transfer of \$24,218,822 from the 2006 Sales and Use Tax Bonds Fund, a debt service fund, to the 2001 Sales and Use Tax Bond account which is part of the Water and Sewer Fund was made during 2006. The transfer was to complete the refunding of the 2001 Bonds.
- Net capital asset acquisition exceeded depreciation by \$16,168,259.
- Deferred revenue at the fund level recognized at the government-wide level increased net assets by \$9,731,957.

Sales tax revenue allocated for governmental purposes reflects a 30.5% increase between years. A majority of the increase is due to the \$7,608,260 in sales tax revenue allocated to the debt service fund during 2006. This amount represents a portion of the 1% City sales tax authorized for bond redemption. The remainder of the tax or \$10,812,656 is included in the Water and Sewer Fund. The full 1% City sales tax was allocated to the Water and Sewer Fund during 2005. The City's share of the county sales tax, accounted for in the General Fund, increased 2% in 2006 over 2005. The City's sales tax which is allocated for street projects and accounted for in the Sales Tax Fund increased 6% between 2005 and 2006.

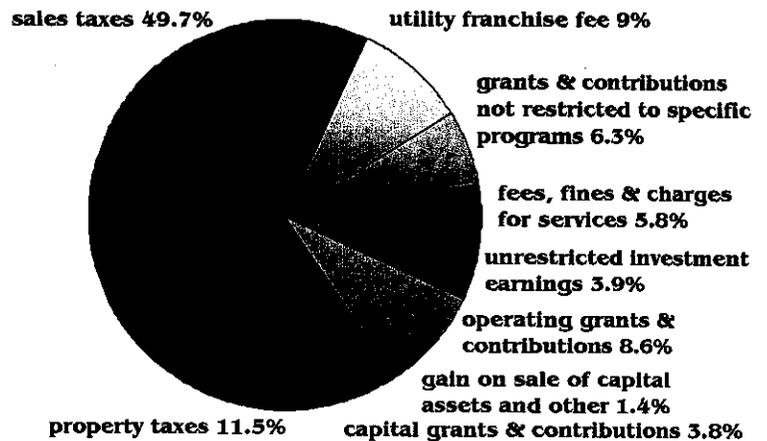
Utility franchise fees increased by \$572,832 or 8.4% during 2006 primarily due to higher electric and natural gas rates.

The reported 2006 expenses were \$7,846,490 more than in 2005. The most significant increases were due to additional public work expenses of \$2,958,841 for more street projects and public safety expenses of \$3,276,467 for additional personnel and pay increases during 2006.

**Expenses and Program Revenues - Governmental Activities**



**Revenues by Source - Governmental Activities**



**Business-Type Activities.** Business-type activities increased the City's net assets by \$41,791,096. Key elements of the increase are as follows:

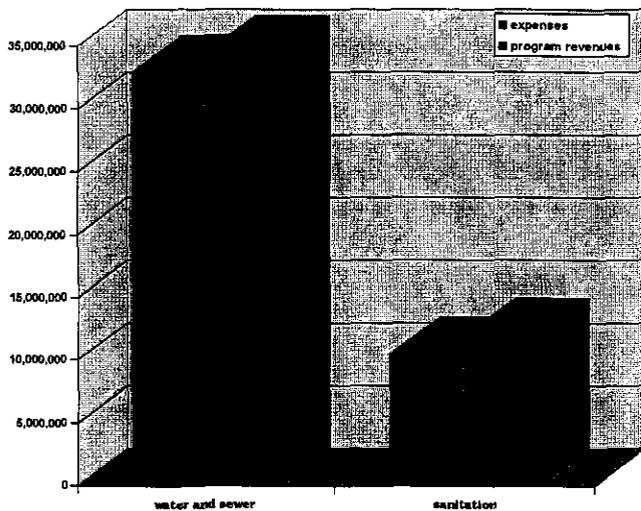
- The water and sewer system contributed \$39,577,591 to total net assets. The most significant increase in net assets was the \$24,218,822 transfer in from the debt service fund in the governmental activities to refund the 2001 Sales and Use Tax Bonds during 2006. The operating income for the system totaled \$4,043,375 in 2006. Sales tax revenue for bond retirement and net investment earnings combined for a total of \$13,381,788 less interest expense of \$3,515,644 increased net assets by \$9,866,144.
- The solid waste system added \$2,212,529 to total net assets. The operating income for the system in 2006 totaled \$1,714,045.

Water and sewer system service charges contribute 54% of the revenue to business-type activities.

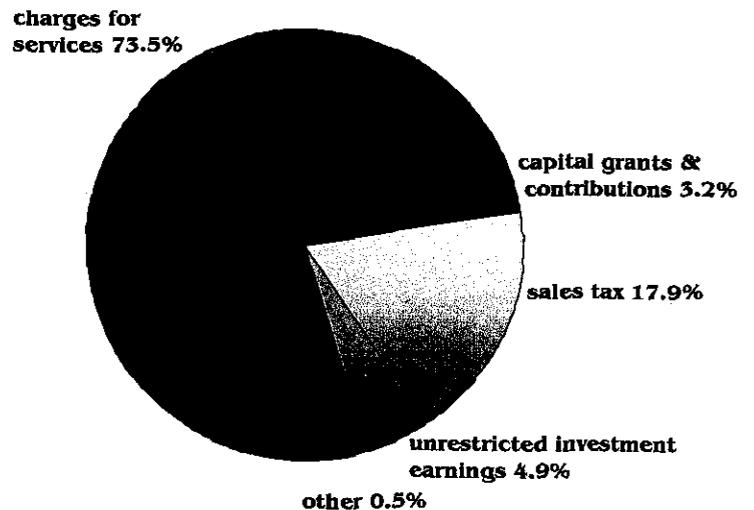
The solid waste system service charges accounted for 19.5% of the revenue to business-type activities.

Current year expenses for the business-type activities were 71.8% of current revenues.

**Expenses and Program Revenues - Business-type Activities**



**Revenues by Source - Business-type Activities**



**Financial Analysis of the Government's Funds**

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

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

As of December 31, 2006, the City's governmental funds reported combined ending fund balances of \$131,761,969, an increase of \$69,681,221 in comparison with the prior year. Of this amount, \$28,371,380 represents *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balances are 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, 2006, unreserved fund balance of the General Fund was \$7,607,076, while the total fund balance was \$12,313,093. 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 20% of total General Fund expenditures, including transfers out, while total fund balances represents 32.3% of that same amount. The fund balances of the City's General Fund increased by \$1,734,458 during 2006. Key factors in this increase are as follows:

- The City's share of the one-percent (1%) Sebastian County sales tax generated \$854,320 more revenue for 2006 as compared to 2005.
- Utility franchise fees for 2006 exceeded the 2005 fees by \$572,832. The increase resulted from increased rates for electric service and natural gas.

The Street Maintenance Fund and the Sales Tax Fund, both special revenue funds, are presented as major funds and account for 28.6% 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 increase in fund balances for these two funds was \$470,801 between years. The increase is attributable to planned projects expected to be completed during 2007.

The 2006 Sales & Use Tax Construction Fund is also presented as a major fund and accounts for 44.7% of the total governmental fund balances. This fund accounts for the capital projects approved by voters which 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.

**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 \$219,899,134 and \$17,288,948 for the Water and Sewer Fund and the Sanitation Fund, respectively. The increase in net assets was \$39,577,591 for the Water and Sewer Fund and \$2,212,529 for the Sanitation Fund. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

## **Budgetary Highlights**

**General Fund.** The final amended General Fund budget had total appropriations of \$44,320,847 (total expenditures plus transfers out) compared to the original budget total of \$43,324,515. The increase in appropriations of \$996,332 is summarized briefly as follows:

- \$278,795 for reimbursement to the Street Maintenance Fund
- \$350,000 for workers' compensation claims
- \$159,485 for park capital improvement projects
- \$ 75,000 for economic development efforts

Revenue estimates for the General Fund were decreased from an original budget of \$36,193,655 to the final estimate of \$36,099,654. The \$94,001 decrease was due to an estimated additional \$322,594 in sales taxes and \$1,091,409 in franchise fees combined with a decrease in federal transportation grants of \$1,688,000 due to the delay in construction of the transit transfer facility.

Total actual revenue for the General Fund was \$98,749 more than the final budget estimates. Total actual expenditures were \$1,218,487 less than the final appropriated budget of the General Fund.

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 investments in capital assets for governmental and business-type activities as of December 31, 2006 amounts to \$625,515,989, net of accumulated depreciation. This investment in capital assets includes land, buildings, water and sewer systems, improvements other than buildings, machinery and equipment, park and library facilities, streets, and drainage systems. The total increase in the City's investment in capital assets was 6.3%, a 6.1% increase for governmental activities and a 6.5% increase for business-type activities.

**City of Fort Smith**  
**Capital Assets, net of accumulated depreciation**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 22,804,220	\$ 21,278,197	\$ 10,808,713	\$ 10,017,848	\$ 33,612,933	31,296,045
Buildings	58,925,332	60,228,664	1,239,543	884,989	60,164,875	61,113,653
Water system	-	-	241,384,808	74,062,524	241,384,808	74,062,524
Sewer system	-	-	74,119,274	76,248,802	74,119,274	76,248,802
Improvement other than buildings	2,830,349	2,632,682	8,881,376	4,815,260	11,711,725	7,447,942
Leasehold improvements	-	-	55,478	71,315	55,478	71,315
Infrastructure	164,783,799	142,451,241	-	-	164,783,799	142,451,241
Machinery and equipment	8,896,181	8,691,929	8,428,034	8,165,990	17,324,215	16,857,919
Construction in progress	19,752,947	26,643,562	2,605,935	152,089,017	22,358,882	178,732,579
Total	<u>\$ 277,992,828</u>	<u>\$ 261,926,275</u>	<u>\$ 347,523,161</u>	<u>\$ 326,355,745</u>	<u>\$ 625,515,989</u>	<u>\$ 588,282,020</u>

Major capital asset events during 2006 included the following:

- Additions to construction in progress totaled \$46,706,841 with \$19,554,511 of this amount attributable to the Lake Fort Smith water supply expansion project and \$16,369,404 of this amount attributable to street projects.
- Depreciation expense totaled \$16,138,512.

Additional information on the City's capital assets can be found in Note 3 on pages 48-54 of this report.

**Long-term debt.** At December 31, 2006, the City had \$224,060,000 of long-term bonds outstanding, including \$139,125,000 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	
	2006	2005	2006	2005
Sales and Use Tax Bonds	\$ 84,935,000	\$ -	\$ -	\$ 42,995,000
Revenue Bonds	-	-	139,125,000	146,795,000
Total	<u>\$ 84,935,000</u>	<u>\$ -</u>	<u>\$ 139,125,000</u>	<u>\$ 189,790,000</u>

The City's total bonded debt increased by \$34,270,000 or 18% during 2006. The key factors in this increase was the issuance of \$84,935,000 in Sales and Use Tax Refunding and Construction Bonds, Series 2006. This was offset by the refund of \$39,375,000 plus the call of \$3,620,000 in Sales and Use Tax Bonds, Series 2001, and the required principal payments of \$7,670,000 on revenue bonds. The City maintains a "AAA" 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 \$282,033,944. The City has no general obligation debt at December 31, 2006.

In September 2006, the City issued \$84,935,000 in Sales and Use Tax Refunding and Construction Bonds, Series 2006. The 2006 Bonds were issued to refund the outstanding Sales and Use Tax Bonds, Series 2001, purchase a public safety and utility radio communication system, and wastewater improvements in accordance with an EPA administrative order.

Additional information regarding the City's long-term debt can be found in Note 4 on pages 55-66 of this report.

#### **Economic Factors and the Next Year's Budget and Rates**

- The year end unemployment rate for the City was 4.9%, which is an increase from a rate of 4.2% a year ago. This rate compares to the state's average unemployment rate of 4.9% and the national average of 4.5%.
- The City's sales tax revenue during the last quarter of 2006 increased by 1.5% which gives us an indication that the economy is continuing in a positive growth trend.

These factors were considered when the City prepared its 2007 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 2007 was approved at \$42,072,571 and includes an estimated year end fund balance approximating 11.3%.

#### **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.

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**City of Fort Smith, Arkansas**  
**Statement of Net Assets**  
**December 31, 2006**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
<b>Assets</b>					
Cash	\$ 4,563,203	\$ 1,080,081	\$ 5,643,284	\$ 1,001,532	\$ 185,312
Investments	59,255,833	7,641,238	66,897,071	574,424	1,692,105
Receivables, net of allowance for uncollectibles:					
Taxes	11,840,565	-	11,840,565	77,446	-
Sales taxes	2,708,508	-	2,708,508	71,860	-
Accounts	1,030,873	4,595,864	5,626,737	20,400	220,661
Interest	264,067	194,995	459,062	1,270	28,357
Grants and other governments	274,184	-	274,184	-	-
Internal balances	(1,270)	1,270	-	-	-
Inventory	-	831,511	831,511	5,000	5,259
Prepays and deposits	57,840	-	57,840	52,443	57,968
Deferred charges	224,355	1,389,454	1,613,809	-	761,168
Other assets	-	-	-	-	-
Restricted assets:					
Cash	-	77,071	77,071	-	698,693
Investments	67,400,224	31,619,396	99,019,620	-	457,702
Accounts receivable, net of allowances for uncollectibles	-	25,086	25,086	-	42,890
Sales tax receivable	1,510,834	-	1,510,834	-	-
Interest receivable	625,673	7,039	632,712	-	28,527
Prepaid items and deposits	-	100,696	100,696	-	-
Capital assets :					
Nondepreciable	42,557,167	13,414,648	55,971,815	422,132	7,497,159
Depreciable	235,435,661	334,108,513	569,544,174	59,531	28,378,605
<b>Total Assets</b>	<b>427,747,717</b>	<b>395,086,862</b>	<b>822,834,579</b>	<b>2,286,038</b>	<b>40,054,406</b>
<b>Liabilities</b>					
Accounts payable and accrued expenses	5,320,322	9,458,022	14,778,344	62,700	239,644
Other current liabilities	-	11,037	11,037	-	-
Accrued interest	627,300	1,633,468	2,260,768	-	4,103
Current portion of long-term debt	7,865,000	7,990,000	15,855,000	-	195,000
Deposits	-	1,045,061	1,045,061	-	-
Unearned revenue	818,693	-	818,693	-	-
Noncurrent liabilities:					
Due within one year	2,578,366	606,659	3,185,025	-	7,680
Due in more than one year	82,202,792	136,773,954	218,976,746	-	4,608,157
<b>Total Liabilities</b>	<b>99,412,473</b>	<b>157,518,201</b>	<b>256,930,674</b>	<b>62,700</b>	<b>5,054,584</b>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	250,104,666	229,748,148	479,852,814	481,663	31,066,555
Restricted for:					
Capital projects	-	1,449,377	1,449,377	-	42,890
Debt service	4,539,578	17,420,274	21,959,852	-	569,344
Other	39,949,062	4,617,279	44,566,341	-	615,001
Unrestricted (deficit)	33,741,938	(15,666,417)	18,075,521	1,741,675	2,706,032
<b>Total Net Assets</b>	<b>\$ 328,335,244</b>	<b>\$ 237,568,661</b>	<b>\$ 565,903,905</b>	<b>\$ 2,223,338</b>	<b>\$ 34,999,822</b>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas  
Statement of Activities  
For the Year Ended December 31, 2006

Expenditures/Programs Primary Government Activities:	Program Revenues					Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total	Governmental Activities	Primary Business-Type Activities	Component Units	
								Governmental Activities	Business-Type Activities
General Government	\$ 4,166,843	\$ 1,026,990	\$ -	\$ -	\$ (3,139,853)				
Administration	1,667,109	1,936,309	894,957	-	1,164,157				
Legal	1,567,790	588,472	-	-	(979,318)				
Finance	17,233,668	210,998	1,365,567	281,496	(15,375,607)				
Public safety	11,049,999	72,462	418,370	87,746	(10,471,421)				
Police	423,813	-	-	-	(423,813)				
Fire	9,166,715	50	-	380,425	(8,786,240)				
Operations	1,992,777	-	-	1,312,205	(680,572)				
Streets	766,895	-	48,550	-	(718,345)				
Traffic Control	4,724,814	219,784	102,985	585,133	(3,816,912)				
Community services	2,103,644	605,625	1,830,946	-	332,927				
Health and Social Services	1,911,269	184,061	767,115	435,166	(524,927)				
Parks and Recreation	1,958,680	-	1,578,423	-	(380,257)				
Convention Center	671,893	-	-	-	(671,893)				
Transit	59,405,909	4,844,751	7,006,913	3,082,171	(44,472,074)				
Housing and Rehabilitation	32,920,994	32,645,032	-	1,805,565	1,529,603				
Debt service	10,507,258	11,811,666	-	149,314	1,453,722				
Interest	43,428,252	44,456,698	-	1,954,879	2,983,325				
Total Governmental Activities	\$ 102,834,161	\$ 49,301,449	\$ 7,006,913	\$ 5,037,050	\$ (44,472,074)	\$ 2,983,325	\$ (41,488,749)		
Business-Type Activities:									
Water and Sewer									
Sanitation									
Total Business-Type Activities	\$ 43,428,252	\$ 44,456,698	\$ -	\$ 1,954,879	\$ 2,983,325	\$ 2,983,325	\$ (2,364,167)	\$ (133,503)	
Total Primary Government	\$ 102,834,161	\$ 49,301,449	\$ 7,006,913	\$ 5,037,050	\$ (44,472,074)	\$ 2,983,325	\$ (41,488,749)	\$ (621,649)	
Component Units:									
Governmental	\$ 625,444	\$ -	\$ 3,795	\$ -	\$ (621,649)				
Advertising & Promotion	2,248,514	99,821	406,175	-	(1,742,518)				
Public Library	2,873,958	99,821	409,970	-	(2,364,167)				
Sub-total	293,345	159,842	-	-	\$ (133,503)				
Business-Type	4,886,477	2,279,383	-	584,043	(2,023,051)				
Parking Authority	5,179,822	2,439,225	-	584,043	(2,156,554)				
Airport	\$ 8,053,780	\$ 2,539,046	\$ 409,970	\$ 584,043	\$ (2,156,554)	\$ (2,364,167)	\$ (2,156,554)		
Sub-total									
Total Component Units									

City of Fort Smith, Arkansas  
Statement of Activities  
For the Year Ended December 31, 2006  
(Continued)

General revenues:					
Property taxes	9,392,423				1,078,551
Sales taxes	40,747,820	10,812,656			883,119
Gross receipts utility franchise fees	7,406,294				658,125
Grants and contributions not restricted to specific programs	5,139,979				
Unrestricted investment earnings	3,220,403	2,951,710			29,938
Gain on sale of capital assets	22,838				
Payment from City of Fort Smith	1,088,665	304,583			
Other	(24,738,822)	24,738,822			
Transfers					15,343
					200,000
					95,052
Total general revenues and transfers	42,279,600	38,807,771	81,087,371	2,665,076	419,884
Change in net assets	(2,192,474)	41,791,096	39,598,622	300,909	(1,736,670)
Net assets, beginning, as previously reported	330,527,718	195,777,565	526,305,283	1,922,429	35,897,704
Adjustment applicable to prior years					838,788
Net assets, beginning, as restated	330,527,718	195,777,565	526,305,283	1,922,429	36,736,492
Net assets, end of year	328,335,244	237,568,661	565,903,905	2,223,338	34,999,822

See accompanying notes to basic financial statements.

**City of Fort Smith, Arkansas  
Balance Sheet  
Governmental Funds  
December 31, 2006**

	General	Street Maintenance	Sales Tax	2006 Sales & Use Tax Construction	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash	\$ 848,546	\$ 846,962	\$ 1,519,997	\$ -	\$ 810,229	\$ 4,025,734
Investments	8,407,269	4,334,058	31,097,674	-	14,798,225	58,637,226
Receivables, net of allowance for uncollectibles						
Taxes	7,704,978	1,772,395	-	-	2,363,192	11,840,565
Sales taxes	1,197,674	-	1,510,834	-	-	2,708,508
Accounts	449,274	614	-	-	1,605	451,493
Accrued interest	38,151	20,936	135,637	-	64,564	259,288
Due from other funds	25,040	-	-	-	-	25,040
Due from other governments	182,817	-	-	-	91,367	274,184
Restricted assets:						
Investments	1,491,244	-	-	59,539,040	6,369,940	67,400,224
Sales taxes	-	-	-	-	1,510,834	1,510,834
Interest receivable	-	-	-	625,673	-	625,673
Deferred charges	-	-	-	-	-	-
Prepaid items	39,287	-	-	-	-	39,287
Deposits	10,748	-	7,805	-	-	18,553
<b>Total Assets</b>	<b>\$ 20,395,028</b>	<b>\$ 6,974,965</b>	<b>\$ 34,271,947</b>	<b>\$ 60,164,713</b>	<b>\$ 26,009,956</b>	<b>\$ 147,816,609</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$ 2,070,411	\$ 229,160	\$ 1,571,156	\$ 1,114,200	\$ 121,698	\$ 5,106,625
Retainage payable	88,439	-	-	21,556	-	109,995
Due to other funds	-	-	-	-	26,310	26,310
Unearned revenues	5,791,356	1,718,281	-	-	3,041,013	10,550,650
Other	131,729	-	-	127,008	2,323	261,060
<b>Total Liabilities</b>	<b>8,081,935</b>	<b>1,947,441</b>	<b>1,571,156</b>	<b>1,262,764</b>	<b>3,191,344</b>	<b>16,054,640</b>
<b>Fund Balances:</b>						
Reserved for:						
Encumbrances	4,243,209	608,600	-	-	234,700	5,086,509
Prepaid items	39,287	-	-	-	-	39,287
Other purposes - construction projects	-	1,198,326	32,700,791	58,901,949	767,630	93,568,696
Other purposes - debt service	292,828	-	-	-	4,246,750	4,539,578
Unreserved:						
Designated for subsequent years' expenditures	1,103,275	3,220,598	-	-	-	4,323,873
Undesignated	6,634,494	-	-	-	-	6,634,494
Unreserved, reported in nonmajor:						
Special revenue funds	-	-	-	-	13,477,723	13,477,723
Debt service fund	-	-	-	-	3,634,024	3,634,024
Capital projects funds	-	-	-	-	457,785	457,785
<b>Total Fund Balances</b>	<b>12,313,093</b>	<b>5,027,524</b>	<b>32,700,791</b>	<b>58,901,949</b>	<b>22,818,612</b>	<b>131,761,969</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 20,395,028</b>	<b>\$ 6,974,965</b>	<b>\$ 34,271,947</b>	<b>\$ 60,164,713</b>	<b>\$ 26,009,956</b>	<b>\$ 147,816,609</b>

See accompanying notes to basic financial statements.

**City of Fort Smith, Arkansas**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
**December 31, 2006**

Total fund balances - governmental funds \$ 131,761,969

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	\$	22,804,220	
Buildings		69,242,248	
Improvements other than buildings		7,789,784	
Machinery and equipment		23,694,396	
Infrastructure		205,085,081	
Accumulated depreciation		<u>(70,375,848)</u>	
		258,239,881	
Construction in progress		<u>19,752,947</u>	
<b>Total</b>	<b>\$</b>	<b><u>277,992,828</u></b>	<b>277,992,828</b>

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. 9,731,957

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. 744,365

Some assets related to long-term debt are deferred and, therefore, are not reported in the funds. 224,355

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	\$	1,896,265	
Claims payable		978,479	
Notes payable		2,290,000	
Sales tax bonds payable, net		85,940,182	
Interest payable		627,300	
Capital leases payable		<u>388,004</u>	
	<b>\$</b>	<b><u>92,120,230</u></b>	<b><u>(92,120,230)</u></b>

Net assets of governmental activities **\$ 328,335,244**

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2006

	General	Street Maintenance	Sales Tax	2006 Sales & Use Tax Construction	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes	\$ 5,270,762	\$ 1,578,274	\$ -	\$ -	\$ 2,104,881	\$ 8,953,917
Sales taxes	14,718,645	-	18,420,915	-	7,608,260	40,747,820
Licenses and permits	1,292,182	-	-	-	181,052	1,473,234
Utility franchise fees	7,406,294	-	-	-	-	7,406,294
Intergovernmental	3,734,387	3,882,300	380,425	-	4,737,721	12,734,833
Fines and forfeitures	1,936,570	-	-	-	127,185	2,063,755
Fees for services	1,099,840	-	-	649,793	650,941	1,099,840
Interest	418,099	214,945	1,411,285	(19,017)	-	3,345,063
Decrease in fair value of investments	-	-	1,312,205	-	854,215	(19,017)
Contributions	-	-	1,484	-	99,629	2,166,420
Miscellaneous	341,363	28,130	-	-	-	470,606
<b>Total Revenues</b>	<b>36,218,142</b>	<b>5,703,649</b>	<b>21,526,314</b>	<b>630,776</b>	<b>16,363,884</b>	<b>80,442,765</b>
<b>Expenditures</b>						
Current:						
General government						
Administration	3,482,325	199,055	-	-	-	3,681,380
Legal	1,577,333	40,930	-	-	-	1,618,263
Finance	1,917,717	305,360	-	-	-	2,223,077
Public safety						
Police	12,550,553	-	-	-	2,332,223	14,882,776
Fire	9,007,423	-	-	-	2,113,730	11,121,153
Public works						
Operations	-	403,769	-	-	-	403,769
Streets	-	2,289,708	639,282	-	134,147	3,063,137
Traffic Control	-	1,966,616	-	-	-	1,966,616
Community services						
Health and Social Services	97,100	-	-	-	-	97,100
Parks and Recreation	1,628,754	464,837	-	-	38,100	2,131,691
Convention Center	-	-	-	-	1,296,805	1,296,805
Transit	1,729,725	-	-	-	-	1,729,725
Housing and Rehabilitation	-	-	-	-	1,938,704	1,938,704
Other	2,683,331	114,835	-	127,008	320,139	3,245,313
Capital Outlay	3,582,891	116,974	18,479,431	1,585,490	168,922	23,933,708
Debt Service:						
Interest	52,025	-	-	-	619,868	671,893
<b>Total Expenditures</b>	<b>38,309,177</b>	<b>5,902,084</b>	<b>19,118,713</b>	<b>1,712,498</b>	<b>8,962,638</b>	<b>74,005,110</b>
Excess (Deficiency) of revenues over (under) expenditures	(2,091,035)	(198,435)	2,407,601	(1,081,722)	7,401,246	6,437,655
<b>Other Financing Sources (Uses)</b>						
Transfers in	2,147,160	278,795	-	60,641,725	-	63,067,680
Transfers out	(928,795)	(65,000)	(1,952,160)	(658,054)	(84,860,547)	(88,464,556)
Issuance of long-term debt	2,265,972	-	-	-	86,033,314	88,299,286
Capital lease financing	341,156	-	-	-	-	341,156
<b>Total Other Financing Sources and Uses</b>	<b>3,825,493</b>	<b>213,795</b>	<b>(1,952,160)</b>	<b>59,983,671</b>	<b>1,172,767</b>	<b>63,243,566</b>
<b>Net Change in Fund Balances</b>	<b>1,734,458</b>	<b>15,360</b>	<b>455,441</b>	<b>58,901,949</b>	<b>8,574,013</b>	<b>69,681,221</b>
<b>Fund Balances, January 1</b>	<b>10,578,635</b>	<b>5,012,164</b>	<b>32,245,350</b>	<b>-</b>	<b>14,244,599</b>	<b>62,080,748</b>
<b>Fund Balances, December 31</b>	<b>\$ 12,313,093</b>	<b>\$ 5,027,524</b>	<b>\$ 32,700,791</b>	<b>\$ 58,901,949</b>	<b>\$ 22,818,612</b>	<b>\$ 131,761,969</b>

See accompanying notes to basic financial statements.

**City of Fort Smith, Arkansas**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended December 31, 2006**

Net change in fund balances - total governmental funds \$ 69,681,221

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

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 23,933,708

The net effect of various transactions, i.e. sales, contributions, capital leases, is to increase net assets. 124,480

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. (7,817,307)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the debt consumes the current financial resources of governmental funds. Neither transaction, however, has 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. (87,357,390)

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. 438,506

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. (691,741)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and fuel, to individual funds. The net loss of the internal service funds is reported with governmental activities [net of the amount allocated to business-type activities of \$257,738 and the external activities adjustment of \$(714,737)]. (503,951)

Change in net assets of governmental activities \$ (2,192,474)

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas  
Statement of Fund Net Assets  
Proprietary Funds  
December 31, 2006

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
<b>Assets</b>				
<b>Current Assets:</b>				
Cash	\$ 148,049	\$ 733,780	\$ 881,829	\$ 735,721
Investments	3,268,773	4,118,996	7,387,769	872,076
Receivables, net of allowance for uncollectibles				
Accounts	3,311,977	1,001,027	4,313,004	862,240
Accrued interest	160,201	32,648	192,849	6,925
Restricted:				
Cash	-	77,071	77,071	-
Investments	4,971,224	189,167	5,160,391	-
Accounts receivable, net of allowances for uncollectibles	-	25,086	25,086	-
Interest receivable	900	6,139	7,039	-
Inventory	780,511	-	780,511	51,000
Due from other funds	-	-	-	1,270
<b>Total Current Assets</b>	<u>12,641,635</u>	<u>6,183,914</u>	<u>18,825,549</u>	<u>2,529,232</u>
<b>Noncurrent Assets:</b>				
Restricted:				
Investments	22,518,781	3,940,224	26,459,005	-
Prepaid items and deposits	100,696	-	100,696	-
Deferred charges	1,347,089	42,365	1,389,454	-
Capital assets:				
Land	10,434,941	373,772	10,808,713	-
Buildings	-	1,756,399	1,756,399	-
Improvements other than buildings	-	18,659,052	18,659,052	-
Leasehold improvements	-	709,952	709,952	-
Machinery and equipment	8,183,063	14,417,914	22,600,977	-
Water system	291,567,540	-	291,567,540	-
Sewer system	120,489,981	-	120,489,981	-
Construction in progress	2,605,935	-	2,605,935	-
Less accumulated depreciation	(101,902,795)	(19,772,593)	(121,675,388)	-
<b>Total Noncurrent Assets</b>	<u>355,345,231</u>	<u>20,127,085</u>	<u>375,472,316</u>	<u>-</u>
<b>Total Assets</b>	<u>367,986,866</u>	<u>26,310,999</u>	<u>394,297,865</u>	<u>2,529,232</u>
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued liabilities	8,067,738	901,979	8,969,717	169,520
Retainage payable	422,487	-	422,487	-
Accrued vacation and sick leave	4,313	6,026	10,339	-
Accrued interest	1,617,815	15,653	1,633,468	-
Claims and judgments	-	-	-	1,234,768
Revenue bonds payable	7,115,000	875,000	7,990,000	-
Capital leases payable	43,339	210,381	253,720	-
Deposits	1,045,061	-	1,045,061	-
Other	11,037	-	11,037	-
<b>Total Current Liabilities</b>	<u>18,326,790</u>	<u>2,009,039</u>	<u>20,335,829</u>	<u>1,404,288</u>
<b>Noncurrent liabilities:</b>				
Accrued vacation and sick leave	945,422	230,120	1,175,542	-
Landfill closure and postclosure care	-	3,122,390	3,122,390	-
Revenue bonds, net	128,749,892	3,660,502	132,410,394	-
Capital leases payable	61,722	-	61,722	-
Other	3,906	-	3,906	-
<b>Total Noncurrent Liabilities</b>	<u>129,760,942</u>	<u>7,013,012</u>	<u>136,773,954</u>	<u>-</u>
<b>Total Liabilities</b>	<u>148,087,732</u>	<u>9,022,051</u>	<u>157,109,783</u>	<u>1,404,288</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	218,349,535	11,398,613	229,748,148	-
Restricted for bond retirement	16,693,543	726,731	17,420,274	-
Restricted for landfill closure and postclosure care	-	4,617,279	4,617,279	-
Restricted for asset replacement	500,000	125,471	625,471	-
Restricted for capital projects	-	823,906	823,906	-
Unrestricted (deficit)	(15,643,944)	(403,052)	(16,046,996)	1,124,944
<b>Total Net Assets</b>	<u>\$ 219,899,134</u>	<u>\$ 17,288,948</u>	<u>237,188,082</u>	<u>\$ 1,124,944</u>

Reconciliation to government - wide statement of net assets:

Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds	380,579
Net assets of business type activities	<u>\$ 237,568,661</u>

See accompanying notes to basic financial statements.

**City of Fort Smith, Arkansas**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended December 31, 2006**

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
<b>Operating Revenues</b>				
Water service	\$ 21,328,372	\$ -	\$ 21,328,372	\$ -
Sewer service	10,822,319	-	10,822,319	-
Charges for services	460,762	11,811,666	12,272,428	7,890,836
Other	33,579	-	33,579	-
Total Operating Revenues	<u>32,645,032</u>	<u>11,811,666</u>	<u>44,456,698</u>	<u>7,890,836</u>
<b>Operating Expenses</b>				
Personnel services	10,420,540	4,967,406	15,387,946	-
Contractual services	2,774,750	1,464,874	4,239,624	778,965
Materials and supplies	5,990,429	2,636,435	8,626,864	640,171
Heat, light, and power	2,083,411	40,228	2,123,639	-
Depreciation	7,332,527	988,678	8,321,205	-
Insurance claims and expenses	-	-	-	6,792,176
Total Operating Expenses	<u>28,601,657</u>	<u>10,097,621</u>	<u>38,699,278</u>	<u>8,211,312</u>
Operating Income (Loss)	<u>4,043,375</u>	<u>1,714,045</u>	<u>5,757,420</u>	<u>(320,476)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest revenue	2,137,699	371,787	2,509,486	83,669
Increase in fair value of investments	431,433	10,791	442,224	-
Interest expense and fiscal charges	(3,515,644)	(214,021)	(3,729,665)	-
Sales tax revenue	10,812,656	-	10,812,656	-
Other nonoperating expenses, net	(291,315)	(54,387)	(345,702)	-
Total Nonoperating Revenues (Expenses)	<u>9,574,829</u>	<u>114,170</u>	<u>9,688,999</u>	<u>83,669</u>
Income (Loss) Before Contributions and Transfers	<u>13,618,204</u>	<u>1,828,215</u>	<u>15,446,419</u>	<u>(236,807)</u>
Capital contributions	1,805,565	149,314	1,954,879	-
Transfers in	24,218,822	300,000	24,518,822	350,000
Transfers out	(65,000)	(65,000)	(130,000)	-
Change in Net Assets	<u>39,577,591</u>	<u>2,212,529</u>	<u>41,790,120</u>	<u>113,193</u>
Total net assets, beginning of year	<u>180,321,543</u>	<u>15,076,419</u>		<u>1,011,751</u>
Total net assets, ending	<u>\$ 219,899,134</u>	<u>\$ 17,288,948</u>		<u>\$ 1,124,944</u>
Reconciliation to government - wide statement of activities:				
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds			976	
Change in net assets of business type activities for government - wide statement of activities			<u>\$ 41,791,096</u>	

See accompanying notes to basic financial statements.

**City of Fort Smith, Arkansas**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2006**

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
<b>Cash Flows from Operating Activities:</b>				
Cash received from customers	\$ 32,541,967	\$ 11,762,588	\$ 44,304,555	\$ -
Cash received from service users	-	-	-	985,094
Cash received from city and employee contributions	-	-	-	6,077,798
Cash payments for goods and services	(11,350,729)	(3,850,462)	(15,201,191)	(635,596)
Cash paid to employees	(10,362,338)	(4,955,619)	(15,317,957)	-
Cash payments for premiums and other operating expenses	-	-	-	(607,423)
Cash payments for claims paid	-	-	-	(6,828,066)
Cash received from other operating revenues	213,000	79,412	292,412	-
Net cash provided by (used for) operating activities	<u>11,041,900</u>	<u>3,035,919</u>	<u>14,077,819</u>	<u>(1,008,193)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Transfers in from other funds	24,218,822	300,000	24,518,822	350,000
Transfers out to other funds	(65,000)	(65,000)	(130,000)	-
Net cash provided by noncapital financing activities	<u>24,153,822</u>	<u>235,000</u>	<u>24,388,822</u>	<u>350,000</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Proceeds from sales tax	12,261,041	-	12,261,041	-
Proceeds from sale of capital assets	45,750	10,061	55,811	-
Acquisition and construction of capital assets	(30,740,955)	(795,420)	(31,536,375)	-
Principal paid on bonds	(49,050,000)	(850,000)	(49,900,000)	-
Interest paid on bonds	(3,906,207)	(206,524)	(4,112,731)	-
Net cash used for capital and related financing activities	<u>(71,390,371)</u>	<u>(1,841,883)</u>	<u>(73,232,254)</u>	<u>-</u>
<b>Cash Flows from Investing Activities:</b>				
Proceeds from sales and maturities of investment securities	132,892,697	5,124,554	138,017,251	1,899,038
Outlays for purchases of investment securities	(99,253,530)	(6,454,601)	(105,708,131)	(944,053)
Interest on investments	2,694,214	368,084	3,062,298	83,132
Net cash provided by (used for) investing activities	<u>36,333,381</u>	<u>(961,963)</u>	<u>35,371,418</u>	<u>1,038,117</u>
Net increase in cash and restricted cash	138,732	467,073	605,805	379,924
Cash and restricted cash, January 1	<u>9,317</u>	<u>343,778</u>	<u>353,095</u>	<u>355,797</u>
Cash and restricted cash, December 31	<u>\$ 148,049</u>	<u>\$ 810,851</u>	<u>\$ 958,900</u>	<u>\$ 735,721</u>
<b>Reconciliation of cash and restricted cash at December 31 to statement of net assets:</b>				
Cash	\$ 148,049	\$ 733,780	\$ 881,829	\$ 735,721
Restricted cash	-	77,071	77,071	-
Total	<u>\$ 148,049</u>	<u>\$ 810,851</u>	<u>\$ 958,900</u>	<u>\$ 735,721</u>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2006  
(Continued)

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 4,043,375	\$ 1,714,045	\$ 5,757,420	\$ (320,476)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	7,332,527	988,678	8,321,205	-
Miscellaneous revenue (expenses)	(165,845)	177,400	11,555	-
Change in assets and liabilities:				
Accounts receivable	(44,135)	(49,078)	(93,213)	(827,072)
Due from other funds	-	-	-	(872)
Inventory	(138,232)	-	(138,232)	(6,784)
Prepaid items	6,193	-	6,193	-
Accounts payable and accrued liabilities	(15,028)	193,856	178,828	25,948
Deposits	(25,351)	-	(25,351)	-
Accrued vacation and sick leave	48,273	11,018	59,291	-
Liability for claims and judgments	-	-	-	121,063
Other liabilities	123	-	123	-
Total adjustments	6,998,525	1,321,874	8,320,399	(687,717)
Net cash provided by (used for) operating activities	<u>\$ 11,041,900</u>	<u>\$ 3,035,919</u>	<u>\$ 14,077,819</u>	<u>\$ (1,008,193)</u>

Noncash investing, capital and financing activities:

Enterprise funds:

The Water and Sewer Fund received contributions of capital assets of \$1,805,565 for 2006 and recognized a \$431,433 increase in fair value of investments in 2006. 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 \$37,993, \$97,890, and \$130,223, respectively, for 2006.

The Sanitation Fund received contributions of capital assets of \$149,314 and recognized an increase in fair value of investments of \$10,791 for 2006. During 2006, the 1998 and 2002 advance refundings for solid waste revenue bonds resulted in cash flow savings of \$35,353 and \$102,207, respectively.

See accompanying notes to basic financial statements.

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## CITY OF FORT SMITH, ARKANSAS

### Notes to Basic Financial Statements

December 31, 2006

#### (1) Nature of Operations and Summary of Significant Accounting Policies

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.

##### (a) 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, 2006

### **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 77-78 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 77-78 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 77-78 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 Public Library's ad valorem tax is levied by the City 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 77-78 of these notes for condensed financial statements.

# CITY OF FORT SMITH, ARKANSAS

## Notes to Basic Financial Statements

December 31, 2006

### **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.

### **(b) Change in Accounting Principles**

Effective January 1, 2006, the City implemented the following new financial accounting and reporting standards issued by GASB:

- Statement No. 46, *Net Assets Restricted by Enabling Legislation*

Statement No. 46 establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation.

### **(c) Government-Wide and Fund Financial Statements**

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

#### **Government-Wide Financial Statements**

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. Fiduciary activities are excluded from the government-wide statements because they cannot be used to support the City's own programs. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The statement of 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.

# CITY OF FORT SMITH, ARKANSAS

## Notes to Basic Financial Statements

December 31, 2006

### Fund Financial Statements

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

The City reports the following major governmental funds:

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

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

The City reports the following major enterprise funds:

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

The *Sanitation Fund* is an enterprise fund which 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.

*Debt Service Funds*- The debt service funds are used to account for resources to repay general government related debt. The City's debt service fund is the 2006 Sales and Use Tax Bond Fund.

*Capital Projects Funds*-The 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.

# CITY OF FORT SMITH, ARKANSAS

## Notes to Basic Financial Statements

December 31, 2006

(d) ***Measurement Focus and Basis of Accounting***

**Government-Wide, Proprietary Funds**

The government-wide, 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.

**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 which 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.

(e) ***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.

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

**(f) Inventories**

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

**(g) 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.

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

<u>Fixed Assets</u>	<u>Useful life (years)</u>
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	5 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.

## CITY OF FORT SMITH, ARKANSAS

### Notes to Basic Financial Statements

December 31, 2006

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 2006 totaled \$3,879,179.

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 which are defined as having a constructed cost greater than or equal to \$250,000.

#### (h) *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 2006 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 \$5,640,680 of additional taxes could be raised per year based on the current year's assessed value of \$752,579,357 for real property and \$375,556,620 for personal property before the limit is reached.

#### (i) *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.

# CITY OF FORT SMITH, ARKANSAS

## Notes to Basic Financial Statements

December 31, 2006

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.

**(j) 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 \$6,894,363 in 2006, 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 \$304,810 in 2006 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.

**(k) 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 \$18,420,915 for fiscal year 2006, and are included in the Sales Tax Fund's sales tax revenues in the accompanying financial statements. Sales tax revenues are restricted for repair, maintenance, and improvement of City streets, bridges, and associated drainage. The City refers the tax to the voters every ten years for reapproval. The tax is currently extended through 2015.

In August 1994, Sebastian County began assessing a 1% sales and use tax on retail sales in the county. Each city within Sebastian County receives a portion of the tax based upon population of the city. Currently, the City receives approximately 70% of the county tax. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes totaled \$14,718,645 for fiscal year 2006. 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.

# CITY OF FORT SMITH, ARKANSAS

## Notes to Basic Financial Statements

December 31, 2006

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 \$18,420,915 for fiscal year 2006, with \$10,812,656 of this amount included in the Water and Sewer Fund and the remaining \$7,608,260 included in the 2006 Sales and Use Tax Bonds Fund in the accompanying financial statements. The Series 2006 Bonds are expected to be retired by 2012.

**(l) *Statements 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.

**(m) *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.

**(n) *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.

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

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	\$67,400,224
Sales taxes receivable	1,510,834
Interest receivable	<u>625,673</u>
 Total restricted assets- general government	 <u><u>\$69,536,731</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. The balances of the restricted assets accounts in the enterprise funds are as follows:

Current Assets:	
Cash- solid waste bond account	\$77,071
Investments- solid waste bond account	189,167
Investments- water and sewer bond account	4,548,737
Investments- water and sewer bond construction account	422,487
Accounts receivable- solid waste cleanup program account	25,086
Interest receivable- solid waste bond account	6,139
Interest receivable- water and sewer bond account	<u>900</u>
Total current assets- restricted	<u>5,269,587</u>
Noncurrent assets:	
Investments- solid waste debt service reserve account	726,731
Investments- solid waste landfill closure and postclosure care account	3,213,493
Investments- water and sewer bond construction account	22,518,781
Prepaid items and deposits- water and sewer bond construction account	<u>100,696</u>
Total noncurrent assets	<u>26,559,701</u>
 Total restricted assets-enterprise funds	 <u><u>\$31,829,288</u></u>

**(o) 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.

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

**(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 \$423,207 is recorded as an increase in fair value of investments for the primary government in 2006, with a \$442,224 increase related to the City's enterprise funds and a \$19,017 decrease related to the City's governmental funds.

**(a) 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, 2006, none of the City's bank balances were exposed to custodial credit risk. The bank balances and carrying amount of the City's deposits held as of December 31, 2006 were as follows:

<b>Pooled and Nonpooled Funds</b>		
<u>Description</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Demand deposits	\$ 29,026,915	\$ 29,889,715
Certificates of deposit	<u>72,808,382</u>	<u>72,808,382</u>
	<u>\$101,835,297</u>	<u>\$102,698,097</u>

**Component Units**

At year-end, the carrying amount and the bank balance of the Advertising and Promotion Commission deposits was \$309,608.

At year-end, the carrying amount of the Public Library's deposits was \$999,874 and the bank balance was \$1,052,654.

At year-end, the carrying amount and the bank balance of the Parking Authority's deposits was \$115,427.

At year-end, the carrying amount of the Airport Commission's deposits was \$2,357,449 and the bank balance was \$2,207,425.

**(b) Investments**

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

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

The City's investments, including accrued interest, held as of December 31, 2006 were as follows:

**Pooled and Nonpooled Funds**

<u>Description</u>	<u>Fair Value</u>	<u>Investment Maturities Less than 1 Year</u>	<u>Investment Maturities 1-5 Years</u>
U.S. Treasury Bills	\$ 1,676,448	\$ 1,676,448	\$ -
U.S. Treasury Notes	<u>68,354,275</u>	<u>32,931,738</u>	<u>35,422,537</u>
	<u>\$ 70,030,723</u>	<u>\$ 34,608,186</u>	<u>\$ 35,422,537</u>

**Component Units**

At year-end, the Public Library held \$267,744 in mutual funds. The Public Library reports investments at fair value.

At year-end, the Parking Authority fund held \$69,780 in U.S. Treasury Notes. The Parking Authority reports investments at fair value and the maturity of the notes is May 31, 2007.

At year-end, the Airport Commission held \$387,505 in U.S. Treasury obligations and \$104,125 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, 2006 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.

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	\$102,698,097
Deposits classified as investments	<u>(96,977,742)</u>
	<u>\$ 5,720,355</u>
Cash as reported on the government-wide statement of net assets	\$ 5,643,284
Restricted cash as reported on the government-wide statement of net assets	<u>77,071</u>
	<u>\$ 5,720,355</u>

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

Carrying value of investments-	
Pooled and nonpooled funds	\$ 70,030,723
Deposits classified as investments	<u>96,977,742</u>
	<u>\$167,008,465</u>

As reported on the government-wide statement of net assets:	
Investments	\$ 66,897,071
Interest receivable	459,062
Restricted investments	99,019,620
Restricted interest receivable	<u>632,712</u>
	<u>\$167,008,465</u>

**Component Units:**

Governmental type-	
Carrying value of deposits:	
Advertising and Promotion	
Commission	\$ 309,608
Public Library	999,874
Carrying value of investments:	
Public Library	<u>267,744</u>
	<u>\$1,577,226</u>

As reported on the government-wide statement of net assets:	
Cash	\$ 1,001,532
Investments	574,424
Interest receivable	<u>1,270</u>
	<u>\$ 1,577,226</u>

Business-type-	
Carrying value of deposits:	
Parking Authority	\$ 115,427
Airport Commission	2,413,859
Carrying value of investments:	
Parking Authority	69,780
Airport Commission	<u>491,630</u>
	<u>\$ 3,090,696</u>

As reported on the government-wide statement of net assets:	
Cash	\$ 185,312
Investments	1,692,105
Interest receivable	28,357
Restricted cash	698,693
Restricted investments	457,702
Restricted interest receivable	<u>28,527</u>
	<u>\$ 3,090,696</u>

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

**(3) Capital Assets**

Capital asset activity for the year ended December 31, 2006 was as follows:

**Primary Government:**

	December 31, 2005	Additions	Deletions/ Transfers	December 31, 2006
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 21,278,197	\$ 1,526,023	\$ -	\$ 22,804,220
Construction in progress	26,643,562	19,297,350	(26,187,965)	19,752,947
Total capital assets not being depreciated	<u>47,921,759</u>	<u>20,823,373</u>	<u>(26,187,965)</u>	<u>42,557,167</u>
Capital assets being depreciated:				
Buildings	69,121,909	74,072	46,267	69,242,248
Improvements other than buildings	7,405,382	445,431	(61,029)	7,789,784
Infrastructure	178,295,144	720,489	26,069,448	205,085,081
Machinery and equipment	22,579,658	1,922,201	(807,463)	23,694,396
Total depreciable capital assets at historical cost	<u>277,402,093</u>	<u>3,162,193</u>	<u>25,247,223</u>	<u>305,811,509</u>
Less accumulated depreciation for:				
Buildings	8,893,245	1,495,921	(72,250)	10,316,916
Improvements other than buildings	4,772,700	247,764	(61,029)	4,959,435
Infrastructure	35,843,903	4,457,379	-	40,301,282
Machinery and equipment	13,887,729	1,616,243	(705,757)	14,798,215
Total accumulated depreciation	<u>63,397,577</u>	<u>7,817,307</u>	<u>(839,036)</u>	<u>70,375,848</u>
Capital assets being depreciated, net	<u>214,004,516</u>	<u>(4,655,114)</u>	<u>26,086,259</u>	<u>235,435,661</u>
Governmental activities capital assets, net	<u>\$ 261,926,275</u>	<u>\$ 16,168,259</u>	<u>\$ (101,706)</u>	<u>\$ 277,992,828</u>

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

**Primary Government-**

	December 31, 2005	Additions	Deletions/ Transfers	December 31, 2006
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 10,017,849	\$ 20,829	\$ 770,035	\$ 10,808,713
Construction in progress	152,089,017	27,409,491	(176,892,573)	2,605,935
Total capital assets not being depreciated:	<u>162,106,866</u>	<u>27,430,320</u>	<u>(176,122,538)</u>	<u>13,414,648</u>
Capital assets being depreciated:				
Water system	121,657,044	592,568	169,317,928	291,567,540
Sewer system	119,222,143	1,267,838	-	120,489,981
Buildings	1,354,371	6,715	395,313	1,756,399
Improvements other than buildings	14,518,910	27,447	4,112,695	18,659,052
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	21,384,267	1,584,328	(367,618)	22,600,977
Total capital assets at historical cost	<u>278,846,687</u>	<u>3,478,896</u>	<u>173,458,318</u>	<u>455,783,901</u>
Less accumulated depreciation for:				
Water system	47,594,521	3,471,124	(882,913)	50,182,732
Sewer system	42,973,341	3,397,366	-	46,370,707
Buildings	469,383	47,473	-	516,856
Improvements other than buildings	9,703,650	74,026	-	9,777,676
Leasehold improvements	638,637	15,837	-	654,474
Machinery and equipment	13,218,276	1,315,379	(360,712)	14,172,943
Total accumulated depreciation	<u>114,597,808</u>	<u>8,321,205</u>	<u>(1,243,625)</u>	<u>121,675,388</u>
Capital assets being depreciated, net	<u>164,248,879</u>	<u>(4,842,309)</u>	<u>174,701,943</u>	<u>334,108,513</u>
Business-type activities capital assets, net	<u>\$ 326,355,745</u>	<u>\$ 22,588,011</u>	<u>\$ (1,420,595)</u>	<u>\$ 347,523,161</u>

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government-	
Administration	\$ 46,467
Legal	5,760
Finance	161,503
Public safety-	
Police	475,149
Fire	332,951
Public Works-	
Operations	13,779
Streets	4,663,627
Traffic Control	15,469
Community services-	
Health and social services	4,074
Parks and recreation	1,126,695
Convention center	800,766
Transit	155,723
Housing and rehabilitation	<u>15,344</u>
 Total governmental activities	
depreciation expense	<u>7,817,307</u>
Business type activities:	
Water and Sewer	7,332,527
Sanitation	<u>988,678</u>
 Total business-type	
activities depreciation expense	<u>8,321,205</u>
 Total depreciation expense	<u><u>\$ 16,138,512</u></u>

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

Capital asset activity (on page 48):	
Additions for capital assets not being depreciated	\$ 20,823,373
Additions for capital assets being depreciated	<u>3,162,193</u>
	<u><u>\$ 23,985,566</u></u>
Capital outlay reported on the statement of revenues, expenditures and changes in fund balances- governmental funds	\$ 23,933,708
Contributed capital assets	<u>51,858</u>
	<u><u>\$ 23,985,566</u></u>

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

Capital asset activity for the year ended December 31, 2006 for the major enterprise funds was as follows:

<b>Primary Government-</b>	December 31, 2005	Additions	Deletions/ Transfers	December 31, 2006
<b>Water and Sewer Fund:</b>				
Capital assets not being depreciated:				
Land	\$ 9,644,077	\$ 20,829	\$ 770,035	\$ 10,434,941
Construction in progress	148,009,758	26,980,742	(172,384,565)	2,605,935
Total capital assets not being depreciated:	<u>157,653,835</u>	<u>27,001,571</u>	<u>(171,614,530)</u>	<u>13,040,876</u>
Capital assets being depreciated:				
Water system	121,657,044	592,568	169,317,928	291,567,540
Sewer system	119,222,143	1,267,838	-	120,489,981
Machinery and equipment	7,554,587	983,634	(355,158)	8,183,063
Total depreciable capital assets at historical cost	<u>248,433,774</u>	<u>2,844,040</u>	<u>168,962,770</u>	<u>420,240,584</u>
Less accumulated depreciation for:				
Water system	47,594,521	3,471,124	(882,913)	50,182,732
Sewer system	42,973,341	3,397,366	-	46,370,707
Machinery and equipment	5,233,571	464,037	(348,252)	5,349,356
Total accumulated depreciation	<u>95,801,433</u>	<u>7,332,527</u>	<u>(1,231,165)</u>	<u>101,902,795</u>
Capital assets being depreciated, net	<u>152,632,341</u>	<u>(4,488,487)</u>	<u>170,193,935</u>	<u>318,337,789</u>
Total water and sewer fund capital assets, net	<u>\$ 310,286,176</u>	<u>\$ 22,513,084</u>	<u>\$ (1,420,595)</u>	<u>\$ 331,378,665</u>
<b>Sanitation Fund:</b>				
Capital assets not being depreciated:				
Land	\$ 373,772	\$ -	\$ -	\$ 373,772
Construction in progress	4,079,259	428,749	(4,508,008)	-
Total capital assets not being depreciated:	<u>4,453,031</u>	<u>428,749</u>	<u>(4,508,008)</u>	<u>373,772</u>
Capital assets being depreciated:				
Buildings	1,354,371	6,715	395,313	1,756,399
Improvements other than buildings	14,518,910	27,447	4,112,695	18,659,052
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	13,829,680	600,694	(12,460)	14,417,914
Total depreciable capital assets at historical cost	<u>30,412,913</u>	<u>634,856</u>	<u>4,495,548</u>	<u>35,543,317</u>
Less accumulated depreciation for:				
Buildings	469,383	47,473	-	516,856
Improvements other than buildings	9,703,650	74,026	-	9,777,676
Leasehold improvements	638,637	15,837	-	654,474
Machinery and equipment	7,984,705	851,342	(12,460)	8,823,587
Total accumulated depreciation	<u>18,796,375</u>	<u>988,678</u>	<u>(12,460)</u>	<u>19,772,593</u>
Capital assets being depreciated, net	<u>11,616,538</u>	<u>(353,822)</u>	<u>4,508,008</u>	<u>15,770,724</u>
Total sanitation fund capital assets, net	<u>\$ 16,069,569</u>	<u>\$ 74,927</u>	<u>\$ -</u>	<u>\$ 16,144,496</u>

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

**Component Units-**

	December 31, 2005	Additions	Deletions/ Transfers	December 31, 2006
<b>Governmental Activities:</b>				
Public Library-				
Capital assets not being depreciated:				
Land	\$ 422,132	\$ -	\$ -	\$ 422,132
Capital assets being depreciated:				
Equipment	513,068	5,111	-	518,179
Transportation equipment	139,952	-	-	139,952
Total depreciable capital assets at historical cost	653,020	5,111	-	658,131
Less accumulated depreciation	582,333	16,267	-	598,600
Capital assets being depreciated, net	70,687	(11,156)	-	59,531
Governmental activities capital assets, net-Public Library	\$ 492,819	\$ (11,156)	\$ -	\$ 481,663
<b>Business-type activities:</b>				
Parking Authority-				
Capital assets not being depreciated:				
Land	\$ 1,359,161	\$ -	\$ -	\$ 1,359,161
Capital assets being depreciated:				
Buildings	1,921,010	39,931	-	1,960,941
Machinery and equipment	73,525	-	-	73,525
Total depreciable capital assets at historical cost	1,994,535	39,931	-	2,034,466
Less accumulated depreciation for:				
Buildings	1,073,125	85,733	-	1,158,858
Machinery and equipment	56,318	10,167	-	66,485
Total accumulated depreciation	1,129,443	95,900	-	1,225,343
Capital assets being depreciated, net	865,092	(55,969)	-	809,123
Business-type activities capital assets, net-Parking Authority	\$ 2,224,253	\$ (55,969)	\$ -	\$ 2,168,284

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

	December 31, 2005	Additions	Deletions/ Transfers	December 31, 2006
Airport Commission:				
Capital assets not being depreciated:				
Land	\$ 6,010,552	\$ -	\$ -	\$ 6,010,552
Construction in progress	-	127,447	-	127,447
Total capital assets not being depreciated	<u>6,010,552</u>	<u>12,447</u>	<u>-</u>	<u>6,137,999</u>
Capital assets being depreciated:				
Buildings	17,818,563	34,990	-	17,853,553
Runways & other airport infrastructure	34,096,480	-	-	34,096,480
Equipment, furniture & fixtures, and other	<u>8,551,235</u>	<u>111,761</u>	<u>(89,429)</u>	<u>8,573,567</u>
Total depreciable capital assets at historical cost	<u>60,466,278</u>	<u>146,751</u>	<u>(89,429)</u>	<u>60,523,600</u>
Less accumulated depreciation for:				
Buildings	5,799,618	540,824	-	6,340,442
Runways & other airport infrastructure	21,326,855	1,581,655	-	22,908,510
Equipment, furniture & fixtures, and other	<u>3,213,123</u>	<u>581,473</u>	<u>(89,429)</u>	<u>3,705,167</u>
Total accumulated depreciation	<u>30,339,596</u>	<u>2,703,952</u>	<u>(89,429)</u>	<u>32,954,119</u>
Capital assets being depreciated, net	<u>30,126,682</u>	<u>(2,557,201)</u>	<u>-</u>	<u>27,569,481</u>
Business-type activities capital assets, net- Airport Commission	<u>\$ 36,137,234</u>	<u>\$ (2,429,754)</u>	<u>\$ -</u>	<u>\$ 33,707,480</u>

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

Construction-in-progress is composed of the following:

	<u>Primary Appropriation</u>	<u>Expended to December 31, 2006</u>	<u>Committed</u>
<i>Primary government:</i>			
Governmental activities	\$ 110,942,112	\$ 19,752,947	\$ 91,189,165
Business-type activities:			
Water and sewer capital improvements	<u>37,549,080</u>	<u>2,605,935</u>	<u>34,943,145</u>
Total	<u>\$ 148,491,192</u>	<u>\$ 22,358,882</u>	<u>\$ 126,132,310</u>

The City's governmental construction projects include major street and drainage improvements, Carol Ann Cross (CAC) Park dam improvements, and the Martin Luther King (MLK) Community Center. 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 will be 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 replacement and construction of the Lake Fort Smith Park which was funded by the 2002 Water and Sewer Construction Revenue Bonds, 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 and water projects such as the rehabilitation and expansion of the Mountainburg water treatment plant and distribution lines. The City plans to issue revenue bonds to fund these projects during 2007 and in the future.

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

	<u>Governmental</u>	<u>Business-Type</u>		<u>Total</u>
		<u>Water and Sewer</u>	<u>Sanitation</u>	
<i>Primary Government:</i>				
Net book value	\$ 277,992,828	\$ 331,378,665	\$ 16,144,496	\$ 347,523,161
Current and noncurrent debt	(88,618,186)	(135,969,953)	(4,745,883)	(140,715,836)
Restricted assets-				
unspent bond/note proceeds	<u>60,730,024</u>	<u>22,940,823</u>	<u>-</u>	<u>22,940,823</u>
Invested in capital assets, net of related debt	<u>\$ 250,104,666</u>	<u>\$ 218,349,535</u>	<u>\$ 11,398,613</u>	<u>\$ 229,748,148</u>
<i>Component Units:</i>				
Net book value	\$ 481,663	\$ 35,875,764		
Current and noncurrent debt	<u>-</u>	<u>(4,809,209)</u>		
Invested in capital assets, net of related debt	<u>\$ 481,663</u>	<u>\$ 31,066,555</u>		

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

**(4) Long-Term Liabilities**

(a) Changes in long-term liabilities for the year ended December 31, 2006 were as follows:

**Primary Government-**

Governmental Activities:	Balance December 31, 2005	Increases	Decreases	Balance December 31, 2006	Amounts Due in One year
<b>Bonds Payable-</b>					
Sales tax bonds	\$ -	\$ 84,935,000	\$ -	\$ 84,935,000	\$ 7,865,000
Add issuance premium	-	1,627,393	180,821	1,446,572	-
Less deferral on refunded issue	-	(617,946)	(176,556)	(441,390)	-
Sales tax bonds payable, net	-	85,944,447	4,265	85,940,182	7,865,000
Notes Payable	-	2,290,000	-	2,290,000	425,000
Capital leases payable	1,442,517	332,677	1,387,190	388,004	203,483
Compensated Absences	1,828,659	146,570	78,964	1,896,265	79,236
Claims Payable- General Fund					
Legal	82,500	-	-	82,500	82,500
Employee insurance/workers' compensation	764,312	1,023,835	-	1,788,147	1,788,147
Other	127,400	133,660	-	261,060	-
Total governmental activities long-term liabilities	<u>\$ 4,245,388</u>	<u>\$ 89,871,189</u>	<u>\$ 1,470,419</u>	<u>\$ 92,646,158</u>	<u>\$ 10,443,366</u>
<b>Business-Type Activities:</b>					
<b>Bonds payable-</b>					
Revenue Bonds	\$ 146,795,000	\$ -	\$ 7,670,000	\$ 139,125,000	\$ 7,990,000
Less issuance discounts	(108,051)	-	(20,204)	(87,847)	-
Add issuance premiums	3,378,156	-	272,413	3,105,743	-
Less deferrals on refunded issues	(2,396,748)	-	(654,246)	(1,742,502)	-
Revenue bonds payable, net	<u>147,668,357</u>	<u>-</u>	<u>7,267,963</u>	<u>140,400,394</u>	<u>7,990,000</u>
Sales tax bonds	42,995,000	-	42,995,000	-	-
Less issuance discounts	(144,024)	-	(144,024)	-	-
Add issuance premium	129,285	-	129,285	-	-
Sales tax bonds payable, net	<u>42,980,261</u>	<u>-</u>	<u>42,980,261</u>	<u>-</u>	<u>-</u>
Capital leases payable	562,877	157,857	405,292	315,442	253,720
Compensated absences	1,126,590	89,259	29,968	1,185,881	10,339
Claims Payable-Employee insurance and workers' comp.	349,393	-	6,793	342,600	342,600
Other	-	3,906	-	3,906	-
Closure/postclosure landfill costs	2,581,548	540,842	-	3,122,390	-
Total other long-term liabilities	<u>4,620,408</u>	<u>791,864</u>	<u>442,053</u>	<u>4,970,219</u>	<u>606,659</u>
Total business-type activities long-term liabilities	<u>\$ 195,269,026</u>	<u>\$ 791,864</u>	<u>\$ 50,690,277</u>	<u>\$ 145,370,613</u>	<u>\$ 8,596,659</u>

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

Current Liabilities:	
Current portion of long-term debt	\$ 7,990,000
Noncurrent liabilities:	
Due within one year	606,659
Due in more than one year	<u>136,773,954</u>
Total business-type activities long term liabilities	<u>\$ 145,370,613</u>

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, claims and compensated absences are generally liquidated by the General Fund.

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

Changes in long-term liabilities for the year ended December 31, 2006 for the major enterprise funds were as follows:

	Balance December 31, 2005	Increases	Decreases	Balance December 31, 2006	Amounts Due in One year
<b>Water and Sewer Fund:</b>					
<b>Bonds payable-</b>					
Revenue Bonds	\$ 141,135,000	\$ -	\$ 6,820,000	\$ 134,315,000	\$ 7,115,000
Less issuance discounts	(94,459)	-	(16,806)	(77,653)	-
Add issuance premiums	3,378,156	-	272,413	3,105,743	-
Less deferrals in refunded issues	(2,069,477)	-	(591,279)	(1,478,198)	-
Revenue bonds payable, net	<u>142,349,220</u>	<u>-</u>	<u>6,484,328</u>	<u>135,864,892</u>	<u>7,115,000</u>
Sales tax bonds-	42,995,000	-	42,995,000	-	-
Less issuance discounts	(144,024)	-	(144,024)	-	-
Add issuance premium	129,285	-	129,285	-	-
Sales tax bonds payable, net	<u>42,980,261</u>	<u>-</u>	<u>42,980,261</u>	<u>-</u>	<u>-</u>
Capital leases payable	-	157,857	52,796	105,061	43,339
Compensated absences	901,462	65,771	17,498	949,735	4,313
Other	-	3,906	-	3,906	-
Total water and sewer fund	<u>\$ 186,230,943</u>	<u>\$ 227,534</u>	<u>\$ 49,534,883</u>	<u>\$ 136,923,594</u>	<u>\$ 7,162,652</u>
<b>Sanitation Fund:</b>					
<b>Bonds payable-</b>					
Revenue Bonds	\$ 5,660,000	\$ -	\$ 850,000	\$ 4,810,000	\$ 875,000
Less issuance discounts	(13,592)	-	(3,398)	(10,194)	-
Less deferrals on refunded issues	(327,271)	-	(62,967)	(264,304)	-
Revenue bonds payable, net	<u>5,319,137</u>	<u>-</u>	<u>783,635</u>	<u>4,535,502</u>	<u>875,000</u>
Capital leases payable	562,877	-	352,496	210,381	210,381
Compensated Absences	225,128	23,488	12,470	236,146	6,026
Closure/postclosure landfill costs	2,581,548	540,842	-	3,122,390	-
Other long-term liabilities	3,369,553	564,330	364,966	3,568,917	216,407
Total sanitation fund	<u>\$ 8,688,690</u>	<u>\$ 564,330</u>	<u>\$ 1,148,601</u>	<u>\$ 8,104,419</u>	<u>\$ 1,091,407</u>

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

	Water and Sewer Fund	Sanitation Fund
<b>Current Liabilities</b>		
Revenue bonds payable	\$ 7,115,000	\$ 875,000
Capital leases payable	43,339	210,381
Accrued vacation and sick leave	4,313	6,026
<b>Noncurrent Liabilities:</b>		
Landfill closure and postclosure care	-	3,122,390
Revenue bonds, net	128,749,892	3,660,502
Capital lease payable	61,722	-
Accrued vacation and sick leave	945,422	230,120
Other	3,906	-
Total long-term liabilities for major enterprise funds	<u>\$ 136,923,594</u>	<u>\$ 8,104,419</u>

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

Component Units:	Balance December 31, 2005	Increases	Decreases	Balance December 31, 2006	Amounts Due in One year
<b>Business-type activities-</b>					
<b>Parking Authority:</b>					
Bonds payable-					
Revenue Bonds	\$ 1,175,000	\$ -	\$ 85,000	\$ 1,090,000	\$ 90,000
Less issuance discounts	(22,651)	-	(1,888)	(20,763)	-
Bonds payable, net	1,152,349	-	83,112	1,069,237	90,000
Capital leases payable	18,646	-	10,966	7,680	7,680
Compensated absences	2,256	-	628	1,628	-
<b>Total</b>	<b>1,173,251</b>	<b>-</b>	<b>94,706</b>	<b>1,078,545</b>	<b>97,680</b>
<b>Airport Commission:</b>					
Bonds payable-					
Revenue Bonds	3,870,000	-	100,000	3,770,000	105,000
Less issuance discounts	(39,364)	-	(1,656)	(37,708)	-
Bonds payable, net	3,830,636	-	98,344	3,732,292	105,000
<b>Total</b>	<b>3,830,636</b>	<b>-</b>	<b>98,344</b>	<b>3,732,292</b>	<b>105,000</b>
<b>Total Component Units</b>	<b>\$ 5,003,887</b>	<b>\$ -</b>	<b>\$ 193,050</b>	<b>\$ 4,810,837</b>	<b>\$ 202,680</b>

**(b) Operating Leases**

The City leases office space under a noncancelable operating lease. Total costs for the lease to the General Fund was \$188,600 for the year ended December 31, 2006. The future minimum lease payments for the lease are as follows:

2007	\$ 192,000
2008	192,000
2009	<u>32,000</u>
<b>Total</b>	<b><u>\$ 416,000</u></b>

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

**(c) 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 and 2006. 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	2,764,243	157,856	1,164,184	50,835
Less accumulated depreciation	(615,937)	(2,631)	(248,758)	(44,057)
<b>Total</b>	<b>\$ 2,451,891</b>	<b>\$ 155,225</b>	<b>\$ 915,426</b>	<b>\$ 6,778</b>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2006 were as follows:

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities- W/S	Business-Type Activities- Sanitation	Business-Type Activities
2007	\$ 221,877	\$ 52,795	\$ 220,459	\$ 7,853
2008	51,284	52,795	-	-
2009	51,284	15,786	-	-
2010	51,584	-	-	-
2011	51,284	-	-	-
<b>Total future minimum lease payments</b>	<b>427,013</b>	<b>121,376</b>	<b>220,459</b>	<b>7,853</b>
<b>Less interest</b>	<b>(39,009)</b>	<b>(16,315)</b>	<b>(10,078)</b>	<b>(173)</b>
<b>Net present value of future minimum lease payments</b>	<b>\$ 388,004</b>	<b>\$ 105,061</b>	<b>\$ 210,381</b>	<b>\$ 7,680</b>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2006

(d) *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 was \$20,238 which is being amortized over the life of the notes. The deferred charges at December 31, 2006 were \$16,190.

The maturity schedule for the notes payable is:

	<u>Principal</u>	<u>Interest</u>
2007	\$ 425,000	\$ 81,216
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>\$ 2,290,000</u>	<u>\$ 232,510</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, 2006 was \$2,678,004. The limit as of December 31, 2006 was \$56.4 million, therefore management believes the City is in compliance with state statutes for short-term financing at December 31, 2006.

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

**(e) 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 \$441,390 at December 31, 2006.

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 were no bonds called during 2006.

**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, 2006.

**Maturity Schedule**

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

	<u>Principal</u>	<u>Interest</u>
2007	\$ 7,865,000	\$ 3,719,205
2008	8,170,000	3,413,745
2009	8,555,000	3,026,710
2010	8,970,000	2,610,140
2011	9,390,000	2,191,078
2012-2015	<u>41,985,000</u>	<u>4,348,838</u>
Total	\$ 84,935,000	<u>\$ 19,309,716</u>
 Add unamortized bond premium	 1,446,572	
 Less deferred amount on refunding	 <u>(441,390)</u>	
 Net bonds outstanding at December 31, 2006	 <u>\$ 85,940,182</u>	

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

**(f) Revenue Bonds and Sales and Use Tax Bonds- Business-Type Activities**

Revenue bonds outstanding at December 31, 2006, 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.	\$ 3,495,000
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\$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	73,400,000
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\$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	7,735,000
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\$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	20,515,000
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\$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	4,285,000
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\$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	17,555,000
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\$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
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**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	955,000
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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>3,855,000</u>
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Bonds Outstanding, December 31, 2006	139,125,000
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# CITY OF FORT SMITH, ARKANSAS

## Notes to Basic Financial Statements

December 31, 2006

Less:

Unamortized bond premium, net	3,017,897
Deferred amount on refunding	<u>(1,742,503)</u>
Net bonds outstanding, December 31, 2006	<u>\$ 140,400,394</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 \$196,273 as of December 31, 2006. The City completed the advance refunding to reduce its total debt service payments over the next ten and one-half (10 ½) years by \$378,570 and to obtain an economic gain of \$298,355. The 2002C Bonds were issued in the amount of \$21,330,000 to provide financing for a portion of the Lake Fort Smith water supply expansion project.

On 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 \$376,689 as of December 31, 2006. 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 which 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 \$905,236 as of December 31, 2006. 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.

## CITY OF FORT SMITH, ARKANSAS

### Notes to Basic Financial Statements

December 31, 2006

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.

The Series 1999, 2002, 2004 and 2005 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 which, 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, 2006, 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, and \$727,354 related to the 2005B Bonds. The City held surety bonds valued at \$2,179,462, \$11,156,226, \$870,000, \$1,760,500 and \$727,354 at December 31, 2006 for this purpose.

**Asset Replacement-** 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, 2006.

#### ***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 \$75,809 as of December 31, 2006.

## CITY OF FORT SMITH, ARKANSAS

### Notes to Basic Financial Statements

December 31, 2006

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 \$188,496 as of December 31, 2006. The City completed the current refunding to reduce its total debt service payments over the next ten (10) years by \$1,020,312 and to obtain an economic gain of \$467,675.

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

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

The ordinances also contain provisions which, 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, 2006, 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, 2006. 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, 2006.

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

***Maturity Schedule***

Aggregate debt service requirements at December 31, 2006 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>
2007	\$ 7,115,000	\$ 6,471,260	\$ 875,000	\$ 187,828
2008	7,460,000	6,152,880	910,000	156,227
2009	7,785,000	5,813,141	945,000	121,338
2010	8,360,000	5,445,265	1,020,000	83,220
2011	8,755,000	5,047,403	1,060,000	42,930
2012-2016	41,910,000	18,973,765	-	-
2017-2021	47,085,000	8,070,677	-	-
2022-2025	5,845,000	387,750	-	-
Total	<u>\$134,315,000</u>	<u>\$ 56,362,141</u>	<u>\$4,810,000</u>	<u>\$ 591,543</u>

	<u>Total Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 7,990,000	\$ 6,659,088
2008	8,370,000	6,309,107
2009	8,730,000	5,934,479
2010	9,380,000	5,528,485
2011	9,815,000	5,090,333
2012-2016	41,910,000	18,973,765
2017-2021	47,085,000	8,070,677
2022-2025	5,845,000	387,750
Total	<u>\$139,125,000</u>	<u>\$ 56,953,684</u>

**(g) 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, 2006, bonds payable were \$3,770,000. 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, 2006, were \$3,732,292.

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

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

	<u>Principal</u>	<u>Interest</u>
2007	\$ 105,000	\$ 229,250
2008	110,000	223,580
2009	115,000	217,530
2010	125,000	211,090
2011	130,000	204,028
2012-2016	780,000	896,640
2017-2021	1,045,000	627,120
2022-2026	<u>1,360,000</u>	<u>259,062</u>
Total payments	3,770,000	<u>\$ 2,868,300</u>
Less unamortized bond discount	<u>(37,708)</u>	
Net bonds outstanding, December 31, 2006	<u>\$3,732,292</u>	

The Series 1999 Bonds are subject to optional, extraordinary, and mandatory sinking fund redemption. The Commission may prepay all or a portion of the bonds in inverse order of maturity in whole at any time, or in part on any interest payment date on or after October 1, 2009, at a redemption price equal to the principal amount being 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 of maturity. 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 \$499,724 as of December 31, 2006. The Airport Commission held investments equal to this amount at December 31, 2006.

**Parking Authority-**

On 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 1999 Bonds on January 1, 1999. 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:

**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, 2006, the Parking Authority held investments equal to this amount.

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

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 were redeemed. The redemption was accomplished with the sale of property to a hotel developer.

At December 31, 2006, Parking Authority Revenue Bonds payable was \$1,090,000. 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, 2006, was \$1,069,237.

Debt service requirements for the bonds at December 31, 2006 were as follows:

	<u>Principal</u>	<u>Interest</u>
2007	\$ 90,000	\$ 49,240
2008	90,000	45,415
2009	95,000	41,545
2010	100,000	37,412
2011	105,000	33,012
2012-2016	600,000	88,886
2017	10,000	475
Total payments	\$1,090,000	\$ 295,985
Less unamortized bond discount	(20,763)	
Net bonds outstanding, December 31, 2006	<u>\$ 1,069,237</u>	

**(h) *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, 2006, the City has recorded \$130,914 as arbitrage payable. This liability is included in the Water and Sewer Fund as other long-term liabilities (\$3,906) and in the 2006 Sales and Use Tax Construction Fund (\$127,008).

## CITY OF FORT SMITH, ARKANSAS

### Notes to Basic Financial Statements

December 31, 2006

#### (I) *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, 2006, there were two series of Industrial Development Revenue Bonds outstanding with an aggregate principal amount payable of \$68,750,000, one series of Fair and Exhibition Facilities Bonds outstanding with an aggregate principal amount payable of \$2,200,000, and one series of Tourism Bonds outstanding with an aggregate principal payable of \$2,200,000.

#### (S) **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, 2006 the net assets were \$1,056,689 and \$46,279 in the Employee Insurance and Workers' Compensation Funds, respectively. The claims liability balances of \$762,565 and \$472,203 reported in the Employee Insurance and Workers' Compensation Funds, respectively, are based on the requirements of GASB Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The claims liability includes the effect of specific incremental claims, adjustment expenses, and if probable and material, salvage and subrogation. These liabilities include accruals for claims incurred but not reported, based upon the City's historical claims rate. These liabilities are the City's best estimate based on available information. Changes in the reported liabilities during 2006 are detailed on the following page:

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

	<u>Employee Insurance</u>	<u>Workers' Compensation</u>
Self-insurance liability, December 31, 2004	\$ 817,930	\$ 265,130
Current year claims and changes in estimate	5,737,029	250,677
Claim payments	<u>(5,608,144)</u>	<u>(348,917)</u>
Self-insurance liability, December 31, 2005	946,815	166,890
Claims and changes in estimate	5,969,151	944,088
Claim payments	<u>(6,153,401)</u>	<u>(638,775)</u>
Self-insurance liability, December 31, 2006	<u>\$ 762,565</u>	<u>\$ 472,203</u>

**(6) Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by International City Management Association Retirement Corporation (ICMARC). 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 \$15,000. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

**(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). The International City Management Association Retirement Corporation (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 base 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 \$2,063,020 for 2006.

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

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.

***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 2006 were 18% of covered payroll. The judges' contribution rates was 5% for 2006.

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. Employer contributions were 12.54% of covered payroll.

Covered payroll for the judges and clerks was \$249,959 for the fiscal year ended December 31, 2006. There is one retired clerk receiving benefits from APERS.

**(b) *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 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 40-year 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, 2006 are:

	<b>Fire</b>	<b>Police</b>
Active Members:		
Vested	14	7
Nonvested	-	-
Retirees and beneficiaries	124	107
Total	138	114

**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 participants's annual salary. Employees become vested after 20 years of service.

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

**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, and 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 2006 plan year were based upon the December 31, 2004, actuary report.

The actuarially required contributions rate as of December 31, 2006, 2005, and 2004, and amounts required by the City and active participants of the Old Plans for 2006, 2005, and 2004 were as follows:

	Fire Plan			Police Plan		
	2006	2005	2004	2006	2005	2004
Employer actuarially required contribution rates	32.23%	28.88%	25.49%	22.42%	20.40%	18.93%
Employer contributions as a percentage of annual covered payroll	32.23%	28.88%	25.49%	22.42%	20.40%	18.93%
Employer contributions to LOPFI \$	268,169	\$ 230,350	\$ 219,263	\$ 86,677	\$ 81,628	\$ 75,697
Annual Pension Cost (APC) \$	268,169	\$ 230,350	\$ 219,263	\$ 86,677	\$ 81,628	\$ 75,697
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, 2006, for the Old Plans:

<u>Old Fire and Police Plans</u>	
Valuation date	December 31, 2004
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	4.0%
Post-retirement benefit increases	3.0%

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2006

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

Employees of the City's Fire and Police Department 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 as benefit plans which were established by Arkansas statutes. The New Plans do not issue separate stand-alone financial statements.

Members and participants of the new plans at December 31, 2006 are:

	<u>Fire</u>	<u>Police</u>
Active Members:		
Vested	91	100
Nonvested	24	62
Retirees and beneficiaries	<u>-</u>	<u>1</u>
Total	<u>115</u>	<u>163</u>

**Pension Benefits**

Participants who retire at or after age 55 with 20 years of credited service are entitled to retirement benefits payable annually for life equal to 2.5% 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% of final average pay for each year of credited service that began January 1, 2004 and after. The total benefit cannot exceed 80% 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, 2006, 2005, and 2004, and amounts required by the City and active participants of the New Plans for 2006, 2005, and 2004 were as shown on the following page:

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

	Fire Plan			Police Plan		
	2006	2005	2004	2006	2005	2004
Employer actuarially required contribution rates	32.23%	28.88%	25.49%	22.42%	20.40%	18.93%
Employer contributions as a percentage of annual covered payroll	32.23%	28.88%	25.49%	22.42%	20.40%	18.93%
Employer contributions to LOPFI	\$ 1,667,217	\$ 1,391,266	\$ 1,154,287	\$ 1,500,304	\$ 1,254,364	\$ 1,090,826
Annual Pension Cost (APC)	\$ 1,667,217	\$ 1,391,266	\$ 1,154,287	\$ 1,500,304	\$ 1,254,364	\$ 1,090,826
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, 2006, for the New Plans:

**New Fire and Police Plans**

Valuation date	December 31, 2004
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	4.0%
Post-retirement benefit increases	3.0% every other year

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

**(8) Commitments and Contingencies**

**(a) *Litigation***

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

**(b) *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 City's sanitary sewer system in order 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 the 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.

**(9) Individual Fund Disclosures**

Interfund receivables and payables as of December 31, 2006 are as follows:

<b>Fund</b>	<b>Receivables</b>	<b>Payables</b>
Governmental Funds:		
General Fund	\$ 25,040	\$ -
Special Revenue Funds	-	26,310
Internal Service Funds	1,270	-
<b>Total</b>	<b>\$ 26,310</b>	<b>\$ 26,310</b>

The \$25,040 receivable in the General Fund represents amounts paid for expenditures incurred by the Community Development Block Grant Fund (\$18,620) and the HOME Investment Partnership Act Fund (\$6,420). The \$1,270 receivable in the Working Capital Fund, an internal service fund, represents charges to the Community Development Block Grant Fund for fuel and supplies.

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

Interfund transfers in (out) for the year ended December 31, 2006, are as follows:

<u>Fund</u>	<u>Transfers</u>	
	<u>In</u>	<u>Out</u>
Governmental Funds:		
Major funds:		
General Fund	\$ 2,147,160	\$ 928,795
Special revenue-		
Street Maintenance Fund	278,795	65,000
Sales Tax Fund	-	1,952,160
Debt service fund-		
2006 Sales & Use Tax Bond Fund	-	84,860,547
Capital project fund-		
2006 Sales & Use Tax Construction Fund	<u>60,641,725</u>	<u>658,054</u>
Total governmental funds	<u>63,067,680</u>	<u>88,464,566</u>
Proprietary Funds:		
Water and Sewer Fund	24,218,512	65,000
Sanitation Fund	300,000	65,000
Workers' Compensation Fund	<u>350,000</u>	<u>-</u>
Total proprietary funds	<u>24,868,512</u>	<u>130,000</u>
Total	<u>\$ 87,936,192</u>	<u>\$ 88,594,556</u>

The transfer out of \$1,952,160 from the Sales Tax Fund to the General Fund represents the allocation of overhead costs provided by General Fund programs during 2006. The 2006 Sales and Use Tax Bond Fund transfer out of \$84,860,547 includes \$60,641,725 of bond proceeds to the 2006 Sales and Use Tax Construction Fund and \$24,218,822 to the Water and Sewer Fund. The 2006 Sales & Use Tax Construction Fund transfers out of \$658,084 to the Water and Sewer Fund represents the transfer of capital assets which is recognized as contributed capital in the Water and Sewer Fund.

**(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 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, 2006, is \$3,122,390. The remaining estimated closure and postclosure care costs of approximately \$34.5 million will be recognized as the remaining capacity is filled. The percentage of landfill capacity used to date was approximately 7.2% at December 31, 2006. 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, 2006. Actual costs may be significantly higher due to inflation, changes in technology, or changes in regulations by the Arkansas Department of Environmental Quality.

# CITY OF FORT SMITH, ARKANSAS

## Notes to Basic Financial Statements

December 31, 2006

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, 2006, is \$5,648,899. In order to comply with this requirement, the City held an irrevocable standby letter of credit with BancorpSouth which is pledged to the Arkansas Department of Environmental Quality in the amount of \$5,479,402 at December 31, 2006. The City will increase the value of the letter of credit to meet the required level of financial assurance during 2007.

**(11) New Applicable GASB Standards**

GASB has issued statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. These statements establish uniform financial reporting standards for other postemployment benefits (OPEB) plans, improve the relevance and usefulness of financial reporting, and supersede statements No. 12, No. 26 and No. 27. The City will be required to implement these statements in its financial statements for periods beginning after December 15, 2006. Management has not determined the impact these statements will have on its financial statements.

GASB has also issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement 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. This statement becomes effective for financial statements for periods beginning after December 15, 2006. Management has not determined the impact of this statement.

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 31, 2007. Management has not determined the impact of this statement.

**(12) Restatement of Prior Years' Financial Statements  
Discretely Presented Component Unit- Fort Smith Airport**

In prior years, the Airport did not record revenue earned from the parking lot operator and rental car agencies and from passenger facility charges on the accrual basis of accounting. During 2006, the Airport retroactively changed its accounting method to record these items on the accrual basis of accounting. The restatement increased the previously reported 2005 decrease in net assets by \$21,984. Adjustments of \$163,315 and \$46,284 applicable in years prior to 2006 have been included in the restated 2006 beginning unrestricted and restricted net asset balances, respectively.

Also, in prior years, the Airport did not record leasehold improvements made to the Airport property by its tenants in accordance with the voluntary non-exchange transaction requirements of GASB33. During 2006, the Airport retroactively changed its accounting method to account for leasehold improvements paid by tenants in accordance with GASB33. The restatement decreased the previously reported 2005 decrease in net assets by \$4,162. Adjustments of \$629,189 applicable to years prior to 2006 have been included in the restated 2006 beginning unrestricted net asset balance.

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

**(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**

	Governmental			Business-Type		
	Advertising and Promotion	Public Library	Total	Parking Authority	Airport Commission	Total
<b>Assets:</b>						
Current assets	\$ 350,978	\$ 1,381,537	\$ 1,732,515	\$ 117,898	\$ 2,841,874	\$ 2,959,772
Sales taxes receivable from the City	-	71,860	71,860	-	-	-
Capital Assets, net of accumulated depreciation, as applicable	-	481,663	481,663	2,168,284	33,707,480	35,875,764
Noncurrent assets	-	-	-	90,134	1,128,736	1,218,870
<b>Total Assets</b>	<b>350,978</b>	<b>1,935,060</b>	<b>2,286,038</b>	<b>2,376,316</b>	<b>37,678,090</b>	<b>40,054,406</b>
<b>Liabilities:</b>						
Current liabilities	22,129	40,571	62,700	98,434	340,313	438,747
Noncurrent liabilities	-	-	-	988,545	3,627,292	4,615,837
<b>Total liabilities</b>	<b>22,129</b>	<b>40,571</b>	<b>62,700</b>	<b>1,086,979</b>	<b>3,967,605</b>	<b>5,054,584</b>
<b>Net Assets:</b>						
Investment in capital assets, net of related debt	-	481,663	481,663	1,091,367	29,975,188	31,066,555
Restricted	-	-	-	69,620	1,157,615	1,227,235
Unrestricted	328,849	1,412,826	1,741,675	128,350	2,577,682	2,706,032
<b>Total net assets</b>	<b>\$ 328,849</b>	<b>\$ 1,894,489</b>	<b>\$ 2,223,338</b>	<b>\$ 1,289,337</b>	<b>\$ 33,710,485</b>	<b>\$ 34,999,822</b>

**CITY OF FORT SMITH, ARKANSAS**

Notes to Basic Financial Statements

December 31, 2006

**Statement of Activities**

**For the Year Ended December 31, 2006**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities		
				Advertising and Promotion	Public Library	Total
Advertising/Promotion	\$ 625,444	\$ -	\$ 3,795	\$ (621,649)	\$ -	\$ (621,649)
Public Library	2,248,514	99,821	406,175	-	(1,742,518)	(1,742,518)
<b>Total</b>	<b>\$ 2,873,958</b>	<b>\$ 99,821</b>	<b>\$ 409,970</b>	<b>(621,649)</b>	<b>(1,742,518)</b>	<b>(2,364,167)</b>

General revenues:

Property taxes	-	1,078,551	1,078,551
Sales taxes	-	883,119	883,119
Hospitality hotel/motel taxes	658,125	-	658,125
Unrestricted investments earnings	12,013	17,925	29,938
Other	-	15,343	15,343

Total general revenues

670,138      1,994,938      2,665,076

Change in net assets

48,489      252,420      300,909

Net assets, beginning

280,360      1,642,069      1,922,429

Net assets, ending

\$ 328,849      \$ 1,894,489      \$ 2,223,338

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines, and Charges for Services	Capital Grants and Contributions	Business-Type Activities		
				Parking Authority	Airport Commission	Total
Parking Authority	\$ 293,345	\$ 159,842	\$ -	\$ (133,503)	\$ -	\$ (133,503)
Airport Commission	4,886,477	2,279,383	584,043	-	(2,023,051)	(2,023,051)
<b>Total</b>	<b>\$ 5,179,822</b>	<b>\$ 2,439,225</b>	<b>\$ 584,043</b>	<b>(133,503)</b>	<b>(2,023,051)</b>	<b>(2,156,554)</b>

General revenues:

Unrestricted investment earnings	8,921	115,911	124,832
Payment from City of Fort Smith	200,000	-	200,000
Other	-	95,052	95,052

Total general revenues

208,921      210,963      419,884

Change in net assets

75,418      (1,812,088)      (1,736,670)

Net assets, beginning

1,213,919      35,522,573      36,736,492

Net assets, ending

\$ 1,289,337      \$ 33,710,485      \$ 34,999,822

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

Actuarial Valuation Date	(1)	(2)	(3)	(4)	(5)	(6)
	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funded Ratio (1)/(2)	Total Funded Excess (Unfunded) Actuarial Liability* (1) - (2)	Annual Covered Payroll	Ratio of Funded Excess (Unfunded) Actuarial Liability to Annual Covered Payroll (4)/(5)
<b>Fire Plan:</b>						
2003	\$ 1,427,239	\$ 14,459,324	10%	\$ (13,032,085) **	\$ 5,242,165	(249)%
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)%
<b>Police Plan:</b>						
2003	\$ 6,176,152	\$ 14,952,904	45%	\$ (8,236,752) **	\$ 6,029,314	(137)%
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)%

\* 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, 2006

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
<b>Revenues</b>						
Taxes	\$ 5,195,000	\$ 5,195,104	\$ 5,270,762	\$ -	\$ 5,270,762	\$ 75,658
Sales taxes	14,481,407	14,804,001	14,718,645	-	14,718,645	(85,356)
Licenses and permits	1,233,500	1,283,581	1,292,182	-	1,292,182	8,601
Utility franchise fees	6,729,770	7,821,179	7,406,294	-	7,406,294	(414,885)
Intergovernmental	5,285,814	3,600,384	3,734,387	-	3,734,387	134,003
Fines and forfeitures	1,883,250	1,767,824	1,936,570	-	1,936,570	168,746
Fees for services	1,942,250	1,086,172	1,099,840	-	1,099,840	13,668
Interest	151,500	321,424	418,099	-	418,099	96,675
Contributions	-	-	-	-	0	0
Miscellaneous	208,859	240,001	341,363	-	341,363	101,362
<b>Total Revenues</b>	<b>36,212,350</b>	<b>36,119,670</b>	<b>36,218,142</b>	<b>-</b>	<b>36,218,142</b>	<b>98,472</b>
<b>Expenditures</b>						
Current:						
General government						
Administration	3,866,842	3,898,912	3,482,325	45,619	3,527,944	370,968
Legal	1,652,690	1,638,675	1,577,333	7,000	1,584,333	54,342
Finance	1,755,633	1,684,682	1,917,717	(32,141)	1,885,576	(200,894)
Public safety						
Police	14,187,486	13,788,111	12,550,533	100,388	12,650,941	1,137,170
Fire	8,793,646	9,102,516	9,007,423	91,397	9,098,820	3,696
Community services						
Health and Social Services	100,960	100,960	97,100	-	97,100	3,860
Parks and Recreation	1,400,297	1,445,429	1,628,754	-	1,628,754	(183,325)
Transit	1,971,825	1,965,830	1,729,725	12,700	1,742,425	223,405
Other	3,170,115	3,384,871	2,683,331	716,036	3,399,367	(14,496)
Capital Outlay	6,125,021	6,382,066	3,582,891	3,302,210	6,885,101	(503,035)
Debt Service:						
Interest	-	-	52,025	-	52,025	(52,025)
<b>Total Expenditures</b>	<b>43,024,515</b>	<b>43,392,052</b>	<b>38,309,177</b>	<b>4,243,209</b>	<b>42,552,386</b>	<b>839,666</b>
Excess (Deficiency) of revenues over (under) expenditures	(6,812,165)	(7,272,382)	(2,091,035)	(4,243,209)	(6,334,244)	938,138
<b>Other Financing Sources (Uses):</b>						
Transfers in						
Transfers out	2,147,160	2,147,160	2,147,160	-	2,147,160	0
Issuance of promissory notes	(300,000)	(928,795)	(928,795)	-	(928,795)	0
Capital lease financing	-	-	2,265,972	-	2,265,972	2,265,972
	-	-	341,156	-	341,156	341,156
<b>Total Other Financing Sources and Uses</b>	<b>(500,000)</b>	<b>1,218,365</b>	<b>3,825,493</b>	<b>-</b>	<b>3,825,493</b>	<b>2,607,128</b>
<b>Net Change in Fund Balances</b>	<b>(7,312,165)</b>	<b>(6,054,017)</b>	<b>1,734,458</b>	<b>(4,243,209)</b>	<b>(2,508,751)</b>	<b>3,545,266</b>
<b>Fund Balances, January 1</b>	<b>10,578,635</b>	<b>10,578,635</b>	<b>10,578,635</b>	<b>-</b>	<b>10,578,635</b>	<b>-</b>
<b>Fund Balances, December 31</b>	<b>3,266,470</b>	<b>4,524,618</b>	<b>12,313,093</b>	<b>(4,243,209)</b>	<b>8,069,884</b>	<b>3,545,266</b>

**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, 2006**

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
<b>Revenues</b>						
Taxes	\$ 1,543,300	\$ 1,543,300	\$ 1,578,274	\$ -	\$ 1,578,274	\$ 34,974
Intergovernmental	3,855,864	3,855,864	3,882,300	-	3,882,300	26,436
Interest	155,000	202,596	214,945	-	214,945	12,349
Miscellaneous	10,000	28,380	28,130	-	28,130	(250)
<b>Total Revenues</b>	<b>5,564,164</b>	<b>5,630,140</b>	<b>5,703,649</b>	<b>-</b>	<b>5,703,649</b>	<b>73,509</b>
<b>Expenditures</b>						
<b>Current:</b>						
General government						
Administration	218,551	218,050	199,055	5,705	204,760	13,290
Legal	33,925	40,933	40,930	-	40,930	3
Finance	319,411	320,769	305,360	7,584	312,944	7,825
Public works						
Operations	390,736	424,296	403,769	684	404,453	19,843
Streets	2,755,685	2,548,005	2,289,708	4,970	2,294,678	253,327
Traffic Control	1,888,164	2,087,994	1,966,616	8,365	1,974,981	113,013
Community services						
Parks and Recreation	779,934	811,450	464,837	331,314	796,151	15,299
Other	692,740	425,000	114,835	249,978	364,813	60,187
Capital Outlay	75,000	317,530	116,974	-	116,974	200,556
<b>Total Expenditures</b>	<b>7,154,146</b>	<b>7,194,027</b>	<b>5,902,084</b>	<b>608,600</b>	<b>6,510,684</b>	<b>683,343</b>
<b>Excess (Deficiency) of revenues over (under) expenditures</b>	<b>(1,589,982)</b>	<b>(1,563,887)</b>	<b>(198,435)</b>	<b>(608,600)</b>	<b>(807,035)</b>	<b>756,852</b>
<b>Other Financing Uses:</b>						
Transfers in	-	278,795	278,795	-	278,795	-
Transfers out	(65,000)	(65,000)	(65,000)	-	(65,000)	-
<b>Total Other Financing Uses</b>	<b>(65,000)</b>	<b>213,795</b>	<b>213,795</b>	<b>-</b>	<b>213,795</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(1,654,982)</b>	<b>(1,350,092)</b>	<b>15,360</b>	<b>(608,600)</b>	<b>(593,240)</b>	<b>756,852</b>
Fund Balances, January 1	5,012,164	5,012,164	5,012,164	-	5,012,164	-
Fund Balances, December 31	\$ 3,357,182	\$ 3,662,072	\$ 5,027,524	\$ (608,600)	\$ 4,418,924	\$ 756,852

**City of Fort Smith, Arkansas**

Notes to Required Supplementary Information

December 31, 2006

**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 2006, supplemental appropriations (expenditures and transfers out) were adopted by the Board for the General Fund totaling \$996,332 to provide additional funding for workers' compensation claims, park capital improvement projects, economic development programs, police capital acquisitions, library share of county sales tax, and reimbursement to the Street Maintenance Fund for park capital improvements. During 2006, supplemental appropriations were adopted by the Board for the Street Maintenance Fund totaling \$39,881 for additional capital improvement projects. 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.

## CITY OF FORT SMITH, ARKANSAS

### Nonmajor Governmental Funds

For the Fiscal Year Ended December 31, 2006

#### **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 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.

#### **Debt Service Fund:**

**2006 Sales & Use Tax Bond Fund-** To account for the repayment of the 2006 Sales & Use Tax Refunding and Construction Bonds.

#### **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.

**Sales and Use Tax Construction Fund-** To account for the proceeds of the 2006 Sales and Use Tax Refunding and Construction Bonds and payment for the projects approved by the 2006 Bonds.

City of Fort Smith, Arkansas  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 December 31, 2006

	Special Revenue							Debt Service	Capital Projects	Total Nonmajor Governmental Funds
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Convention Center	2006 Sales & Use Tax Bond			
<b>Assets</b>										
Cash	\$ 131,374	\$ -	\$ -	\$ 7,947	\$ 456,494	\$ 171,032	\$ -	\$ 35,750	\$ 810,229	
Investments	103,970	5,811	-	606,167	12,764,254	877,729	-	420,294	14,798,225	
Receivables, net of allowance for uncollectibles	-	-	-	-	-	-	-	-	2,363,192	
Taxes	-	-	-	-	2,363,192	-	-	-	1,605	
Accounts Accrued interest	-	-	867	738	-	-	-	-	64,564	
Due from other governments	327	24	-	2,821	54,939	4,712	-	1,741	91,367	
Restricted assets:	16,059	-	46,679	28,629	-	-	-	-	-	
Investments	-	-	-	-	-	-	6,369,940	-	6,369,940	
Sales taxes	-	-	-	-	-	-	1,510,834	-	1,510,834	
<b>Total Assets</b>	<b>\$ 251,730</b>	<b>\$ 5,835</b>	<b>\$ 55,178</b>	<b>\$ 666,302</b>	<b>\$ 15,638,879</b>	<b>\$ 1,033,473</b>	<b>\$ 7,880,774</b>	<b>\$ 457,785</b>	<b>\$ 26,009,956</b>	
<b>Liabilities and Fund Balances</b>										
<b>Liabilities:</b>										
Accounts payable and accrued liabilities	\$ 19,259	\$ -	\$ 40,259	\$ 4,400	\$ -	\$ 57,780	\$ -	\$ -	\$ 121,698	
Retainage payable	19,890	-	6,420	-	-	-	-	-	0	
Due to other funds	209,456	-	8,499	532,017	2,291,041	-	-	-	26,310	
Unearned revenues	2,323	-	-	-	-	-	-	-	3,041,013	
Other	-	-	-	-	-	-	-	-	2,323	
<b>Total Liabilities</b>	<b>250,928</b>	<b>-</b>	<b>55,178</b>	<b>536,417</b>	<b>2,291,041</b>	<b>57,780</b>	<b>-</b>	<b>-</b>	<b>3,191,344</b>	
<b>Fund Balances:</b>										
Reserved for:										
Encumbrances	-	-	-	-	-	234,700	-	-	234,700	
Other purposes	802	5,835	-	-	-	760,993	-	-	767,630	
Other purposes - debt service	-	-	-	-	-	-	4,246,750	-	4,246,750	
Unreserved, reported in nonmajor:										
Special revenue funds	-	-	-	129,885	13,347,838	-	-	-	13,477,723	
Debt Service	-	-	-	-	-	-	3,634,024	-	3,634,024	
Capital projects funds	-	-	-	-	-	-	-	457,785	457,785	
<b>Total Fund Balances</b>	<b>802</b>	<b>5,835</b>	<b>-</b>	<b>129,885</b>	<b>13,347,838</b>	<b>995,693</b>	<b>7,880,774</b>	<b>457,785</b>	<b>22,818,612</b>	
<b>Total Liabilities and Fund Balances</b>	<b>\$ 251,730</b>	<b>\$ 5,835</b>	<b>\$ 55,178</b>	<b>\$ 666,302</b>	<b>\$ 15,638,879</b>	<b>\$ 1,033,473</b>	<b>\$ 7,880,774</b>	<b>\$ 457,785</b>	<b>\$ 26,009,956</b>	

City of Fort Smith, Arkansas  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Year Ended December 31, 2006

	Special Revenue						Debt Service	Capital Projects	Total Nonmajor Governmental Funds
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Convention Center			
<b>Revenues</b>									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,104,881	\$ -	\$ 7,608,260	\$ -	\$ 2,104,881
Sales taxes	-	-	-	-	-	-	-	-	7,608,260
Licenses and permits	-	-	-	-	-	-	-	-	181,052
Intergovernmental	1,223,357	-	354,551	452,961	911,307	1,795,545	-	-	4,737,721
Fines and forfeitures	-	-	-	12,016	127,185	-	-	-	127,185
Interest	-	247	-	561,225	35,400	-	25,385	-	650,941
Contributions	-	400	-	853,815	4,941	-	-	-	854,215
Miscellaneous	160	-	-	94,528	-	-	-	-	99,629
<b>Total Revenues</b>	<b>1,223,517</b>	<b>647</b>	<b>354,551</b>	<b>559,505</b>	<b>4,563,354</b>	<b>1,830,945</b>	<b>7,633,645</b>	<b>197,720</b>	<b>16,363,884</b>
<b>Expenditures</b>									
Current:									
Public safety	-	-	-	134,224	2,197,999	-	-	-	2,332,223
Police	-	-	-	-	2,113,730	-	-	-	2,113,730
Fire	-	-	-	-	-	-	-	-	-
Streets	-	-	-	-	-	-	-	134,147	134,147
Community services	-	-	-	38,100	-	-	-	-	38,100
Parks and Recreation	-	-	-	-	-	1,296,805	-	-	1,296,805
Convention Center	-	-	-	-	-	-	-	-	-
Transit	-	-	-	-	-	-	-	-	0
Housing and Rehabilitation	1,223,357	-	354,551	360,796	-	-	305,770	-	1,938,704
Other	-	-	-	14,369	-	-	-	-	320,139
Capital Outlay	-	-	-	-	-	168,922	-	-	168,922
Debt Service:									
Interest	-	-	-	-	-	-	619,868	-	619,868
<b>Total Expenditures</b>	<b>1,223,357</b>	<b>0</b>	<b>354,551</b>	<b>547,489</b>	<b>4,311,729</b>	<b>1,465,727</b>	<b>925,638</b>	<b>134,147</b>	<b>8,962,638</b>
Excess (Deficiency) of revenues over (under) expenditures	160	647	-	12,016	251,625	365,218	6,708,007	63,573	7,401,246
<b>Other Financing Sources (Uses)</b>									
Transfers out	-	-	-	-	-	-	(84,860,547)	-	(84,860,547)
Issuance of long-term debt	-	-	-	-	-	-	86,033,314	-	86,033,314
<b>Total Other Financing Sources and Uses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,172,767</b>	<b>-</b>	<b>1,172,767</b>
<b>Net Change in Fund Balances</b>	<b>160</b>	<b>647</b>	<b>-</b>	<b>12,016</b>	<b>251,625</b>	<b>365,218</b>	<b>7,880,774</b>	<b>63,573</b>	<b>8,574,013</b>
<b>Fund Balances, January 1</b>	<b>642</b>	<b>5,188</b>	<b>-</b>	<b>117,869</b>	<b>13,096,213</b>	<b>630,475</b>	<b>-</b>	<b>394,212</b>	<b>14,244,599</b>
<b>Fund Balances, December 31</b>	<b>802</b>	<b>5,835</b>	<b>-</b>	<b>129,885</b>	<b>13,347,838</b>	<b>995,693</b>	<b>7,880,774</b>	<b>457,785</b>	<b>22,818,612</b>

**CITY OF FORT SMITH, ARKANSAS**

Internal Service Funds

For the Fiscal Year Ended December 31, 2006

**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, 2006**

	Working Capital	Employee Insurance	Workers' Compensation	Total
<b>Assets</b>				
<b>Current Assets:</b>				
Cash	\$ -	\$ 412,349	\$ 323,372	\$ 735,721
Investments	-	620,732	251,344	872,076
Receivables, net of allowance for uncollectibles				
Accounts	-	844,086	18,154	862,240
Accrued interest	-	5,884	1,041	6,925
Inventory	51,000	-	-	51,000
Due from other funds	1,270	-	-	1,270
<b>Total Current Assets</b>	<u>52,270</u>	<u>1,883,051</u>	<u>593,911</u>	<u>2,529,232</u>
<b>Total Assets</b>	<u>52,270</u>	<u>1,883,051</u>	<u>593,911</u>	<u>2,529,232</u>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable and accrued liabilities	30,294	63,797	75,429	169,520
Claims and judgments	-	762,565	472,203	1,234,768
<b>Total Current Liabilities</b>	<u>30,294</u>	<u>826,362</u>	<u>547,632</u>	<u>1,404,288</u>
<b>Total Liabilities</b>	<u>30,294</u>	<u>826,362</u>	<u>547,632</u>	<u>1,404,288</u>
<b>Net Assets</b>				
Unrestricted	21,976	1,056,689	46,279	1,124,944
<b>Total Net Assets</b>	<u>\$ 21,976</u>	<u>\$ 1,056,689</u>	<u>\$ 46,279</u>	<u>\$ 1,124,944</u>

**City of Fort Smith, Arkansas**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended December 31, 2006**

	<u>Working Capital</u>	<u>Employee Insurance</u>	<u>Workers' Compensation</u>	<u>Total</u>
<b>Operating Revenues</b>				
Charges for services - internal	\$ 589,337	\$ 6,549,814	\$ 304,810	\$ 7,443,961
Charges for services - external	-	446,875	-	446,875
Total Operating Revenues	<u>589,337</u>	<u>6,996,689</u>	<u>304,810</u>	<u>7,890,836</u>
<b>Operating Expenses</b>				
Contractual services	-	740,962	38,003	778,965
Materials and supplies	640,171	-	-	640,171
Insurance claims and expenses	-	6,153,401	638,775	6,792,176
Total Operating Expenses	<u>640,171</u>	<u>6,894,363</u>	<u>676,778</u>	<u>8,211,312</u>
Operating Income (Loss)	<u>(50,834)</u>	<u>102,326</u>	<u>(371,968)</u>	<u>(320,476)</u>
<b>Nonoperating Revenues</b>				
Investment earnings	<u>372</u>	<u>67,902</u>	<u>15,395</u>	<u>83,669</u>
Total Nonoperating Revenues	<u>372</u>	<u>67,902</u>	<u>15,395</u>	<u>83,669</u>
Income (Loss) Before Transfers	(50,462)	170,228	(356,573)	(236,807)
Transfers In	<u>-</u>	<u>-</u>	<u>350,000</u>	<u>350,000</u>
Change in Net Assets	(50,462)	170,228	(6,573)	113,193
Total net assets, beginning	<u>72,438</u>	<u>886,461</u>	<u>52,852</u>	<u>1,011,751</u>
Total net assets, ending	<u>\$ 21,976</u>	<u>\$ 1,056,689</u>	<u>\$ 46,279</u>	<u>\$ 1,124,944</u>

**City of Fort Smith, Arkansas**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended December 31, 2006**

	Working Capital	Employee Insurance	Workers' Compensation	Total
<b>Cash Flows from Operating Activities:</b>				
Cash received from service users	\$ 588,465	\$ 396,629	\$ -	\$ 985,094
Cash received from city and employee contributions	-	5,791,142	286,656	6,077,798
Cash payments for goods and services	(635,596)	-	-	(635,596)
Cash payments for premiums and other operating expenses	-	(459,442)	(147,981)	(607,423)
Cash payments for claims paid	-	(6,601,518)	(226,548)	(6,828,066)
Net cash provided by (used for) operating activities	<u>(47,131)</u>	<u>(873,189)</u>	<u>(87,873)</u>	<u>(1,008,193)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Transfers in from other funds	-	-	350,000	350,000
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>350,000</u>	<u>350,000</u>
<b>Cash Flows from Investing Activities:</b>				
Proceeds from sales and maturities of investment securities	-	1,649,679	249,359	1,899,038
Outlays for purchases of investment securities	-	(594,612)	(349,441)	(944,053)
Interest on investments	372	67,455	15,305	83,132
Net cash provided by (used for) investing activities	<u>372</u>	<u>1,122,522</u>	<u>(84,777)</u>	<u>1,038,117</u>
Net increase (decrease) in cash	(46,759)	249,333	177,350	379,924
Cash, January 1	46,759	163,016	146,022	355,797
Cash, December 31	<u>\$ -</u>	<u>\$ 412,349</u>	<u>\$ 323,372</u>	<u>\$ 735,721</u>
<b>Reconciliation of operating income (loss) to net cash used for operating activities:</b>				
Operating income (loss)	\$ (50,834)	\$ 102,326	\$ (371,968)	\$ (320,476)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Change in assets and liabilities:				
Accounts receivable	-	(808,918)	(18,154)	(827,072)
Due from other funds	(872)	-	-	(872)
Inventory	(6,784)	-	-	(6,784)
Accounts payable and accrued liabilities	11,359	17,653	(3,064)	25,948
Liability for claims and judgments	-	(184,250)	305,313	121,063
Total adjustments	<u>3,703</u>	<u>(975,515)</u>	<u>284,095</u>	<u>(687,717)</u>
Net cash provided by (used for) operating activities	<u>\$ (47,131)</u>	<u>\$ (873,189)</u>	<u>\$ (87,873)</u>	<u>\$ (1,008,193)</u>

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**CITY OF FORT SMITH, ARKANSAS**

Discretely Presented Component Units

For the Fiscal Year Ended December 31, 2006

**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, 2006**

	Advertising and Promotion	Public Library	Total
<b>Assets:</b>			
Cash	\$ 1,658	\$ 999,874	\$ 1,001,532
Investments	306,680	267,744	574,424
Receivables, net of allowance for uncollectibles			
Taxes	41,370	36,076	77,446
Sales taxes	-	71,860	71,860
Accounts	-	20,400	20,400
Accrued interest	1,270	-	1,270
Prepaid items	-	52,443	52,443
Inventory, at cost	-	5,000	5,000
Capital assets:			
Nondepreciable	-	422,132	422,132
Depreciable	-	59,531	59,531
Total Assets	<u>350,978</u>	<u>1,935,060</u>	<u>2,286,038</u>
<b>Liabilities:</b>			
Current:			
Accounts payable and accrued liabilities	<u>22,129</u>	<u>40,571</u>	<u>62,700</u>
Total Liabilities	<u>22,129</u>	<u>40,571</u>	<u>62,700</u>
<b>Net Assets:</b>			
Invested in capital assets	-	481,663	481,663
Unrestricted	<u>328,849</u>	<u>1,412,826</u>	<u>1,741,675</u>
Total Net Assets	<u>\$ 328,849</u>	<u>\$ 1,894,489</u>	<u>\$ 2,223,338</u>

**City of Fort Smith, Arkansas**  
**Combining Statement of Activities - Governmental Component Units**  
**For the Year Ended December 31, 2006**

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Advertising & Promotion	Public Library
	Expenses	Operating Grants and Contributions	Total	Total
Advertising & Promotion	\$ 625,444	\$ 3,795	\$ (621,649)	\$ (621,649)
Public Library	2,248,514	406,175	(1,742,518)	(1,742,518)
Total	\$ 2,873,958	\$ 409,970	(621,649)	(2,364,167)
General revenues:				
Property taxes			1,078,551	1,078,551
Sales taxes			883,119	883,119
Hospitality taxes			658,125	658,125
Unrestricted investment earnings			17,925	17,925
Other			15,343	15,343
Total general revenues			1,994,938	1,994,938
Change in net assets			48,489	48,489
Net assets, beginning			280,360	280,360
Net assets, ending			328,849	328,849
			\$ 1,894,489	\$ 1,894,489
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			\$ 1,894,489	

**City of Fort Smith, Arkansas**  
**Balance Sheet - Advertising and Promotion**  
**Governmental Component Unit**  
**December 31, 2006**

**Assets:**

Cash	\$	1,658
Investments		306,680
Receivables, net of allowance for uncollectibles		
Taxes		41,370
Accrued interest		<u>1,270</u>
Total Assets	\$	<u><u>350,978</u></u>

**Liabilities and Fund Balance:**

Current:		
Accounts payable and accrued liabilities	\$	<u>22,129</u>
Total Liabilities		22,129

**Fund Balance:**

Unreserved		<u>328,849</u>
Total Liabilities and Fund Balance	\$	<u><u>350,978</u></u>

**City of Fort Smith, Arkansas**  
**Statement of Revenues, Expenditures and Change in Fund Balance**  
**Advertising and Promotion - Governmental Component Unit**  
**For the Year Ended December 31, 2006**

<b>Revenues</b>	
Taxes	\$ 658,125
Interest	12,013
Contributions	<u>3,795</u>
Total Revenues	<u>673,933</u>
<b>Expenditures</b>	
Current:	
Other	<u>605,705</u>
Total Expenditures	<u>605,705</u>
Excess of revenues over expenditures	<u>68,228</u>
<b>Other Financing Uses:</b>	
Transfers out to primary government	<u>(19,739)</u>
Total Other Financing Uses	<u>(19,739)</u>
Net Change in Fund Balance	48,489
Fund Balance, January 1	<u>280,360</u>
Fund Balance, December 31	<u><u>\$ 328,849</u></u>

**City of Fort Smith, Arkansas**  
**Combining Statement of Net Assets**  
**Business-Type Component Units**  
**December 31, 2005**

	Parking Authority	Airport	Total
<b>Assets</b>			
<b>Current Assets:</b>			
Cash	\$ 24,937	\$ 160,375	\$ 185,312
Investments	89,599	1,602,506	1,692,105
Receivables, net of allowance for uncollectibles			
Accounts	1,207	219,454	220,661
Accrued interest	474	27,883	28,357
<b>Restricted:</b>			
Cash	-	698,693	698,693
Accounts receivable, net of allowances for uncollectibles	-	42,890	42,890
Interest receivable	-	28,527	28,527
Prepaid items and deposits	1,681	56,287	57,968
Inventory	-	5,259	5,259
<b>Total Current Assets</b>	<u>117,898</u>	<u>2,841,874</u>	<u>2,959,772</u>
<b>Noncurrent Assets:</b>			
<b>Restricted:</b>			
Investments	70,197	387,505	457,702
Deferred charges	19,937	741,231	761,168
<b>Capital assets:</b>			
Nondepreciable	1,359,160	6,137,999	7,497,159
Depreciable	809,124	27,569,481	28,378,605
<b>Total Noncurrent Assets</b>	<u>2,258,418</u>	<u>34,836,216</u>	<u>37,094,634</u>
<b>Total Assets</b>	<u>2,376,316</u>	<u>37,678,090</u>	<u>40,054,406</u>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities	4,331	235,313	239,644
<b>Payable from restricted assets:</b>			
Accrued interest	4,103	-	4,103
Revenue bonds payable, current	90,000	105,000	195,000
<b>Total Current Liabilities</b>	<u>98,434</u>	<u>340,313</u>	<u>438,747</u>
<b>Noncurrent liabilities:</b>			
Due within one year	7,680	-	7,680
Due in more than one year	980,865	3,627,292	4,608,157
<b>Total Noncurrent Liabilities</b>	<u>988,545</u>	<u>3,627,292</u>	<u>4,615,837</u>
<b>Total Liabilities</b>	<u>1,086,979</u>	<u>3,967,605</u>	<u>5,054,584</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,091,367	29,975,188	31,066,555
Restricted for bond retirement	69,620	499,724	569,344
Restricted for Federal Aviation Administration (Escrow)	-	615,001	615,001
Restricted for capital projects	-	42,890	42,890
Unrestricted	128,350	2,577,682	2,706,032
<b>Total Net Assets</b>	<u>\$ 1,289,337</u>	<u>\$ 33,710,485</u>	<u>\$ 34,999,822</u>

**City of Fort Smith, Arkansas  
Combining Statement of Activities - Business-Type Component Units  
For the Year Ended December 31, 2006**

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Fees, Fines, and Charges for Services	Capital Grants and Contributions	Parking Authority	Business-Type Activities Airport
Expenses	\$ 293,345	\$ 159,842	\$ (133,503)	\$ (133,503)
Parking Authority	4,886,477	2,279,383	-	(2,023,051)
Airport		584,043		
Total	\$ 5,179,822	\$ 2,439,225	\$ (133,503)	\$ (2,023,051)
		\$ 584,043		\$ (2,156,554)
General revenues:				
Unrestricted investment earnings			8,921	115,911
Payment from City of Fort Smith			200,000	-
Other			-	95,052
Total general revenues			208,921	210,963
Change in net assets			75,418	(1,812,088)
Net assets, beginning, as previously reported			1,213,919	34,683,785
Adjustment applicable to prior years			-	838,788
Net assets, beginning, as restated			1,213,919	35,522,573
Net assets, ending			\$ 1,289,337	\$ 33,710,485
				\$ 34,999,822

**City of Fort Smith, Arkansas**  
**Combining Statement of Cash Flows**  
**Business-Type Component Units**  
**For the Year Ended December 31, 2006**

	Parking Authority	Airport	Total
<b>Cash Flows from Operating Activities:</b>			
Cash received from customers	\$ 158,337	\$ 2,256,888	\$ 2,415,225
Cash payments for goods and services	(46,742)	(1,544,170)	(1,590,912)
Cash paid to employees	(95,466)	(692,562)	(788,028)
Net cash provided by operating activities	<u>16,129</u>	<u>20,156</u>	<u>36,285</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Operating transfers in from primary government	200,000	-	200,000
Net cash provided by noncapital financing activities	<u>200,000</u>	<u>-</u>	<u>200,000</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Proceeds from capital grants	-	484,265	484,265
Passenger facility charges received	-	257,340	257,340
Acquisition and construction of capital assets	(50,898)	(571,004)	(621,902)
Principal paid on bonds	(83,112)	(100,000)	(183,112)
Interest paid on bonds	(52,811)	(234,550)	(287,361)
Net cash used for capital and related financing activities	<u>(186,821)</u>	<u>(163,949)</u>	<u>(350,770)</u>
<b>Cash Flows from Investing Activities:</b>			
Proceeds from sales and maturities of investment securities	362,774	1,425,000	1,787,774
Outlays for purchases of investment securities	(418,722)	(1,602,506)	(2,021,228)
Interest on investments	8,626	202,942	211,568
Net cash provided by (used for) investing activities	<u>(47,322)</u>	<u>25,436</u>	<u>(21,886)</u>
Net decrease in cash and restricted cash	(18,014)	(118,357)	(136,371)
Cash and restricted cash, January 1	42,951	977,425	1,020,376
Cash and restricted cash, December 31	<u>\$ 24,937</u>	<u>\$ 859,068</u>	<u>\$ 884,005</u>
<b>Reconciliation of cash and restricted cash at December 31 to statement of net assets:</b>			
Cash	\$ 24,937	\$ 160,375	\$ 185,312
Restricted cash	-	698,693	698,693
Total	<u>\$ 24,937</u>	<u>\$ 859,068</u>	<u>\$ 884,005</u>

**City of Fort Smith, Arkansas**  
**Combining Statement of Cash Flows**  
**Business-Type Component Units**  
**For the Year Ended December 31, 2006**  
(Continued)

	<u>Parking Authority</u>	<u>Airport</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (77,290)	\$ (2,372,213)	\$ (2,449,503)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:			
Depreciation	95,900	2,703,952	2,799,852
Miscellaneous revenue (expense)	(1,888)	40,298	38,410
Change in assets and liabilities:			
Accounts receivable	383	(22,495)	(22,112)
Inventory	-	(1,893)	(1,893)
Prepaid items	-	(7,705)	(7,705)
Accounts payable and accrued liabilities	(349)	(319,788)	(320,137)
Liabilities for accrued vacation and sick leave	(627)	-	(627)
Other liabilities	-	-	0
Total adjustments	<u>93,419</u>	<u>2,392,369</u>	<u>2,485,788</u>
Net cash provided by operating activities	<u>\$ 16,129</u>	<u>\$ 20,156</u>	<u>\$ 36,285</u>

**Capital Assets  
Used in the Operation  
of Governmental Funds**

The following three schedules present the capital asset balances related to governmental funds.

**City of Fort Smith, Arkansas**  
**Schedule of Capital Assets Used in the Operation of**  
**Governmental Funds by Source**  
**December 31, 2006**

<b>Capital Assets:</b>	
Land	\$ 22,804,220
Buildings	69,242,248
Improvements other than buildings	7,789,784
Machinery and equipment	23,694,396
Infrastructure	205,085,081
Accumulated depreciation	<u>(70,375,848)</u>
	258,239,881
Construction In Progress	<u>19,752,947</u>
<b>Total Capital Assets - Governmental Funds</b>	<b><u>\$ 277,992,828</u></b>

City of Fort Smith, Arkansas  
Schedule of Capital Assets Used in the Operation of Governmental Funds  
By Function and Activity Net of Accumulated Depreciation  
December 31, 2006

Function and Activity	Land	Buildings	Improvements Other Than Buildings	Machinery and Equipment	Infrastructure	Construction In Progress	Total
General Government							
Administration	\$ 81,050	\$ 121,980	\$ 27,757	\$ 550,834	\$ -	\$ -	\$ 781,621
Legal	-	-	24,005	223,634	-	-	247,639
Finance	-	45,375	61,794	1,893,815	-	-	2,000,984
Public Safety							
Police	1,150,000	5,210,127	291,278	4,634,756	-	1,585,490	12,871,651
Fire	313,242	3,030,046	6,350	5,978,822	-	-	9,328,460
Public Works							
Operations	60,933	-	54,689	207,298	-	-	322,920
Streets	9,916,992	-	-	3,421,605	205,085,081	16,752,019	235,175,697
Traffic control	-	-	-	389,677	-	-	389,677
Community Services							
Health and social services	-	-	20,002	20,742	-	-	40,744
Parks and recreation	1,950,366	8,406,370	6,990,882	1,207,322	-	1,297,555	19,852,495
Convention center	7,583,649	30,775,234	149,896	1,852,612	-	96,599	40,457,990
Transit	427,974	1,117,907	60,638	1,436,012	-	21,284	3,063,815
Housing and rehabilitation	-	193,982	102,493	23,241	-	-	319,716
Other	1,320,014	20,341,227	-	1,854,026	-	-	23,515,267
Sub-total	22,804,220	69,242,248	7,789,784	23,694,396	205,085,081	19,752,947	348,368,676
Accumulated depreciation	-	(10,316,916)	(4,959,435)	(14,798,215)	(40,301,282)	-	(70,375,848)
Total	\$ 22,804,220	\$ 58,925,332	\$ 2,830,349	\$ 8,896,181	\$ 164,783,799	\$ 19,752,947	\$ 277,992,828

City of Fort Smith, Arkansas  
 Schedule of Changes in Capital Assets Used in the Operation  
 of Governmental Funds By Function and Activity  
 For the Fiscal Year Ended December 31, 2006

Function and Activity	Capital Assets 12/31/05	Additions	Deletions	Transfers	Capital Assets 12/31/06
General Government					
Administration	\$ 770,485	\$ 26,132	\$ 14,996	\$ -	\$ 781,621
Legal	247,639	-	-	-	247,639
Finance	1,755,118	245,866	-	-	2,000,984
Public Safety					
Police	10,928,628	2,235,356	353,539	-	12,810,445
Fire	9,084,585	373,712	129,837	-	9,328,460
Public Works					
Operations	301,275	21,645	-	-	322,920
Streets	216,733,765	18,479,959	38,027	-	235,175,697
Traffic Control	419,336	58,536	88,195	-	389,677
Community Services					
Health and social services	40,744	-	-	-	40,744
Parks and recreation	18,107,330	1,919,926	113,555	-	19,913,701
Convention center	40,271,323	186,667	-	-	40,457,990
Transit	2,987,700	265,018	188,903	-	3,063,815
Housing and rehabilitation	333,406	-	13,690	-	319,716
Other	23,342,518	172,749	-	-	23,515,267
Accumulated Depreciation	(63,397,577)	(7,817,307)	(839,036)	-	(70,375,848)
Total	\$ 261,926,275	\$ 16,168,259	\$ 101,706	\$ -	\$ 277,992,828

Table 1

City of Fort Smith, Arkansas

Net Assets by Component

Last Four Fiscal Years

(Accrual Basis of Accounting)

	Fiscal Year		
	2003 (Restated)	2004 (Restated)	2005
<b>Governmental activities</b>			
Invested in capital assets, net of related debt	\$ 233,152,845	\$ 254,719,750	\$ 260,483,758
Restricted	6,135,903	4,470,232	3,988,372
Unrestricted (deficit)	55,062,995	55,390,169	66,055,588
<b>Total governmental activities net assets</b>	<b>\$ 294,351,743</b>	<b>\$ 314,580,151</b>	<b>\$ 330,527,718</b>
<b>Business-Type activities</b>			
Invested in capital assets, net of related debt	\$ 135,630,581	\$ 152,618,444	\$ 181,439,396
Restricted	25,199,051	24,005,631	26,844,476
Unrestricted (deficit)	(9,043,315)	(5,371,394)	(12,506,307)
<b>Total business-type activities</b>	<b>\$ 151,786,317</b>	<b>\$ 171,252,681</b>	<b>\$ 195,777,565</b>
<b>Primary government</b>			
Invested in capital assets, net of related debt	\$ 368,783,426	\$ 407,338,194	\$ 441,923,154
Restricted	31,334,954	28,475,863	30,832,848
Unrestricted (deficit)	46,019,680	50,018,775	53,549,281
<b>Total primary government activities</b>	<b>\$ 446,138,060</b>	<b>\$ 485,832,832</b>	<b>\$ 526,305,283</b>
			<b>\$ 250,104,666</b>
			<b>44,488,640</b>
			<b>33,741,938</b>
			<b>\$ 328,335,244</b>

Note: This is the fourth 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 Four Fiscal Years  
(Accrual Basis of Accounting)

	Fiscal Year			
	2003 (Restated)	2004 (Restated)	2005	2006
<b>Expenses</b>				
Governmental Activities:				
General government	\$ 6,285,719	\$ 6,291,295	\$ 7,204,031	\$ 7,401,742
Public safety	22,479,701	22,814,182	25,007,200	28,283,667
Public works	9,750,060	8,547,371	8,624,464	11,583,305
Community services	9,881,779	10,319,043	10,723,724	11,465,302
Interest on long-term debt	519,078	128,042	-	671,893
Total governmental activities expenses	48,916,337	48,099,933	51,559,419	59,405,909
Business-Type Activities:				
Water and sewer	31,172,483	29,270,855	29,678,171	32,920,994
Sanitation	8,466,593	9,300,590	9,075,365	10,507,258
Total business-type activities expenses	39,639,076	38,571,445	38,753,536	43,428,252
Total primary government expenses	\$ 88,555,413	\$ 86,671,378	\$ 90,312,955	\$ 102,834,161
<b>Program Revenues</b>				
Governmental Activities:				
Charges for services	\$ 2,933,495	\$ 3,141,036	\$ 3,445,662	\$ 3,551,771
General government	233,786	223,224	219,114	283,460
Public safety	-	466,849	-	50
Public works	754,306	849,429	890,174	1,009,470
Community services	9,786,072	9,837,419	10,513,626	7,006,913
Operating grants and contributions	6,650,958	6,600,991	2,106,374	3,082,171
Capital grants and contributions	20,358,617	21,118,948	17,174,950	14,933,835
Total governmental activities program revenues	28,306,482	28,995,627	30,402,025	32,645,032
Business-Type Activities:				
Charges for services	9,393,659	10,474,818	11,129,352	11,811,666
Water and sewer	596,100	343,786	-	-
Sanitation	259,167	980,093	1,376,054	1,954,879
Operating grants and contributions	38,555,408	40,794,324	42,907,431	46,411,577
Capital grants and contributions	58,914,025	61,913,272	60,082,381	61,345,412
Total business-type activities program revenues	\$ 28,557,720	\$ 26,980,985	\$ 34,584,469	\$ (44,472,074)
Total primary government program revenues	\$ (1,083,668)	\$ 2,222,879	\$ 4,153,895	\$ 2,983,325
Net (expense) revenue	\$ (29,641,388)	\$ (24,758,106)	\$ (30,230,574)	\$ (41,488,749)
Governmental activities				
Business-type activities				
Total primary government net expense				

**Table 2**  
(Continued)

**City of Fort Smith, Arkansas**

**Changes in Net Assets  
Last Four Fiscal Years**  
(Accrual Basis of Accounting)

	Fiscal Year			
	2003 (Restated)	2004 (Restated)	2005	2006
<b>General Revenues and Other Changes in Net Assets</b>				
Governmental activities:				
Taxes				
Property taxes	\$ 16,117,664	\$ 8,812,154	\$ 8,932,234	\$ 9,392,423
Sales taxes	35,748,841	30,940,060	31,236,465	40,747,820
Utility franchise fees	5,530,957	5,986,546	6,833,462	7,406,294
Alcoholic beverage taxes and miscellaneous taxes	463,596	-	-	-
Unrestricted grants and contributions	1,411,739	1,280,450	1,277,089	5,139,979
Unrestricted investment earnings	813,104	740,108	1,489,322	3,220,403
Gain on sale of capital assets	4,174	24,462	852	22,838
Other	100,331	14,907	768,612	1,088,665
Transfers	(579,200)	(589,294)	(206,000)	(24,738,822)
Total governmental activities	59,611,206	47,209,393	50,332,036	42,279,600
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
Other	283,977	212,889	317,700	304,583
Transfers	579,200	589,294	206,000	24,738,822
Total business-type activities	11,041,065	17,243,485	20,370,989	38,807,771
Total primary government	\$ 70,652,271	\$ 64,452,878	\$ 70,703,025	\$ 81,087,371
<b>Change in Net Assets</b>				
Governmental activities	\$ 31,053,486	\$ 20,228,408	\$ 15,947,567	\$ (2,192,474)
Business-type activities	9,957,397	19,466,364	24,524,884	41,791,096
Total primary government	\$ 41,010,883	\$ 39,694,772	\$ 40,472,451	\$ 39,598,622

Note: This is the fourth 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**

<u>Fiscal Year</u>	<u>Ad Valorem Taxes</u>	<u>Sales Taxes (1)</u>	<u>Utility Franchise Fees</u>	<u>Total</u>
1997	\$ 5,917,006	\$ 19,732,421	\$ 4,055,915	\$ 29,705,342
1998	6,031,319	26,599,219	4,237,391	36,867,929
1999	6,242,972	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

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

Table 4

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	\$ 2,733,524	\$ 300,758	\$ 1,541,830	\$ 1,184,473	\$ 563,055	\$ 1,101,074	\$ 1,297,557	\$ 2,850,478	\$ 3,152,121	\$ 4,706,017
Unreserved	(1,931,205)	(306,529)	1,121,448	2,836,710	3,630,696	4,431,214	5,260,425	5,911,270	7,426,514	7,607,076
Total general fund	\$ 782,319	\$ (5,771)	\$ 2,663,278	\$ 4,021,183	\$ 4,193,751	\$ 5,532,288	\$ 6,557,982	\$ 8,761,748	\$ 10,578,635	\$ 12,313,093
All other governmental funds										
Reserved	\$ 14,372,806	\$ 21,561,008	\$ 24,909,521	\$ 33,158,304	\$ 36,524,914	\$ 32,259,904	\$ 29,997,170	\$ 27,560,991	\$ 34,639,037	\$ 101,879,344
Unreserved, reported in:										
Special revenue funds	8,848,857	9,502,349	13,050,044	14,280,491	13,988,578	15,563,250	16,934,572	16,062,417	16,468,864	13,477,723
Debt service fund	-	-	-	-	-	-	-	-	-	3,634,024
Capital projects funds	42,714,496	43,543,539	34,482,847	4,872,479	1,816,158	966,281	549,288	367,067	394,212	457,785
Total all other governmental funds	\$ 65,936,159	\$ 74,606,896	\$ 72,442,412	\$ 52,311,274	\$ 52,329,650	\$ 48,789,435	\$ 47,481,030	\$ 43,980,475	\$ 51,502,113	\$ 119,448,876
Total governmental fund balances	\$ 66,718,478	\$ 74,601,125	\$ 75,105,690	\$ 56,332,457	\$ 56,523,401	\$ 54,321,723	\$ 54,039,012	\$ 52,752,223	\$ 62,080,748	\$ 131,761,969

Table 5

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

	1997	1998	1999	2000	2001	2002	2003 (Restated)	2004 (Restated)	2005	2006
<b>Revenues</b>										
Taxes (1)	\$ 29,705,342	\$ 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
Licenses and permits	845,841	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
Intergovernmental	7,757,251	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
Fines and forfeitures	1,835,552	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
Charges for services	286,489	384,289	329,352	340,266	720,524	786,492	881,942	941,582	1,099,840	1,099,840
Investment earnings	1,302,501	4,174,469	2,980,151	3,921,011	2,864,102	1,515,915	846,138	735,355	1,530,732	3,326,046
Contributions	639,134	695,080	1,014,852	1,032,084	930,455	831,586	785,030	774,010	808,149	2,166,420
Miscellaneous	136,934	944,074	195,964	166,504	360,903	590,805	858,521	696,478	808,149	470,606
Total revenues	42,509,044	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
<b>Expenditures</b>										
General government	3,016,803	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
Public safety	14,298,925	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
Public works	16,945,529	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
Community services	1,390,933	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
Other	1,707,646	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
Capital outlay	5,322,896	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
Debt service	-	2,100,000	5,520,000	6,325,000	9,220,000	8,178,002	7,785,000	6,540,000	-	-
Principal	-	-	-	-	-	-	-	-	-	-
Interest	252,333	2,140,216	1,965,305	1,673,421	1,391,728	937,122	519,078	128,042	-	671,893
Total expenditures	42,933,065	52,820,974	64,695,637	83,719,277	68,301,124	68,617,120	72,601,573	69,021,102	56,486,246	74,003,110
Excess (deficiency) of revenues over (under) expenditures	(426,021)	7,544,232	(1,975,950)	(17,546,184)	1,748,134	(2,210,930)	18,499	(1,560,907)	8,292,812	6,437,655
Other financing sources and (uses)										
Transfers in	729,881	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
Transfers out	(1,477,311)	(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)
Proceeds from bond issuance	45,423,416	-	-	-	-	-	-	-	-	88,299,286
Capital leases	-	-	-	-	-	589,455	277,990	613,023	1,241,713	341,156
Total other financing sources (uses)	44,675,986	338,415	2,480,515	(1,227,049)	(1,557,190)	8,352	(301,210)	274,118	1,035,803	63,241,566
Net change in fund balances	\$ 44,249,965	\$ 7,882,647	\$ 504,565	\$ (18,773,233)	\$ 190,944	\$ (2,201,678)	\$ (282,711)	\$ (1,286,789)	\$ 9,328,615	\$ 69,681,221
Debt service as a % of noncapital expenditures	0.7%	10.3%	15.9%	16.2%	17.3%	14.0%	17.0%	13.9%		1.3%

(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
1997	\$ 5,724,797	\$ 5,532,859	96.65%	\$ 195,923	\$ 5,728,782	100.07%	\$ 221,049	3.86%
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%

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

Table 7

City of Fort Smith, Arkansas

Assessed and Estimated Actual Value of Taxable Property  
Last Ten Fiscal Years

Fiscal Year (1)	Real Property		Personal Property		Total		Ratio of Total Assessed to Total Estimated Actual
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
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	752,579,357	3,762,896,785	375,556,620	1,877,783,100	1,128,135,977	5,640,679,885	20.00%

(1) Fiscal year is year of valuation.

City of Fort Smith, Arkansas

Property Tax Rates and Tax Levies  
All Direct and Overlapping Governments  
Last Ten Fiscal Years

Fiscal Year (1)	Tax rates (per \$100 of assessed valuation):										Total Direct & Overlapping Rates	
	City of Fort Smith		Sebastian County		Fort Smith School District		FS Public Library		U of A Fort Smith		Real Property	Personal Property
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property		
1997	\$ 0.70	\$ 0.70	\$ 0.80	\$ 0.80	\$ 3.65	\$ 3.65	\$ 0.10	\$ 0.10	\$ 0.53	\$ 0.53	\$ 5.78	\$ 5.78
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	0.00	0.00	5.25	5.25
2003	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.00	0.00	5.25	5.25
2004	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.00	0.00	5.25	5.25
2005	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.00	0.00	5.25	5.25
2006	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.00	0.00	5.25	5.25

Fiscal Year (1)	Tax levies (millages):										Total	
	City of Fort Smith		Sebastian County		Fort Smith School District		FS Public Library		U of A Fort Smith		Real Property	Personal Property
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property		
1997	\$ 7.00	\$ 7.00	\$ 8.00	\$ 8.00	\$ 36.50	\$ 36.50	\$ 1.00	\$ 1.00	\$ 5.25	\$ 5.25	\$ 57.75	\$ 57.75
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	0.00	0.00	52.50	52.50
2003	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	0.00	0.00	52.50	52.50
2004	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	0.00	0.00	52.50	52.50
2005	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	0.00	0.00	52.50	52.50
2006	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	0.00	0.00	52.50	52.50

(1) Fiscal year is year of levy.

Table 9

City of Fort Smith, Arkansas

Principal Taxpayers  
Current Year and Nine Years Ago  
(Unaudited)

Name of Taxpayer (1)	2006			1997		
	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)	\$ 6,961,500	1	0.67%	\$ 6,733,995	6	0.93%
Wal-Mart	6,352,753	2	0.61%	5,710,750	10	0.79%
Whirlpool Corporation	5,800,000	3	0.56%	11,383,220	1	1.58%
GGNSC Administrative Services	5,619,990	4	0.54%			
Medical Office Buildings of Arkansas, LLC	3,904,725	5	0.38%			
St. Edward Mercy Medical Center	3,141,690	6	0.30%			
Arkansas Best Corporation	3,831,000	7	0.37%	6,157,790	7	0.85%
Gerber Products Company	3,308,820	8	0.32%	6,869,475	5	0.95%
Widwer Place, Inc.	3,100,390	9	0.30%			
The Park Apartments of Fort Smith	2,792,810	10	0.27%			
Hiram Walker & Sons, Inc.	2,707,910	11	0.26%	7,033,435	4	0.98%
OK Foods, Inc.	2,645,330	12	0.26%			
Norton Propants, Inc.	2,465,170	13	0.24%			
Zero Mountain, Inc.	2,324,710	14	0.23%			
Trane CAC, Inc.	2,171,670	15	0.21%			
Hotel West II, LLP	2,107,897	16	0.20%			
Baldor	1,965,450	17	0.19%			
Planters Lifesavers	1,931,805	18	0.19%	6,008,220	8	0.83%
Oklahoma Gas & Electric Co.				11,089,763	2	1.54%
Southwestern Bell Telephone				7,248,217	3	1.01%
Arkansas Oklahoma Gas Corp.				5,945,706	9	0.82%
	\$ 63,133,620		6.72%	\$ 74,180,571		10.28%

(1) Sebastian County Assessor's Office.

(2) Property taxes collected in 2006 are based upon 2005 assessed valuation of \$1,080,092,195. Property taxes collected in 1997 were based upon the 1996 assessed valuation of \$721,029,425.

**Table 10**

**City of Fort Smith, Arkansas**

**Computation of Direct and Estimated Overlapping Debt  
December 31, 2006  
(Unaudited)**

<u>Taxing Jurisdiction</u>	<u>Total Outstanding Bonded Debt (1)</u>	<u>Estimated Percent Applicable (2)</u>	<u>Direct and Estimated Overlapping Bonded Debt</u>
Direct:			
City of Fort Smith	<u>\$ 84,935,000</u>	100%	<u>\$ 84,935,000</u>
Overlapping:			
Fort Smith Special School District	31,885,563	100%	31,885,563
Greenwood School District	37,505,000	5%	1,875,250
Sebastian County	<u>1,835,000</u>	76%	<u>1,394,600</u>
Total Overlapping	<u>71,225,563</u>		<u>35,155,413</u>
Total direct and estimated overlapping bonded debt	<u>\$ 156,160,563</u>		<u>\$ 120,090,413</u>
Ratio, direct and estimated overlapping debt to fiscal 2005 assessed valuation (3)			12%
Per capita direct and estimated overlapping bonded debt (4)			<u>\$ 1,496</u>

(1) Excluding self-supporting debt.

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

(3) From Table 7, \$1,080,092,195.

(4) Based on 2000 census population of 80,268.

Table 11

City of Fort Smith, Arkansas

Computation of Legal Debt Margin  
Last Ten Fiscal Years

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Net assessed value (1)	\$ 731,776,011	\$ 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	\$ 1,128,135,977
Plus exempt property (2)	-	-	-	-	-	-	-	-	-	-
Total assessed value	\$ 731,776,011	\$ 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	\$ 1,128,135,977
Debt limit - 25% of total assessed value (3)	\$ 182,944,003	\$ 190,278,840	\$ 195,194,338	\$ 217,404,852	\$ 232,639,727	\$ 234,808,242	\$ 243,927,755	\$ 258,285,320	\$ 270,023,049	\$ 282,033,994
Amount of debt applicable to limit (4)	-	-	-	-	-	-	-	-	-	-
Debt Margin	\$ 182,944,003	\$ 190,278,840	\$ 195,194,338	\$ 217,404,852	\$ 232,639,727	\$ 234,808,242	\$ 243,927,755	\$ 258,285,320	\$ 270,023,049	\$ 282,033,994

(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	Revenue Bonds	Capital Leases			
1997	\$ 45,655,000	\$ -	\$ -	\$ 35,560,000	\$ -	\$ -	\$ -	\$ -	\$ 81,215,000	1.7%	\$ 1,116
1998	43,555,000	-	-	33,965,000	-	-	-	-	77,520,000	1.5%	1,065
1999	38,035,000	-	-	58,600,000	-	-	-	-	96,635,000	1.8%	1,327
2000	31,710,000	-	-	55,910,000	-	-	-	-	87,620,000	1.5%	1,092
2001	22,490,000	-	-	51,170,000	-	-	-	-	153,660,000	2.4%	1,914
2002	14,325,000	-	576,453	154,200,000	-	-	-	-	242,781,453	3.8%	3,025
2003	6,540,000	-	667,331	151,045,000	-	-	-	440,757	227,108,088	3.4%	2,829
2004	-	-	891,735	144,755,000	-	-	-	298,315	204,215,050	3.1%	2,544
2005	-	-	1,442,517	146,795,000	-	-	-	562,877	191,795,394	2.7%	2,389
2006	84,935,000	2,290,000	388,004	139,125,000	-	-	-	315,442	227,053,446	3.0%	2,829

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

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

Table 13

City of Fort Smith, Arkansas

Revenue Bonds Debt Service Coverage  
Last Ten Fiscal Years

Fiscal Year	Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements		Coverage
				Principal	Interest (3)	
<b>Water and Sewer System</b>						
1997	\$14,109,692	\$10,787,499	\$3,322,193	\$1,080,000	\$1,373,600	135%
1998	14,595,971	11,178,704	3,417,267	1,125,000	1,325,023	139%
1999	17,666,495	11,906,342	5,760,153	1,170,000	1,610,697	207%
2000	23,046,282	12,557,120	10,489,162	2,050,000	2,561,255	227%
2001	23,167,106	13,753,378	9,413,728	2,140,000	1,832,688	237%
2002	28,693,062	14,727,485	13,965,577	2,240,000	2,624,305	287%
2003	30,461,180	15,104,962	15,356,218	2,370,000	3,990,161	241%
2004	30,676,280	16,339,330	14,336,950	5,070,000	2,931,611	179%
2005	32,668,644	17,116,764	15,551,880	5,700,000	3,016,704	178%
2006	35,439,335	21,269,130	14,170,205	6,820,000	2,776,864	148%
<b>Solid Waste System</b>						
1997	\$7,305,144	\$5,819,320	\$1,485,824	\$525,000	\$674,991	124%
1998	7,489,476	5,967,537	1,521,939	450,000	617,605	143%
1999	8,220,315	6,533,853	1,686,462	610,000	555,378	145%
2000	10,155,226	7,134,530	3,020,696	635,000	528,529	260%
2001	9,591,135	7,345,440	2,245,695	665,000	499,594	193%
2002	9,803,303	7,054,152	2,749,151	975,000	302,660	215%
2003	9,511,187	7,003,747	2,507,440	785,000	277,400	236%
2004	10,622,944	8,069,676	2,553,268	805,000	260,782	240%
2005	11,441,729	7,775,933	3,665,796	820,000	239,814	346%
2006	12,216,101	9,108,943	3,107,158	850,000	214,021	292%

(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 (1)	Personal Income (in thousands)	Per Capita Income (2)	Median Age	Education Level in Years of Schooling (3)	School Enrollment (4)	Unemployment Rate (2)
1997	72,798	\$4,920,951	\$22,088	34.0	12	12,741	5.2%
1998	72,798	5,229,608	23,408	34.0	12	12,496	5.3%
1999	72,798	5,487,943	21,029	34.0	12	12,430	4.0%
2000	80,268	5,889,238	22,270	34.0	12	12,637	3.6%
2001	80,268	6,278,360	22,676	34.0	12	12,596	4.2%
2002	80,268	6,403,948	23,021	35.0	12	12,844	4.9%
2003	80,268	6,628,057	26,624	35.2	12	12,871	5.4%
2004	80,268	6,539,868	24,802	35.3	12	12,921	5.0%
2005	80,268	7,030,449 *	25,828	35.4	12	13,373	4.2%
2006	80,268	7,514,026 *	26,603 *	35.4	12	13,633	4.9%

## 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	2006			1997		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
O K Foods	4,748	1	3.4%	2,948	2	2.4%
Whirlpool Corporation	4,200	2	3.0%	3,150	1	2.5%
Baldor Electric	2,262	3	1.6%	1,400	7	1.1%
Sparks Regional Medical Center	2,170	4	1.6%	1,952	3	1.6%
St. Edward Mercy Medical Center	1,800	5	1.3%	1,310	8	1.1%
Rheem-Ruud	1,774	6	1.3%	1,850	4	1.5%
Fort Smith Public Schools	1,702	7	1.2%	1,505	6	1.2%
Arkansas Best Corp.	946	8	0.7%	-		
City of Fort Smith	890	9	0.6%	741	11	0.6%
Cooper Clinic	730	10	0.5%	-		
Holt Krock Clinic	-			1,026	9	0.8%
James River Corp.	-			535	13	0.4%
University of Arkansas at Fort Smith	772	11	0.6%	-		
Gerber Products	761	12	0.5%	520	14	0.4%
Trane Company	680	13	0.5%	836	10	0.7%
Area Agency on Aging	600	14	0.4%	-		
Golden Ventures/Beverly Enterprises	600	14	0.4%	649	12	0.5%
Bost Human Development Services	600	14	0.4%	-		
Riverside Furniture Corp.	550	17	0.4%	1,600	5	1.3%
Total	<u>25,785</u>		<u>18.5%</u>	<u>20,022</u>		<u>16.1%</u>

Data sources:

Chamber of Commerce

U. S. Department of Labor, employment totals:

2006 139,100

1997 124,705

Table 16

City of Fort Smith, Arkansas

Full-time Equivalent City Government Employees by Function  
Last Ten Fiscal Years

Function	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government	93	101	102	109	113	118	122	123	124	124
Public safety										
Police										
Officers	144	148	148	152	150	150	154	160	160	168
Civilians	40	43	43	43	45	47	46	47	47	46
Fire										
Firefighters and officers	119	119	122	125	125	125	125	125	126	126
Civilians	3	3	3	3	3	3	3	3	3	3
Public Works										
Operations	4	5	5	5	5	5	5	5	5	5
Streets	44	44	44	44	46	46	46	46	46	46
Traffic control	11	12	12	12	13	13	13	12	13	13
Parks and recreation	24	28	29	36	45	44	45	47	53	54
Transit	22	24	30	28	34	35	35	35	35	37
Water and sewer	156	162	169	181	181	181	182	183	185	191
Sanitation	79	80	80	85	84	83	79	75	76	77
<b>Total</b>	<b>739</b>	<b>769</b>	<b>787</b>	<b>823</b>	<b>844</b>	<b>850</b>	<b>855</b>	<b>861</b>	<b>873</b>	<b>890</b>

Table 17

## City of Fort Smith, Arkansas

Capital Asset Statistics by Function  
Last Ten Fiscal Years

Function	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Police:</b>										
Stations	1	1	1	1	1	1	1	1	1	1
Sub-stations (2)	-	-	-	-	-	-	-	-	-	8
Patrol units	12	12	16	20	20	20	20	20	20	21
<b>Fire:</b>										
Stations	10	10	10	10	10	10	10	10	10	10
Apparatus	19	19	20	20	21	21	22	22	22	21
Streets	497	497	497	532	541	603	582	590	558	562
Streets (miles)	5,011	5,011	5,011	5,350	5,383	5,383	5,589	5,285	5,954	5,971
Streetlights	106	106	106	122	122	123	123	133	136	135
<b>Parks and recreation</b>										
Parks acreage (square feet)	128	128	128	287	292	295	295	315	260	275
Parks	9	9	9	11	18	20	20	26	26	26
Swimming pools	2	2	2	2	2	1	1	1	1	1
Water splashpad	-	-	-	-	-	-	-	1	1	1
Tennis courts	14	14	14	14	14	14	14	14	14	14
Skatepark	-	-	-	-	-	-	1	1	1	1
Community centers	2	2	2	2	4	4	4	4	4	5
Convention center -										
Theater - seats	1,513	1,513	1,513	1,375	1,375	1,375	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	13,200	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Transit buses	6	9	11	11	18	18	18	17	20	20
<b>Water and sewer</b>										
Water mains (miles)	565	565	570	570	576	576	584	584	584	634
Average daily production capacity (thousands of gallons)	42,000	42,000	45,000	45,000	45,000	55,000	55,000	55,000	55,000	55,000
Average daily consumption (thousands of gallons)	22,278	22,278	41,395	47,297	48,686	30,656	45,379	45,379	45,536	41,536
Sanitary sewers (miles)	470	470	470	470	481	481	488	503	503	505
Storm sewers	NA	NA	NA	NA	NA	NA	NA	7,900	7,900	7,900
<b>Sanitation</b>										
Collection trucks	58	58	59	58	56	52	52	52	52	52
Landfill capacity (in cubic yards) (1)	11,357,000	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

NA - not available

(1) During 2003, the City acquired an additional 400 acres of land for the landfill. The landfill permit was expanded from a storage capacity of 13,507,000 cubic yards to 72,607,000 cubic yards. The 2005 engineering survey indicated that the capacity remaining at the landfill increased between 2004 and 2005 due to the construction of Phase 4 of the landfill project.

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

Table 18

City of Fort Smith, Arkansas

Operating Indicators by Function  
Last Ten Fiscal Years

Function	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police:										
Physical arrests	11,148	9,512	8,537	8,204	6,877	7,865	8,113	9,362	10,417	10,152
Parking violations	22,538	22,538	21,111	14,819	15,424	12,308	11,722	10,905	3,487	1,732
Traffic violations	19,075	15,476	16,055	15,563	16,249	16,191	18,466	19,287	19,289	20,442
Fire										
Number of calls answered	1,589	4,535	4,751	5,988	5,953	6,517	7,022	6,699	6,461	7,326
Transit										
Passenger trips	29,593	71,023	93,791	111,459	149,341	147,620	158,652	163,503	173,556	155,515
Water and sewer										
New connections	370	389	506	506	456	529	529	438	464	1,391
Average daily production										
(thousands of gallons)	22,278	26,629	26,629	27,821	29,511	29,511	29,782	29,782	29,161	28,876
Average daily sewage flow										
(thousands of gallons)	13,800	13,800	13,800	13,800	16,900	15,130	15,500	15,500	15,500	15,290
Sanitation										
Waste disposal (cubic yards/day)	3,239	3,196	3,772	3,049	3,020	2,586	2,401	3,011	3,475	3,848

Note: Transit operations began in August 1997.

Table 19

## City of Fort Smith, Arkansas

**Local Sales and Use Tax Collections  
Continuing Disclosure Requirement  
Last Ten Fiscal Years**

Fiscal Year	1% City Sales & Use Tax Allocated for Streets (1)	City Share 1% County Sales & Use Tax (2)	1% City Sales & Use Tax Allocated for Bonds (3)	Total
1997	\$ 13,504,781	\$ 10,925,683	\$ -	\$ 24,430,464
1998	13,936,617	11,243,858	6,253,603	31,434,078
1999	14,689,273	11,812,187	7,344,637	33,846,097
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
<b>Total</b>	<b><u>\$ 156,709,611</u></b>	<b><u>\$ 124,710,583</u></b>	<b><u>\$ 117,108,697</u></b>	<b><u>\$ 398,528,891</u></b>

(1) The 1% 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.

Table 20

## City of Fort Smith, Arkansas

**Solid Waste System Statistics Continuing Disclosure Requirement  
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Annual # Sanitation System Customers</u>	<u>Cubic Yardage of Waste at Landfill</u>	<u>Useful Life of Landfill Remaining</u>	<u>Remaining Storage Capacity at Landfill</u>
1997	221,300	1,175,821	16 yrs	11,357,000 cubic yards
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	290,532	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

(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 RequirementWater 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
2002	28,240,000	43,503,000	9,584,920,620	14,250,000
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

Water Users by Category  
Last Five Fiscal Years  
(Unaudited)

Fiscal Year	Residential	Commercial	Wholesale	Other	Total
2002	25,877	4,022	12	10	29,921
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	12	104	31,888

Sewer Users by Category  
Last Five Fiscal Years  
(Unaudited)

Fiscal Year	Residential	Commercial	Government	Total
2002	27,129	3,711	10	30,850
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

10 Largest Users of the System  
For the Fiscal Year Ended December 31, 2005 (1)  
(Unaudited)

Entity	Water	Sewer	Total	% of Gross Revenues
City of Van Buren	\$ 3,287,057	\$ 0	\$ 3,287,057	10.1%
OK Foods	1,684,028	0	1,684,028	5.2%
Gerber Products	1,170,329	780,864	1,951,193	6.0%
Quanex Macsteel	213,583	0	213,583	0.7%
St. Edward Mercy Medical Ctr.	196,073	295,315	491,388	1.5%
Sparks Medical Center	165,081	109,604	274,685	0.8%
Whirlpool	121,424	108,692	230,116	0.7%
Southern Steel & Wire	114,785	155,468	270,253	0.8%
Ben Geren Regional Park	80,986	1,014	82,000	0.3%
Twin Rivers Packaging	63,849	85,935	149,784	0.5%
Top Ten Users	<u>\$ 7,097,195</u>	<u>\$ 1,536,892</u>	<u>\$ 8,634,087</u>	26.4%

(1) The water and sewer revenue bond covenants require the 10 largest users of the system be presented for the preceding fiscal year.



## 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, 2006.

- (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

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

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

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

In our opinion, the City of Fort Smith, Arkansas complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2006.

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 4, 2007

BKD, LLP



## 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 City of Fort Smith, Arkansas as of and for the year ended December 31, 2006, which collectively comprise its basic financial statements and have issued our report thereon dated June 4, 2007, which contained a reference to the report of other accountants and contained an explanatory paragraph regarding three changes in accounting principles. 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 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 of the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the

deficiency described in the accompanying schedule of findings and responses as item 2006-01 to be a significant deficiency in internal control over financial reporting.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency referenced as item 2006-01 described above to be a material weakness.

### **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 4, 2007.

This report is intended solely for the information and use of the Mayor, Board of Directors, management and others within the City and federal and state 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 4, 2007

BKD, LLP



## 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 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 each of its major federal programs for the year ended December 31, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the compliance of 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 each of its major federal programs for the year ended December 31, 2006.

### 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 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

BKD, LLP

June 4, 2007

City of Fort Smith  
 Schedule of Expenditures of Federal and State Awards  
 Year Ended December 31, 2006

<u>Granting Agency/Grant Program</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
<b>Federal Awards</b>			
<b>Department of Housing and Urban Development</b>			
Direct Federal Payments:			
Community Development Block Grants:			
Program Year 29	14.218	B03MC050003	\$ 137,996
Program Year 30	14.218	B04MC050003	1,007,000
Program Year 31	14.218	B05MC050003	259,112
			<u>1,404,108</u>
Home Investment Partnership Act	14.239	M01MC050202	20,111
Home Investment Partnership Act	14.239	M02MC050202	15,715
Home Investment Partnership Act	14.239	M03MC050202	9,127
Home Investment Partnership Act	14.239	M04MC050202	215,997
Home Investment Partnership Act	14.239	M05MC050202	56,685
Home Investment Partnership Act	14.239	M06MC050202	15,292
			<u>332,927</u>
EDI Special Projects	14.246	B-04-SP-AR-0058	<u>214,792</u>
<b>Total Department of Housing and Urban Development</b>			<u>1,951,827</u>
<b>Department of Justice</b>			
2006-DJ-B Justice Assistance	16.738	2006-DJ-BX-0643	73,121
Department of Justice Drug Enforcement Task Force			57,019
Organized Crime Drug Enforcement Task Force	N/A	WC AR W 044	<u>7,403</u>
<b>Total Department of Justice</b>			<u>137,543</u>
<b>U.S. Department of Transportation:</b>			
Passed through the Arkansas Highway Transportation Department:			
Federal Transit Administration Grant:			
Operating and Capital	20.507	AR090X062	15,185
Operating and Capital	20.507	AR090X072	<u>994,078</u>
<b>Total Department of Transportation</b>			<u>1,009,263</u>
<b>U.S. Department of Homeland Security</b>			
FEMA- Federal Emergency Management Agency			
Assistance to Firefighters Grant	97.044	EMW-2005-FG-08152	74,736
Transportation Security Administration			
Law Enforcement Officer-Airport Security	N/A	HSTS01-04-A-LEF-033	<u>163,667</u>
<b>Total U.S. Department of Homeland Security</b>			<u>238,403</u>
<b>U. S. Environmental Protection Agency</b>			
Passed through the Arkansas Soil & Water Conservation Commission			
Lee Creek Watershed Water Quality Monitoring Grant	66.460	C - 999610312 Project 04 - 800	<u>11,129</u>
<b>Total U. S. Environmental Protection Agency</b>			<u>11,129</u>
<b>Total Federal Awards</b>			<u>\$ 3,348,165</u>

City of Fort Smith  
 Schedule of Expenditures of Federal and State Awards  
 Year Ended December 31, 2006

<u>Granting Agency/Grant Program</u>	<u>Grant Number</u>	<u>Expenditures</u>
<b>State Awards</b>		
<b>Arkansas Department of Pollution Control and Ecology - Solid Waste Management and Recycling Grant Fund Program:</b>		
Equipment, Education, Market Development and Administration	SE01-02	\$ 425
Equipment, Education, Market Development and Administration	SE01-03,02-03	10,589
Equipment, Education, Market Development and Administration	SE03-04,0,04-04,05-04,06-04	58,221
Equipment, Education, Market Development and Administration	SE00-05,03-05,07-05,09-05	180,628
Equipment, Education, Market Development and Administration	SE50-06,51-06	16,405
<b>Total Arkansas Department of Pollution Control and Ecology</b>		<u>266,268</u>
<b>Department of Arkansas Heritage:</b>		
CLG Grant-Historic Preservation Program	CLG RETT 04-02	1,587
CLG Grant-Historic Preservation Program	CLG04-02	1,892
CLG Grant-Historic Preservation Program	CLG 05-03	289
CLG Grant-Historic Preservation Program	CLG 06-04	5,469
Arts on Tour	FY07-632-7859	2,000
<b>Total Arkansas Department of Heritage</b>		<u>11,237</u>
<b>Arkansas State Highway and Transportation Department</b>		
Phoenix Avenue	50B 040223	165,633
Alcohol/Other Drug Countermeasures Program	J8-2006-08-09-08	76,432
Alcohol/Other Drug Countermeasures Program	J8-2007-08-09-09	29,170
State Assistance Fund	N/A	28,638
Public Transit Trust Fund	N/A	164,380
<b>Total Arkansas State Highway and Transportation Department</b>		<u>464,254</u>
<b>Arkansas Department of Emergency Management</b>		
Public Assistance - Katrina	FEMA 3215-EM-AR	4,084
<b>Total Arkansas Department of Emergency Management</b>		<u>4,084</u>
<b>Arkansas Department of Parks and Tourism</b>		
Tourism Attraction Feasibility Study	N/A	12,624
<b>Total Arkansas Department of Parks and Tourism</b>		<u>12,624</u>
<b>Total State Awards</b>		<u>758,467</u>
<b>Total Federal and State Awards</b>		<u>\$ 4,106,632</u>

(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 Schedule 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 principals 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 Schedule 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 Schedule 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 financial assistance revenue as reported in the City's basic financial statements to the Schedule of Expenditures of Federal and State Awards:

Total intergovernmental revenue	\$	12,734,833
State turnback revenue		(8,154,832)
Local match		<u>( 473,369)</u>
Federal and state financial assistance per accompanying schedule	\$	<u>4,106,632</u>

(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	\$ 479,516
HOME Investment Partnership	14.239	274,364

**City of Fort Smith, Arkansas**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2006**

**Summary of Auditor's Results**

1. The opinion(s) expressed in the independent accountants' report was (were):  
(Check each description that applies)  
 Unqualified       Qualified       Adverse       Disclaimed
  
2. The independent accountants' report on internal control over financial reporting 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:  
Reportable condition(s) noted considered material weakness(es)?       Yes       No  
Reportable condition(s) 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)**  
**Year Ended December 31, 2006**

7. The City's major programs were:

<u>Cluster/Program</u>	<u>CFDA Number</u>
Community Development Block Grants Cluster	
Twenty-Ninth Entitlement	14.218
Home Investment Partnership Act	14.239

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

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

**City of Fort Smith, Arkansas**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2006**

**Findings Required to be Reported by Government Auditing Standards**

Reference Number	Finding	Questioned Costs
2006-01	<p><i>Revenue Recognition in the Airport's Financial Statements</i></p> <p><u>Criteria or specific requirement</u></p> <p>One of the objectives of an entity's internal controls over financial reporting is to prevent or detect misstatements in the financial statements which would include noncompliance with accounting principles generally accepted in the United States of America.</p> <p><u>Condition</u></p> <p>The Fort Smith Regional Airport (Airport), a component unit of the City, did not recognize revenues related to capital improvements made by airport tenants to Airport property, contingent rentals received from parking lot and rental car fees and passenger facility charges in accordance with accounting principles general accepted in the United States of America (GAAP).</p> <p><u>Context</u></p> <p>In accordance with GAAP, contingent rentals received from parking lot and rental car fees should be recognized when earned. Also, passenger facility charge revenues earned in accordance with federal regulations should be recognized when earned. However, these revenues were reported by the Airport when they were received.</p> <p>Capital improvements made by airport tenants become the property of the Airport upon completion of construction per the respective lease agreements. Therefore, the Airport should record contributed capital for the value of the improvements in the year construction is completed or the improvement is placed in service, whichever occurs first in accordance with GASB Statement No. 33 <i>Accounting and Financial Reporting for Nonexchange Transactions</i>. Previously, the Airport amortized and recognized contributed capital over the term of the respective leases.</p>	

**City of Fort Smith, Arkansas**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2006**

Effect

The Airport's 2005 net assets, revenues and accounts receivable balances were misstated. The financial statements were restated to change the Airport's method of accounting for leasehold improvements as they were previously recognized as revenue over the term of the respective leases and to reflect the estimated accrual of the revenues earned but not received at year end.

Cause

The Airport did not determine and apply the appropriate accounting principles which dictate the recognition of revenues and contributed capital mentioned above.

Recommendation

Management should evaluate the current system for determining the applicable accounting principles to be applied. Changes should be made in order to ensure that all transactions are properly recorded in the financial statements in accordance with GAAP.

Views of Responsible Officials and Planned Corrective Actions

Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost beneficial within the next year.

**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**  
**Year Ended December 31, 2006**

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