

City of Fort Smith, Arkansas

Comprehensive Annual Financial Report

Year Ended December 31, 2012

Prepared By the

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

City Board of Directors

Sandy Sanders, Mayor

Keith Lau
Andre' Good
Mike Lorenz
George Catsavis
Pam Weber
Kevin Settle
Philip H. Merry, Jr.

City Administrator
Ray Gosack

Director of Finance
Kara Bushkuhl

City of Fort Smith, Arkansas

Year Ended December 31, 2012

Contents

Introductory Section

Letter of Transmittal.....	5
GFOA Certificate of Achievement for Excellence in Financial Reporting.....	11
Organizational Structure.....	12
List of Elected and Appointed Officials.....	13

Financial Section

Independent Auditor’s Report on Financial Statements and Supplementary Information.....	14
--	-----------

Management’s Discussion and Analysis	17
---	-----------

Basic Financial Statements

Governmental-Wide Financial Statements:

Statement of Net Position.....	28
Statement of Activities	30

Fund Financial Statements:

Governmental Funds:

Balance Sheet.....	32
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	33
Statement of Revenues, Expenditures and Changes in Fund Balances.....	34
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	36

Proprietary Funds:

Statement of Fund Net Position	37
Statement of Revenues, Expenses and Changes in Fund Net Position	39
Statement of Cash Flows.....	40

Fiduciary Funds:

Statement of Fiduciary Net Position	42
Statement of Changes in Fiduciary Net Position	43

Notes to Financial Statements	44
-------------------------------------	----

City of Fort Smith, Arkansas

Year Ended December 31, 2012

Contents (Continued)

Required Supplementary Information

Analysis of Funding Progress – Pension and OPEB Plans	98
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	99
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Street Maintenance Fund	100
Notes to Required Supplementary Information.....	101

Supplementary Information

Nonmajor Governmental Funds:

Combining Balance Sheet	103
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	104

Internal Service Funds:

Combining Statement of Net Position	106
Combining Statement of Revenues, Expenses and Changes in Fund Net Position.....	107
Combining Statement of Cash Flows	108

Discretely Presented Component Units:

Governmental:

Combining Statement of Net Position	110
Combining Statement of Activities	111
Balance Sheet – Advertising and Promotion	112
Statement of Revenues, Expenditures and Changes in Fund Balance – Advertising and Promotion.....	113

Business Type:

Combining Statement of Net Position	114
Combining Statement of Activities	115
Combining Statement of Cash Flows	116

City of Fort Smith, Arkansas

Year Ended December 31, 2012

Contents (Continued)

Statistical Section (Unaudited)

Net Position by Component – Table 1	119
Changes in Net Position – Table 2	120
Changes in Fund Balances of Governmental Funds – Table 3	122
Fund Balances of Governmental Funds – Table 4	123
General Fund Revenues, Expenditures and Fund Balance – Table 5.....	124
General Governmental Taxes by Source – Table 6.....	125
Local Sales and Use Tax Collections – Table 7	126
Property Tax Levies and Collections – Table 8	127
Assessed and Estimated Actual Value of Taxable Property – Table 9	128
Property Tax Rates and Tax Levies – All Direct and Overlapping Governments – Table 10	129
Principal Taxpayers – Table 11	130
Computation of Direct and Estimated Overlapping Debt – Table 12	131
Computation of Legal Debt Margin – Table 13	132
Ratios of Outstanding Debt by Type – Table 14.....	133
Revenue Bonds Debt Service Coverage – Table 15.....	134
Demographic Statistics – Table 16.....	135
Principal Employers – Table 17	136
Full-time Equivalent City Government Employees by Function – Table 18	137
Capital Asset Statistics by Function – Table 19.....	138
Operating Indicators by Function – Table 20.....	139
Solid Waste System Statistics – Table 21	140
Water and Sewer Statistics – Table 22	141

Other Required Reports

Independent Auditor’s Report on Compliance With Certain State Acts.....	143
---	-----

**INTRODUCTORY
SECTION**

(This Page Intentionally Left Blank)



DEPARTMENT OF FINANCE

Kara Bushkuhl, CPFO

Director of Finance

June 17, 2013

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

Arkansas law allows cities to choose to publish a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The City has exercised this option. Accordingly, we hereby issue the comprehensive annual financial report (CAFR) of the City of Fort Smith for the fiscal year ended December 31, 2012.

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

The City's financial statements have been audited by **BKD, LLP**, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the City's financial statements for the fiscal year ended December 31, 2012 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. **BKD, LLP** concluded, based upon the audit, that there was a reasonable basis for rendering unmodified ("clean") opinions on the financial statements of the governmental activities, business-type activities, fiduciary fund, aggregate discretely presented component units, each major fund and aggregate remaining fund information that collectively comprise the City's

basic financial statements as of and for the fiscal year ended December 31, 2012. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

Profile of the City

Fort Smith is located in western Arkansas on the border of Oklahoma and is the second largest city in the state. The City was incorporated in 1842 and is the county seat for Sebastian County. Fort Smith is 159 miles west of Little Rock and 145 miles southeast of Tulsa, Oklahoma. The City serves as the central focus for a six-county economic and trade region in the west central area of Arkansas and the east central area of Oklahoma. The City encompasses 68 square miles and has a population of 86,209. The City is empowered by state statutes to levy real and personal property taxes within its limits and extend the corporate limit by annexation, which occurs periodically when deemed appropriate by the Board of Directors. State statutes also allow the City to levy local sales and use taxes.

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

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

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

Factors Affecting Financial Condition

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

Local Economy. The City has experienced modest downturns during the recent national recession. However, the local economy is improving. Sales tax revenues were up 1.2% in 2012 over 2011. Unemployment in 2012 was 7.7% or 0.9% lower than 2011.

During 2012, Whirlpool Corporation permanently closed its production facility in the City. Whirlpool was the City's seventh largest employer, employing 989 people at the Fort Smith facility. This number of jobs lost is equal to 9/10 of 1% (0.009%) of the civilian labor force in the Fort Smith Metropolitan Service Area. The City is working with Whirlpool Corporation, the Fort Smith Regional Chamber of Commerce and the Arkansas Economic Development Commission to seek appropriate re-purposing of the property.

The City has also seen significant industrial and residential development. Umarex USA, a manufacturer of air rifles and small caliber firearms, opened its new 100,000 square foot manufacturing and distribution center at Chaffee Crossing in 2010 and has announced expansion plans that include 120 additional jobs. The facility employs approximately 60 persons. Gerber Products is nearing completion of a \$150 million investment to expand its Fort Smith baby food manufacturing plant and add approximately 90 new jobs.

Chaffee Crossing and other areas of the City continue to see robust residential development. There are currently 365 residential lots at various stages of development in the City. An additional 300 acres of property for residential development were annexed into the City in 2011. The City's utility infrastructure planning has encouraged these developments.

The City has seen large and small commercial developments continue in the City. In 2008, Target opened its first store in the region in the City, and Wal-Mart opened its third Supercenter in the City. This was Wal-Mart's 6th Supercenter in the area.

Restaurant chains such as Cheddar's, Longhorn Steakhouse, Beef O'Brady's, Bob Evans, Texas Roadhouse, and Buffalo Wild Wings are finding the City a vibrant market place. Dick's Sporting Goods opened a new store in 2011.

The 188th Fighter Wing of the Arkansas Air National Guard headquartered in Fort Smith is transitioning to a new, more modern mission. The unit's current mission of flying A-10 aircraft will be replaced with a mission of controlling remotely-piloted aircraft (RPA). The RPA mission is becoming more prevalent in the Air Force as the military downsizes the number of manned aircraft. The 188th will also acquire a targeting mission. The changes are expected to have no adverse impact on staffing levels in Fort Smith, and give greater assurance of the unit's relevance in the modernized Air Force.

Health Management Associates, an operator of dozens of health care facilities in states across the southern U. S., is locating a centralized call center in Fort Smith; the center will add 400 new jobs to Fort Smith's labor force.

Phoenix Metals is constructing a new multi-million dollar facility at Chaffee Crossing which will initially employ approximately 50 people.

The downtown area of the City is continuing its resurgence with additional streetscaping projects and private investment in office, residential, commercial and entertainment properties.

The Fort Smith Regional Chamber of Commerce has organized a regional economic development organization which will include areas of western Arkansas and eastern Oklahoma up to 30 miles from the City. The regional approach will enhance relationships with the two states' economic development agencies, and will offer prospects more choices for potential locations.

Mercy Health System is investing \$192 million to update and expand its facilities in the City. Plans include an \$8 million 12,977 square foot orthopedic hospital and several new clinics.

Sykes Call Center opened a new facility in the City in 2010 that now employs approximately 600 people. Golden Living has consolidated its administrative operations in the City which has added more than 200 new jobs.

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 as well as provide operating resources for the fire and parks departments. The current 2012 Sales and Use Tax Bonds fund an aquatics park in conjunction with Sebastian County that is expected to open in May 2015; a new fire station, existing station upgrades and improvements, and apparatus additions and replacements; wastewater improvements; and water improvements. This has proven to be a very effective way to fund projects and the City saves on interest charges because Arkansas sales tax bond issues have mandatory redemption requirements. During May 2012, the 2006, 2008, and 2009 bonds were refunded by the 2012 Sales & Use Tax Refunding and Construction Bonds. Three-fourths of the existing 1% local sales tax will support the redemption of the 2012 bonds. The remaining ¼% of the tax assessment will be used to provide operating and capital costs for the fire department and the parks department.

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

Other Information

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2011. The Certificate of Achievement is the highest form of recognition for excellence in local government financial reporting. This was the twenty-seventh consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

In addition, the City also received the GFOA Award for Distinguished Budget Presentation for its annual budget dated January 1, 2012. This was the twenty-fourth consecutive year that the City has received this award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial reporting, planning, and organization.

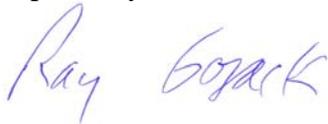
Acknowledgements. The preparation of the CAFR on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Special recognition is made to Jackie Joyce, Assistant Director of Finance, Jacinta Winstead, Accounting Manager, and Christy Deuster, Administrative Coordinator for their efforts.

Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

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

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

Respectfully submitted,



Ray Gosack
City Administrator



Kara Bushkuhl
Director of Finance

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, 2011

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.



Christopher P. Morrell

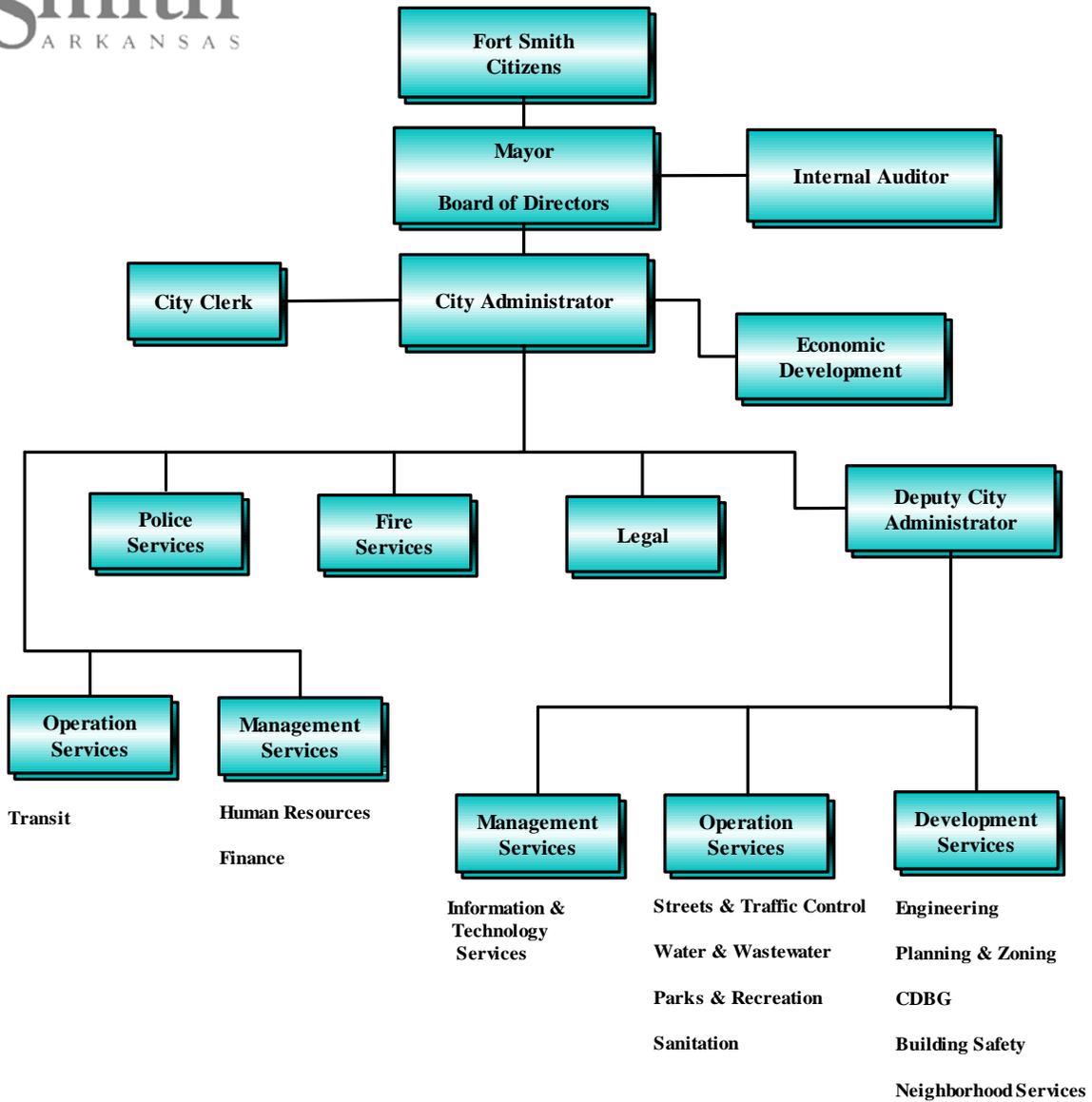
President

Jeffrey R. Enos

Executive Director



Plan of Organization



City of Fort Smith, Arkansas
List of Elected and Appointed Officials
December 31, 2012

Elected Officials

Mayor	Sandy Sanders
Director-Ward 1	Keith Lau
Director-Ward 2	Andre' Good
Director-Ward 3	Mike Lorenz
Director-Ward 4	George Catsavis
Director at Large	Pam Weber
Director at Large/Vice Mayor	Kevin Settle
Director at Large	Philip H. Merry, Jr.
District Court Judge	Ben Beland
District Court Judge	Claire Borengasser
District Court Judge	David Saxon

Appointed Officials

City Administrator	Ray Gosack
Deputy City Administrator	Jeff Dingman
Advertising and Promotion	Claude Legris
Airport	John Parker
City Clerk	Sherrri Gard
Development/Planning	Wally Bailey
District Court	Rachel Sims
Engineering	Stan Snodgrass
Finance	Kara Bushkuhl
Fire	Mike Richards
Human Resources	Richard Jones
Information and Technology	Russell Gibson
Library	Jennifer Goodson
Parks and Recreation	Mike Alsup
Police	Kevin Lindsey
Sanitation	T. Baridi Nkogheli
Streets and Traffic Control	Greg Riley
Transit	Ken Savage
Utilities	Steve Parke

(This Page Intentionally Left Blank)

FINANCIAL SECTION

(This Page Intentionally Left Blank)

Independent Auditor's Report on Financial Statements and Supplementary Information

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

Report on the Financial Statements

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, 2012, and the related notes to the financial statements which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fort Smith Public Library, a discretely presented component unit of the City, which statements reflect total assets and revenues of \$2,441,168 and \$2,931,280, respectively, and represents 93% and 80% of the aggregate discretely presented component units' (governmental activities) total assets and revenues at December 31, 2012 and for the year then ended, respectively. Those statements were audited by another auditor whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for the Fort Smith Public Library, is based solely on the report of the other 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Fort Smith, Arkansas as of December 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and the other auditor have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund statements listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and

The Honorable Mayor and Board of Directors
City of Fort Smith, Arkansas
Page 3

other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The introductory section and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2013, 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.

BKD, LLP

Fort Smith, Arkansas
June 17, 2013

(This Page Intentionally Left Blank)

City of Fort Smith, Arkansas

Management's Discussion and Analysis

December 31, 2012

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, 2012. 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 5-10 of this report.

Financial Highlights

- Primary Government total assets exceeded total liabilities at the close of 2012 by \$740.5 million (net position). Of this amount, \$656.2 million was invested in capital assets; \$64.5 million was restricted for debt service, police and fire retirement contributions, construction projects, and other purposes; and \$19.9 million was unrestricted and available for meeting the City's emergency and unexpected obligations. The City's governmental activities have unrestricted net position of \$11.9 million. The City's business-type activities have unrestricted net position of \$8 million.
- The City's total net position increased by \$18.4 million in 2012. Net position of the governmental activities increased by \$4.2 million in 2012 compared to a net increase of \$14 million in 2011 ending net position. The City's net position of the business-type activities increased by \$14.2 million in 2012 compared to a net increase of \$13.4 million in 2011.
- As of the close of 2012, the City's governmental funds reported combined ending fund balances of \$124.8 million that was an increase of \$64.7 million from the prior year. The restricted portion of the fund balances is \$115 million. The remaining fund balances is classified as nonspendable of \$0.8 million; assigned of \$4.6 million; and unassigned of \$4.4 million.
- At the end of 2012, the unassigned fund balance for the General Fund was \$4.4 million or 11% of total General Fund expenditures. There was an increase of \$0.9 million in total General Fund balance between years.
- The City's total bonded indebtedness increased by \$51.825 million during the current year. The increase is a result of the issuance of \$110.7 million in Sales and Use Tax Bonds, Series 2012 and the \$13.25 million issuance of Water and Sewer Revenue Refunding Bonds, Series 2012 during the year. The maturity of outstanding bonds during 2012, the refunding of the 2006, 2008 and 2009 Sales and Use Tax Bonds, and the refunding of the 2005 Water and Sewer Refunding and Construction Bonds offset the current year debt issuances by \$72.125 million.
- The City's governmental component units reported net position of \$2.6 million at December 31, 2012 that was an increase of \$0.1 million from 2011.
- The City's business-type component units reported net position of \$38.3 million at December 31, 2012 that was a \$0.7 million decrease from 2011.

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 position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, community service, and debt service. The business-type activities of the City include the water and sewer system and the solid waste disposal system.

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

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

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

The government-wide financial statements can be found on pages 28-31 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 12 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Street Maintenance Fund, Sales Tax Fund, Sales and Use Tax Construction Fund, and the Sales and Use Tax Bond Fund that are considered to be major funds. Data from the other seven (7) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 32-36 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 37-41 of this report.

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

The fiduciary fund financial statements can be found on pages 42-43 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 44-97 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 and Other Post Employment Benefit Plan (OPEB). 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 98-101 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 102-117 of this report.

Government-Wide Financial Analysis

City of Fort Smith Net Position						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 146,875,777	\$ 83,333,446	\$ 49,490,407	\$ 51,811,028	\$ 196,366,184	\$ 135,144,474
Capital assets	370,675,528	363,612,500	502,209,976	488,706,782	872,885,504	852,319,282
Total Assets	517,551,305	446,945,946	551,700,383	540,517,810	1,069,251,688	987,463,756
Long-term liabilities	117,000,045	48,715,235	179,654,311	182,468,636	296,654,356	231,183,871
Other liabilities	19,269,727	21,181,570	12,798,475	12,954,286	32,068,202	34,135,856
Total Liabilities	136,269,772	69,896,805	192,452,786	195,422,922	328,722,558	265,319,727
Net Position:						
Invested in capital assets	323,122,691	323,022,637	333,050,917	324,215,779	656,173,608	647,238,416
Restricted	46,300,461	39,016,328	18,173,298	18,608,798	64,473,759	57,625,126
Unrestricted	11,858,381	15,010,176	8,023,382	2,270,311	19,881,763	17,280,487
Total Net Position	\$ 381,281,533	\$ 377,049,141	\$ 359,247,597	\$ 345,094,888	\$ 740,529,130	\$ 722,144,029

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$740.5 million at the close of 2012.

The largest portion of the City's net position (88.6%) reflects its net 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 position (8.7%) represents resources that are subject to restrictions as to how they may be used. Of the total \$64.5 million restricted net position, \$34.1 million is restricted for bond retirement, \$21.4 million is restricted for construction projects, \$8.9 million is restricted for police and fire retirement contribution, and a very small amount is restricted for other purposes. The remaining balance of net position, \$19.9 million, is unrestricted.

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

The City's net position increased by \$18.4 million during 2012. Total revenues decreased by 1% between years. Revenues generated by fees, fines, and charges for services increased by 1.5% due primarily to the collection of a one-time true up of water payments from Van Buren during 2012. Sales tax revenue on a government-wide basis increased by 1.2%.

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

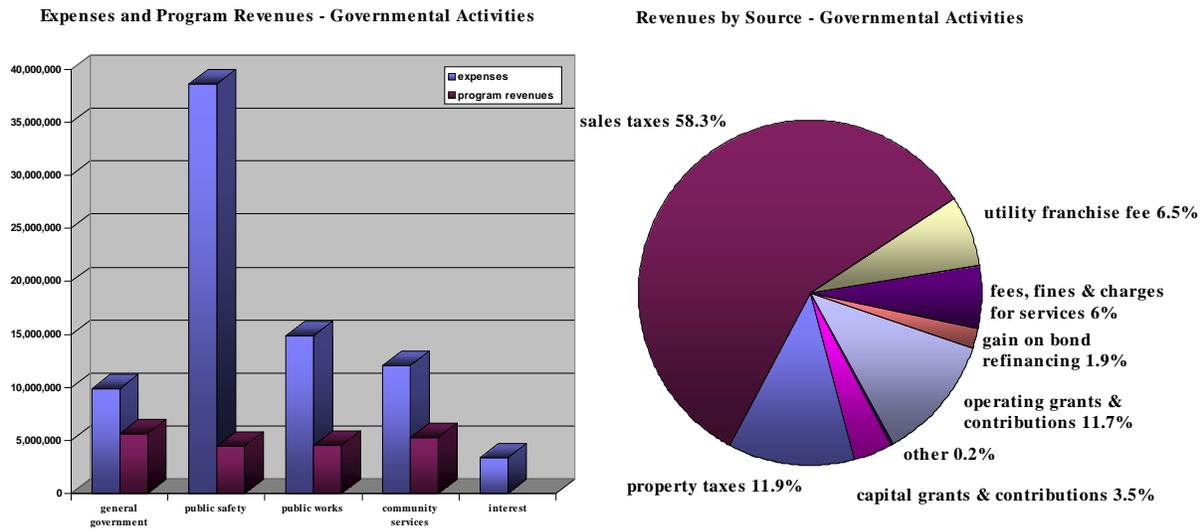
	Governmental Activities		Business-Type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Fees, fines, and charges for services	\$ 5,584,819	\$ 5,264,803	\$ 53,689,939	\$ 53,155,228	\$ 59,274,758	\$ 58,420,031
Operating grants and contributions	11,374,291	12,269,135	-	-	11,374,291	12,269,135
Capital grants and contributions	3,394,792	1,796,754	1,245,672	638,698	4,640,464	2,435,452
	<u>20,353,902</u>	<u>19,330,692</u>	<u>54,935,611</u>	<u>53,793,926</u>	<u>75,289,513</u>	<u>73,124,618</u>
General revenues						
Property taxes	11,111,344	13,143,979	-	-	11,111,344	13,143,979
Sales taxes	54,489,254	53,838,552	-	-	54,489,254	53,838,552
Utility franchise fees	6,071,893	6,571,993	-	-	6,071,893	6,571,993
Grants and contributions not restricted to specific programs	55,357	-	-	-	55,357	-
Unrestricted investment earnings	474	18,480	61,383	14,459	61,857	32,939
Other	<u>527,041</u>	<u>1,539,449</u>	<u>609,901</u>	<u>1,403,727</u>	<u>1,136,942</u>	<u>2,943,176</u>
Total revenues	<u>92,609,265</u>	<u>94,443,145</u>	<u>55,606,895</u>	<u>55,212,112</u>	<u>148,216,160</u>	<u>149,655,257</u>
Expenses						
General government	9,373,912	9,874,051	-	-	9,373,912	9,874,051
Public safety	36,537,493	34,009,318	-	-	36,537,493	34,009,318
Public works	14,541,430	14,541,350	-	-	14,541,430	14,541,350
Community services	11,633,976	10,732,048	-	-	11,633,976	10,732,048
Interest on long-term debt	4,099,571	2,933,735	-	-	4,099,571	2,933,735
Water and sewer	-	-	41,283,645	38,875,863	41,283,645	38,875,863
Sanitation	-	-	12,361,032	11,287,956	12,361,032	11,287,956
Total expenses	<u>76,186,382</u>	<u>72,090,502</u>	<u>53,644,677</u>	<u>50,163,819</u>	<u>129,831,059</u>	<u>122,254,321</u>
Increase in net position before transfers and capital contributions	16,422,883	22,352,643	1,962,218	5,048,293	18,385,101	27,400,936
Transfers	<u>(12,190,491)</u>	<u>(8,315,855)</u>	<u>12,190,491</u>	<u>8,315,855</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	4,232,392	14,036,788	14,152,709	13,364,148	18,385,101	27,400,936
Net position - January 1	<u>377,049,141</u>	<u>363,012,353</u>	<u>345,094,888</u>	<u>331,730,740</u>	<u>722,144,029</u>	<u>694,743,093</u>
Net position - December 31	<u>\$ 381,281,533</u>	<u>\$ 377,049,141</u>	<u>\$ 359,247,597</u>	<u>\$ 345,094,888</u>	<u>\$ 740,529,130</u>	<u>\$ 722,144,029</u>

Governmental Activities. Governmental activities increased the City's net position by \$4.2 million. Key elements of the net increase are as follows:

- Total revenues for 2012 exceeded total expenses by \$16.4 million.
- Net capital asset acquisition exceeded depreciation by \$19.6 million. This was offset by the \$12.5 million capital contribution to the Water and Sewer Fund for wastewater improvements provided by the Sales & Use Tax Construction Fund.

- Sales tax revenue allocated for governmental purposes reflects a 1.2% increase between years. The City’s share of the county sales tax, accounted for in the General Fund, increased 0.8% in 2012 over 2011. The City’s sales tax that is allocated for street projects and accounted for in the Sales Tax Fund increased 1.4% between 2011 and 2012, as did the city sales tax allocated for redemption of the Sales and Use Tax Bonds, Series 2012 and fire and parks operations.
- Utility franchise fee revenues decreased by \$0.5 million or 7.6% during 2012 due to decreased natural gas usage and lower natural gas rates during the year.

The reported 2012 expenses were approximately \$4.1 million more than in 2011. The increase resulted from additional spending for public safety, street improvements and parks improvements.



Business-Type Activities. Business-type activities increased the City’s net position by \$14.2 million. Key elements of the increase are as follows:

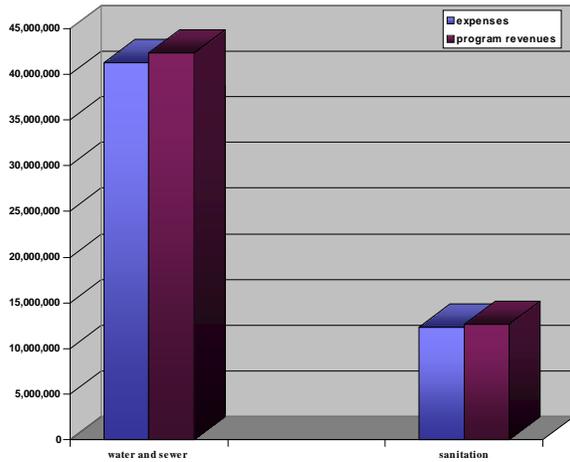
- The water and sewer system contributed \$13.5 million to the increase in total net position. The most significant increase in net position was the \$12.5 million capital contribution from the Sales & Use Tax Construction Fund, a capital projects fund in the governmental activities, for wastewater improvements during the year. The operating income for the system totaled \$8.6 million in 2012.
- The solid waste system added \$0.7 million to the increase in total net position. The operating income for the system in 2012 totaled \$0.9 million.

Water and sewer system service charges contribute 76.5% of the operating revenue to business-type activities.

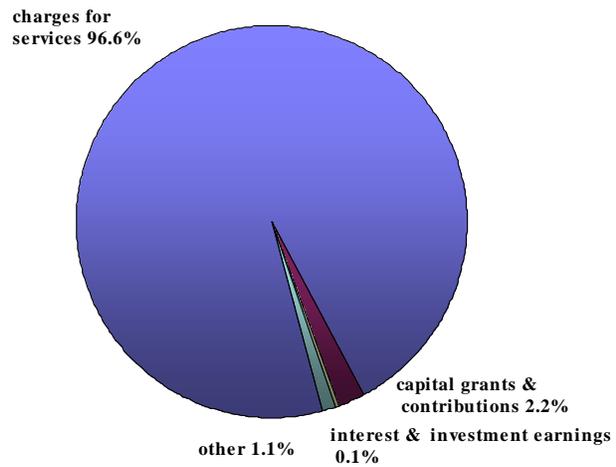
The solid waste system service charges accounted for 23.5% of the revenue to business-type activities.

Current year operating expenses for the business-type activities were 82.8% 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, unassigned 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, 2012, the City’s governmental funds reported combined ending fund balances of \$124.8 million an increase of \$64.7 million in comparison with the prior year. Of this amount, \$115 million represents restricted fund balance for construction projects, debt service coverage, police and fire retirement contributions, and other purposes. Approximately \$1 million of the fund balances is non-spendable. A portion of the fund balance, \$3.3 million, is assigned to budgeted expenditures for 2013 and another portion, \$0.8 million, is assigned for construction projects and specific uses by fund type. The remainder of the balance, \$4.4 million, is unassigned in the General Fund and is available for spending at the government’s discretion.

The General Fund is the chief operating fund of the City. At December 31, 2012, unassigned fund balance of the General Fund was \$4.4 million, while the total fund balance was \$8.7 million. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balances and total fund balances to total fund expenditures, including transfers out. Unassigned fund balances represent 11% of total General Fund expenditures, including transfers out, while total fund balances represents 21.8% of that same amount. The fund balances of the City’s General Fund increased by \$0.9 million during 2012.

Key factors in this increase are as follows:

- Total expenditures decreased between 2011 and 2012 by \$1.2 million. The main reasons for the decrease was due to less spending for capital outlay (\$0.8 million), and other expenditures (\$0.5 million).

- Revenues increased \$.03 million in 2012 as compared to 2011. Sales taxes increased by \$0.9 million due to the ¼% sales tax credited to the General Fund for the fire and parks departments. The sales tax increase was offset by the reduction in franchise fees between years of \$0.5 million and lower property tax revenue of \$0.1 million.

The Street Maintenance Fund and the Sales Tax Fund, both special revenue funds, are presented as major funds and account for 18.6% 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 \$5 million between years. The increase was due to the lower volume of street projects spending during the year.

The Sales & Use Tax Construction Fund is also presented as a major fund and accounts for 53.6% of the total governmental fund balances. This fund accounts for the capital projects approved by voters that include the new aquatics center; construction of a new fire station, purchase and replacement of fire apparatus, and improvements to existing fire stations; water improvements; and wastewater improvements. The fund balance increased by \$56.1 million due to the issuance of the sales and use tax bonds, series 2012.

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

Net position at the end of the year amounted to \$330.9 million and \$28.1 million for the Water and Sewer Fund and the Sanitation Fund, respectively. The increase in net position was \$14.2 million for the Water and Sewer Fund and \$1 million 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 \$43.1 million (total expenditures plus transfers out) compared to the original budget total of \$42.1 million. The increase in appropriations of \$1 million is summarized briefly as follows:

- Appropriation of \$0.83 million for the fire and parks departments to recognize the ¼% sales tax that became effective October 1, 2012.
- \$0.12 million for the fire SAFER grant that became effective October 1, 2012.

Revenue estimates for the General Fund were increased from an original budget of \$39.7 million to the final estimate of \$40.9 million. The \$1.2 million increase was due to the recognition of the ¼% sales tax revenue for fire and parks departments of \$0.8 million; the expected increase in the city's share of the county sales tax of \$0.2 million; and the expected increase in intergovernmental revenue from the ARRA funds for the transit capital improvements of \$0.4 million. These increases were offset by the expected decreases in property taxes of \$0.2 million.

Total actual revenue, including, “other financing sources”, for the General Fund was \$0.059 million less than the final budget estimates. The decreased revenues were due to further decreases in property tax revenue of \$0.23 million; and sales taxes being lower by \$0.25 million. These decreases were offset by additional fine and intergovernmental revenue of \$0.2 million each. Total actual expenditures were \$1.8 million less than the final appropriated budget of the General Fund. Actual expenditures were lower due to lower police and fire expenditures during the year.

The budget and actual schedule for the General Fund may be found on page 99 in the required supplementary section of this document.

Capital Assets and Debt Administration

Capital assets. The City’s investment in capital assets for governmental and business-type activities as of December 31, 2012, amounts to \$872.9 million, 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 2.4%, a 1.9% increase for governmental activities and a 2.8% increase for business-type activities.

City of Fort Smith Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 26,848,258	\$ 26,034,596	\$ 12,816,003	\$ 12,726,581	\$ 39,664,261	\$ 38,761,177
Buildings	54,783,289	55,064,060	1,105,057	1,170,774	55,888,346	56,234,834
Water System	-	-	290,503,437	245,407,570	290,503,437	245,407,570
Sewer System	-	-	167,398,745	131,706,301	167,398,745	131,706,301
Improvement other than buildings	6,003,815	6,397,422	11,040,645	10,974,615	17,044,460	17,372,037
Infrastructure	246,819,436	232,953,394	-	-	246,819,436	232,953,394
Machinery and equipment	21,141,592	21,122,956	12,441,096	10,610,420	33,582,688	31,733,376
Construction in progress	15,079,138	22,040,072	6,904,993	76,110,521	21,984,131	98,150,593
Total	\$ 370,675,528	\$ 363,612,500	\$ 502,209,976	\$ 488,706,782	\$ 872,885,504	\$ 852,319,282

Major capital asset events during 2012 included the following:

- Net transfers from construction in progress totaled \$103.7 million. Of this amount, water and wastewater improvements accounted for an increase of \$80.5 million and the additions for streets was \$21.9 million.
- Net additions to infrastructure totaled \$21.9 million due to the completion of several street projects during 2012.
- Net additions to the sewer system totaled \$30.5 million and to the water system totaled \$50 million in 2012.
- Depreciation expense totaled \$23.1 million.

Additional information on the City’s capital assets can be found in Note 3 on pages 60-67 of this report.

Long-term debt. At December 31, 2012, the City had \$281.2 million of long-term bonds outstanding, including \$171.88 million of bonds secured solely by specified revenue sources, (i.e. revenue bonds).

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Sales and Use Tax Bonds	\$ 109,310,000	\$ 52,235,000	\$ -	\$ -
Revenue Bonds	-	-	171,880,000	177,130,000
Total	<u>\$ 109,310,000</u>	<u>\$ 52,235,000</u>	<u>\$ 171,880,000</u>	<u>\$ 177,130,000</u>

The City’s total bonded debt increased by \$51.825 million or 22.6% during 2012. The key factors in this increase were the issuances of \$110.66 million in sales and use tax bonds and \$13.25 in revenue bonds in 2012. The issuances were offset by the maturities during 2012 as well as the refunding of the 2006, 2008, and 2009 sales and use tax bonds and the refunding of the 2005 water and sewer bonds. The City maintains bond ratings as follows: “AA” rating from Standard & Poor’s on its water and sewer revenue bonds series 2005B; an “A” rating from Standard & Poor’s on its water and sewer revenue bonds series 2007, 2008, 2011 and 2012; and an “AA” rating from Standard & Poor’s on its sales and use tax bonds series 2012.

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 \$331.5 million. The City has no general obligation debt at December 31, 2012. Sales and use tax bonds are special debt of the City and are not considered general obligation bonds by the state.

Additional information regarding the City’s long-term debt can be found in Note 4 on pages 68-81 of this report.

Economic Factors and the Next Year’s Budget and Rates

- The year-end unemployment rate for the City was 7.7%, which was lower than the 8.6% rate for 2011. The state unemployment rate for 2012 was 7.1% and the national was 8.1%. The City is slowly recovering from a down economy over the past few years.
- The City expects a 1.25% increase in its tax revenue for the coming year.

These factors were considered when the City prepared its 2013 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 unassigned fund balance at 15% of operating expenditures. Due to the economic slowdown in its major revenue sources, the City’s General Fund budget for 2013 was approved at \$49.9 million and includes an estimated year end fund balance approximating 7.5% as \$3.3 million of the 2012 balance was used to provide the funding gap between 2013 revenues and appropriations. The Board and management are aware of the declining balance and are working towards reducing expenditures even further.

Request for Information

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

City of Fort Smith, Arkansas
Statement of Net Position
December 31, 2012

Assets

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Assets					
Cash	\$ 3,437,899	\$ 1,383,573	\$ 4,821,472	\$ 979,344	\$ 2,956,667
Investments	37,345,823	20,441,448	57,787,271	434,802	455,927
Receivables, net of allowance for uncollectibles					
Taxes	14,111,313	-	14,111,313	210,309	-
Sales taxes	3,163,861	-	3,163,861	93,625	-
Accounts	659,048	5,871,986	6,531,034	60,902	223,435
Interest	65,689	43,585	109,274	210	1,044
Grants and other governments	836,013	-	836,013	-	58,285
Internal balances	(43)	43	-	-	-
Inventory	-	946,956	946,956	5,000	16,923
Prepays and deposits	855,959	22,263	878,222	54,705	57,464
Deferred charges	908,342	4,050,426	4,958,768	-	134,355
Restricted assets					
Cash	236,371	-	236,371	-	381,831
Investments	83,835,610	16,435,625	100,271,235	-	92,247
Accounts receivable, net of allowances for uncollectibles	-	175,745	175,745	-	-
Sales tax receivable	1,170,317	-	1,170,317	-	-
Interest receivable	249,575	1,576	251,151	-	-
Prepaid items and deposits	-	117,181	117,181	-	-
Capital assets					
Nondepreciable	41,927,396	19,720,995	61,648,391	422,132	7,577,815
Depreciable	328,748,132	482,488,981	811,237,113	372,722	29,821,913
Total Assets	\$ 517,551,305	\$ 551,700,383	\$ 1,069,251,688	\$ 2,633,751	\$ 41,777,906

City of Fort Smith, Arkansas
Statement of Net Position (Continued)
December 31, 2012

Liabilities and Net Position

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Liabilities					
Accounts payable and accrued expenses	\$ 6,279,843	\$ 3,536,855	\$ 9,816,698	\$ 64,694	\$ 172,769
Other current liabilities	-	3,400	3,400	-	-
Accrued interest	607,748	1,974,005	2,581,753	-	1,949
Deposits	-	529,709	529,709	-	-
Unearned income	381,841	-	381,841	-	-
Noncurrent liabilities					
Other long-term liabilities					
due within one year	1,610,295	1,049,506	2,659,801	-	4
Current portion of long-term debt	10,390,000	5,705,000	16,095,000	-	290,000
Due in more than one year	117,000,045	179,654,311	296,654,356	-	3,046,344
	<u>136,269,772</u>	<u>192,452,786</u>	<u>328,722,558</u>	<u>64,694</u>	<u>3,511,066</u>
Total Liabilities	<u>136,269,772</u>	<u>192,452,786</u>	<u>328,722,558</u>	<u>64,694</u>	<u>3,511,066</u>
Net Position					
Net investment in capital assets	323,122,691	333,050,917	656,173,608	794,854	34,063,380
Restricted for:					
Construction projects	20,840,636	625,471	21,466,107	-	58,285
Debt service	16,541,459	17,547,827	34,089,286	-	451,773
Parks & recreation	10,261	-	10,261	-	-
Housing and rehabilitation	4,031	-	4,031	-	-
Police & fire retirement contributions	8,904,074	-	8,904,074	-	-
Other purposes	-	-	-	165,470	-
Unrestricted	11,858,381	8,023,382	19,881,763	1,608,733	3,693,402
	<u>11,858,381</u>	<u>8,023,382</u>	<u>19,881,763</u>	<u>1,608,733</u>	<u>3,693,402</u>
Total Net Position	<u>\$ 381,281,533</u>	<u>\$ 359,247,597</u>	<u>\$ 740,529,130</u>	<u>\$ 2,569,057</u>	<u>\$ 38,266,840</u>

City of Fort Smith, Arkansas
Statement of Activities
For the Year Ended December 31, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Governmental Activities	Business-Type Activities
					Governmental Activities	Business-Type Activities			
Primary Government:									
Governmental Activities									
General Government									
Administration	\$ 4,562,913	\$ 831,899	\$ 1,491,596	\$ -	\$ (2,239,418)		\$ (2,239,418)		
Legal and courts	2,214,248	2,319,955	521,858	-	627,565		627,565		
Finance	2,596,751	712,325	-	-	(1,884,426)		(1,884,426)		
Public safety									
Police	20,884,560	286,426	1,723,037	434,452	(18,440,645)		(18,440,645)		
Fire	15,652,933	72,462	1,872,639	-	(13,707,832)		(13,707,832)		
Public works									
Operations	624,825	-	-	-	(624,825)		(624,825)		
Streets	11,777,482	261,792	4,298,111	304,499	(6,913,080)		(6,913,080)		
Traffic Control	2,139,123	-	-	-	(2,139,123)		(2,139,123)		
Community services									
Health and Social Services	392,742	-	-	-	(392,742)		(392,742)		
Parks and Recreation	4,058,585	290,790	45,194	311,000	(3,411,601)		(3,411,601)		
Convention Center	2,265,666	600,359	845	-	(1,664,462)		(1,664,462)		
Transit	2,603,172	208,811	1,402,902	579,612	(411,847)		(411,847)		
Housing and Rehabilitation	2,313,811	-	18,109	1,765,229	(530,473)		(530,473)		
Debt service									
Interest	4,099,571	-	-	-	(4,099,571)		(4,099,571)		
Total Governmental Activities	<u>76,186,382</u>	<u>5,584,819</u>	<u>11,374,291</u>	<u>3,394,792</u>	<u>(55,832,480)</u>		<u>(55,832,480)</u>		
Business-Type Activities:									
Water and Sewer	41,283,645	41,049,517	-	1,245,672		\$ 1,011,544	1,011,544		
Sanitation	12,361,032	12,640,422	-	-		279,390	279,390		
Total Business-Type Activities	<u>53,644,677</u>	<u>53,689,939</u>	<u>-</u>	<u>1,245,672</u>		<u>1,290,934</u>	<u>1,290,934</u>		
Total Primary Government	<u>\$ 129,831,059</u>	<u>\$ 59,274,758</u>	<u>\$ 11,374,291</u>	<u>\$ 4,640,464</u>	<u>\$ (55,832,480)</u>	<u>\$ 1,290,934</u>	<u>\$ (54,541,546)</u>		
Component Units:									
Governmental									
Advertising & Promotion	\$ 736,667	\$ -	\$ 4,160	\$ -				\$ (732,507)	
Public Library	2,840,229	175,444	478,656	-				(2,186,129)	
Sub-total	<u>3,576,896</u>	<u>175,444</u>	<u>482,816</u>	<u>-</u>				<u>(2,918,636)</u>	
Business-Type									
Parking Authority	261,793	185,703	-	-					\$ (76,090)
Airport	4,750,162	2,615,675	-	1,247,041					(887,446)
Sub-total	<u>5,011,955</u>	<u>2,801,378</u>	<u>-</u>	<u>1,247,041</u>					<u>(963,536)</u>
Total Component Units	<u>\$ 8,588,851</u>	<u>\$ 2,976,822</u>	<u>\$ 482,816</u>	<u>\$ 1,247,041</u>				<u>(2,918,636)</u>	<u>(963,536)</u>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Activities (Continued)
For the Year Ended December 31, 2012

	Net (Expense) Revenue and Changes in Net Position				
	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
General revenues					
Property taxes	\$ 11,111,344	\$ -	\$ 11,111,344	\$ 1,316,097	\$ -
Sales taxes	54,489,254	-	54,489,254	916,740	-
Utility franchise fees	6,071,893	-	6,071,893	745,279	-
Grants and contributions not restricted to specific programs	55,357	-	55,357		
Unrestricted investment earnings	474	61,383	61,857	1,104	23,906
Payment from City of Fort Smith	-	-	-	-	250,000
Other	527,041	609,901	1,136,942	43,543	-
Transfers	(12,190,491)	12,190,491	-	-	-
Total general revenues and transfers	<u>60,064,872</u>	<u>12,861,775</u>	<u>72,926,647</u>	<u>3,022,763</u>	<u>273,906</u>
Change in net position	4,232,392	14,152,709	18,385,101	104,127	(689,630)
Net position, beginning	<u>377,049,141</u>	<u>345,094,888</u>	<u>722,144,029</u>	<u>2,464,930</u>	<u>38,956,470</u>
Net position, end of year	<u>\$ 381,281,533</u>	<u>\$ 359,247,597</u>	<u>\$ 740,529,130</u>	<u>\$ 2,569,057</u>	<u>\$ 38,266,840</u>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Balance Sheet – Governmental Funds
December 31, 2012

	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
Assets							
Cash	\$ 1,055,525	\$ 44,399	\$ 1,162,299	\$ -	\$ -	\$ 844,209	\$ 3,106,432
Investments	4,713,977	2,710,811	19,166,256	-	-	9,143,504	35,734,548
Receivables, net of allowance for uncollectibles							
Taxes	8,815,583	2,411,300	-	-	-	2,884,430	14,111,313
Sales taxes	1,603,438	-	1,560,423	-	-	-	3,163,861
Accounts	436,022	-	-	-	-	54,069	490,091
Accrued interest	8,661	4,574	32,458	-	-	16,787	62,480
Due from other funds	46,134	-	-	-	-	-	46,134
Due from other governments	550,444	-	-	-	-	285,569	836,013
Restricted assets:							
Cash	-	-	-	-	236,371	-	236,371
Investments	-	-	-	68,706,855	15,128,755	-	83,835,610
Sales taxes receivable	-	-	-	-	1,170,317	-	1,170,317
Interest receivable	-	-	-	243,559	6,016	-	249,575
Prepaid items	150,824	-	23,695	650,014	-	-	824,533
Total Assets	\$ 17,380,608	\$ 5,171,084	\$ 21,945,131	\$ 69,600,428	\$ 16,541,459	\$ 13,228,568	\$ 143,867,278
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued liabilities	\$ 1,431,852	\$ 410,309	\$ 1,047,233	\$ 2,327,271	\$ -	278,503	\$ 5,495,168
Retainage payable	-	-	404,719	345,499	-	-	750,218
Due to other funds	-	-	-	-	-	46,177	46,177
Deferred revenue	7,093,660	2,070,090	-	-	-	3,419,719	12,583,469
Other	175,279	-	-	-	-	2,323	177,602
Total Liabilities	8,700,791	2,480,399	1,451,952	2,672,770	-	3,746,722	19,052,634
Fund Balances:							
Nonspendable	150,824	-	23,695	650,014	-	-	824,533
Restricted for:							
Construction projects	-	2,690,685	20,469,484	66,277,644	-	109,678	89,547,491
Debt service	-	-	-	-	16,541,459	-	16,541,459
Parks & recreation	-	-	-	-	-	10,261	10,261
Housing and rehabilitation	-	-	-	-	-	4,031	4,031
Police & fire retirement contributions	-	-	-	-	-	8,904,074	8,904,074
Assigned to:							
Budgeted expenditures for subsequent year	3,343,345	-	-	-	-	-	3,343,345
Convention center	-	-	-	-	-	453,802	453,802
Construction projects	585,572	-	-	-	-	-	585,572
Other purposes	216,200	-	-	-	-	-	216,200
Unassigned	4,383,876	-	-	-	-	-	4,383,876
Total Fund Balances	8,679,817	2,690,685	20,493,179	66,927,658	16,541,459	9,481,846	124,814,644
Total Liabilities and Fund Balances	\$ 17,380,608	\$ 5,171,084	\$ 21,945,131	\$ 69,600,428	\$ 16,541,459	\$ 13,228,568	\$ 143,867,278

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 Position
December 31, 2012

Total fund balances - governmental funds \$ 124,814,644

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

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

Land	\$	26,848,258	
Buildings		74,021,268	
Improvements other than buildings		13,517,226	
Machinery and equipment		41,472,020	
Infrastructure		327,732,940	
Accumulated depreciation		<u>(127,995,322)</u>	
		355,596,390	
Construction in progress		<u>15,079,138</u>	
 Total	 \$	 370,675,528	 370,675,528

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. 12,201,628

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. 742,546

Some assets related to long-term debt are deferred and, therefore, are not
reported in the funds. 908,342

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

Compensated absences	\$	2,454,854	
Claims payable		82,500	
Sales tax bonds payable, net		115,965,337	
Interest payable		607,748	
Capital leases payable		294,355	
OPEB liabilities		<u>8,656,361</u>	
	\$	<u>128,061,155</u>	<u>(128,061,155)</u>

Net position of governmental activities \$ 381,281,533

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended December 31, 2012

	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
Revenues							
Property taxes	\$ 6,720,195	\$ 1,959,311	\$ -	\$ -	\$ -	\$ 2,612,603	\$ 11,292,109
Sales taxes	16,047,232	-	19,605,123	-	18,836,899	-	54,489,254
Licenses and permits	1,392,590	-	-	-	-	161,098	1,553,688
Utility franchise fees	6,071,893	-	-	-	-	-	6,071,893
Intergovernmental	4,623,801	4,247,904	223,092	-	-	3,761,457	12,856,254
Fines and forfeitures	2,266,844	-	-	-	-	141,387	2,408,231
Fees for services	676,910	-	-	-	-	600,359	1,277,269
Interest	12,430	5,908	46,300	314,896	10,682	24,283	414,499
Decrease in fair value of investments	-	-	-	(271,112)	(2,246)	-	(273,358)
Contributions	-	-	-	-	-	1,395,068	1,395,068
Miscellaneous	244,211	28,596	70,097	-	-	726	343,630
Total Revenues	38,056,106	6,241,719	19,944,612	43,784	18,845,335	8,696,981	91,828,537
Expenditures							
Current:							
General government							
Administration	3,573,643	212,714	-	-	-	-	3,786,357
Legal	1,876,101	58,429	-	-	-	-	1,934,530
Finance	1,934,657	317,046	-	-	-	-	2,251,703
Public safety							
Police	14,695,255	-	-	-	-	3,353,217	18,048,472
Fire	9,710,142	-	-	-	-	3,837,614	13,547,756
Public works							
Operations	-	486,757	-	-	-	81,407	568,164
Streets	-	2,693,450	179,579	-	-	311,013	3,184,042
Traffic Control	-	1,982,707	-	-	-	-	1,982,707
Community services							
Health and Social Services	128,995	-	-	-	-	-	128,995
Parks and Recreation	1,677,321	243,543	-	-	-	44,794	1,965,658
Convention Center	-	-	-	-	-	1,286,070	1,286,070
Transit	2,067,289	-	-	-	-	-	2,067,289
Housing and Rehabilitation	-	-	-	-	-	1,788,513	1,788,513
Other	1,786,692	9,876	-	-	15,756	-	1,812,324
Capital Outlay	1,300,833	434,772	12,294,580	16,898,033	-	-	30,928,218
Debt Service:							
Principal	-	-	-	-	1,940,000	-	1,940,000
Interest	-	-	-	-	2,688,400	-	2,688,400
Issuance costs	-	-	-	-	265,000	-	265,000
Advance refunding escrow	-	-	-	-	349,650	-	349,650
Total Expenditures	38,750,928	6,439,294	12,474,159	16,898,033	5,258,806	10,702,628	90,523,848
Excess (deficiency) in revenues over (under) expenditures	(694,822)	(197,575)	7,470,453	(16,854,249)	13,586,529	(2,005,647)	1,304,689

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Continued)
For the Year Ended December 31, 2012

	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)							
Refunding and improvement bonds	-	-	-	-	110,660,000	-	110,660,000
Bond premium	-	-	-	-	6,269,913	-	6,269,913
Payment to refunded bond escrow agent	-	-	-	-	(53,700,952)	-	(53,700,952)
Transfers in	2,786,238	294,757	-	72,934,621	349,650	777,000	77,142,266
Transfers out	(1,152,000)	(86,260)	(2,505,100)	-	(72,934,621)	(294,757)	(76,972,738)
Total Other Financing Sources and Uses	<u>1,634,238</u>	<u>208,497</u>	<u>(2,505,100)</u>	<u>72,934,621</u>	<u>(9,356,010)</u>	<u>482,243</u>	<u>63,398,489</u>
Net Change in Fund Balances	939,416	10,922	4,965,353	56,080,372	4,230,519	(1,523,404)	64,703,178
Fund Balances, January 1	<u>7,740,401</u>	<u>2,679,763</u>	<u>15,527,826</u>	<u>10,847,286</u>	<u>12,310,940</u>	<u>11,005,250</u>	<u>60,111,466</u>
Fund Balances, December 31	<u>\$ 8,679,817</u>	<u>\$ 2,690,685</u>	<u>\$ 20,493,179</u>	<u>\$ 66,927,658</u>	<u>\$ 16,541,459</u>	<u>\$ 9,481,846</u>	<u>\$ 124,814,644</u>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2012

Net change in fund balances - total governmental funds	\$ 64,703,178
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 position, 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.	30,928,218
Capital contributions to the Water and Sewer Fund are included in capital outlays and are reported as transfers on the government-wide statement of activities.	(12,531,097)
The net effect of various miscellaneous transactions, (<i>i.e.</i> capital asset sales, donations, trade ins) is to increase net position	1,437,924
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(11,280,893)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources of governmental funds. This transaction does not have any effect on net position. 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.	(64,084,593)
Some property taxes will not be collected for several months after the City's fiscal year end and are not considered "available" revenues in the governmental funds.	(180,765)
Some expenses, <i>i.e.</i> the increase in compensated absences liability and OPEB liabilities, reported in the statement of activities and changes in net position do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental funds.	(2,855,606)
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 \$(960,120) and the external activities adjustment of \$110,576].	(1,903,974)
Change in net position of governmental activities	\$ 4,232,392

(This Page Intentionally Left Blank)

City of Fort Smith, Arkansas
Statement of Fund Net Position –
Proprietary Funds
December 31, 2012

Assets

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Current Assets				
Cash	\$ 747,949	\$ 430,933	\$ 1,178,882	\$ 536,158
Investments	11,703,079	8,114,831	19,817,910	2,234,813
Receivables, net of allowance for uncollectibles				
Accounts	4,637,706	1,190,462	5,828,168	212,775
Accrued interest	21,523	20,818	42,341	4,453
Restricted				
Investments	11,960,121	-	11,960,121	-
Accounts receivable, net of allowances for uncollectibles	-	175,745	175,745	-
Interest receivable	1,576	-	1,576	-
Inventory	904,327	-	904,327	42,629
Prepaid items	-	14,715	14,715	38,974
Due from other funds	-	-	-	43
	<u>29,976,281</u>	<u>9,947,504</u>	<u>39,923,785</u>	<u>3,069,845</u>
Total Current Assets				
Noncurrent Assets				
Restricted				
Investments	-	4,475,504	4,475,504	-
Prepaid items and deposits	117,181	-	117,181	-
Deferred charges	4,050,426	-	4,050,426	-
Capital assets				
Land	12,442,231	373,772	12,816,003	-
Buildings	-	1,999,645	1,999,645	-
Improvements other than buildings	-	21,076,775	21,076,775	-
Leasehold improvements	-	709,952	709,952	-
Machinery and equipment	10,796,235	20,133,519	30,929,754	-
Water system	376,353,478	-	376,353,478	-
Sewer system	232,658,100	-	232,658,100	-
Construction in progress	6,724,247	180,745	6,904,992	-
Less accumulated depreciation	(157,998,303)	(23,240,420)	(181,238,723)	-
	<u>485,143,595</u>	<u>25,709,492</u>	<u>510,853,087</u>	<u>-</u>
Total Noncurrent Assets				
Total Assets	<u>515,119,876</u>	<u>35,656,996</u>	<u>550,776,872</u>	<u>3,069,845</u>

City of Fort Smith, Arkansas
Statement of Fund Net Position –
Proprietary Funds (Continued)
December 31, 2012

Liabilities and Net Position

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Current liabilities				
Accounts payable and accrued liabilities	\$ 2,534,164	\$ 756,547	\$ 3,290,711	\$ 99,853
Retainage payable	180,748	-	180,748	-
Accrued vacation and sick leave	9,335	2,742	12,077	-
Accrued interest	1,974,005	-	1,974,005	-
Claims and judgments	-	-	-	1,969,613
Revenue bonds payable	5,705,000	-	5,705,000	-
Capital leases payable	68,188	368,959	437,147	-
Deposits	529,709	-	529,709	-
Other	3,400	-	3,400	-
	<u>11,004,549</u>	<u>1,128,248</u>	<u>12,132,797</u>	<u>2,069,466</u>
Total Current Liabilities				
Noncurrent liabilities				
Accrued vacation and sick leave	924,170	271,434	1,195,604	-
Landfill closure and postclosure care	-	4,475,504	4,475,504	-
Revenue bonds, net	169,050,817	-	169,050,817	-
Capital leases payable	106,696	366,353	473,049	-
OPEB liabilities	3,095,304	1,364,033	4,459,337	-
	<u>173,176,987</u>	<u>6,477,324</u>	<u>179,654,311</u>	<u>-</u>
Total Noncurrent Liabilities				
Total Liabilities				
	<u>184,181,536</u>	<u>7,605,572</u>	<u>191,787,108</u>	<u>2,069,466</u>
Net Position				
Net investment in capital assets	312,552,241	20,498,676	333,050,917	-
Restricted for bond retirement	17,547,827	-	17,547,827	-
Restricted for asset replacement	500,000	125,471	625,471	-
Unrestricted	338,272	7,427,277	7,765,549	1,000,379
	<u>\$ 330,938,340</u>	<u>\$ 28,051,424</u>	<u>358,989,764</u>	<u>\$ 1,000,379</u>

Reconciliation to government - wide statement of net position:

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

257,832

Net position of business type activities

\$ 359,247,597

City of Fort Smith, Arkansas
Statement of Revenues, Expenses and Changes in
Fund Net Position – Proprietary Funds
For the Year Ended December 31, 2012

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Operating Revenues				
Water service	\$ 28,113,135	\$ -	\$ 28,113,135	\$ -
Sewer service	12,048,379	-	12,048,379	-
Charges for services	854,917	12,640,422	13,495,339	8,453,330
Other	33,086	-	33,086	-
Total Operating Revenues	41,049,517	12,640,422	53,689,939	8,453,330
Operating Expenses				
Personnel services	12,758,364	5,968,225	18,726,589	-
Contractual services	2,767,969	1,402,317	4,170,286	951,997
Materials and supplies	4,910,472	3,467,417	8,377,889	1,025,540
Heat, light, and power	1,582,987	87,571	1,670,558	-
Depreciation	10,447,574	1,069,677	11,517,251	-
Insurance claims and expenses	-	-	-	9,236,721
Total Operating Expenses	32,467,366	11,995,207	44,462,573	11,214,258
Operating Income (Loss)	8,582,151	645,215	9,227,366	(2,760,928)
Nonoperating Revenues (Expenses)				
Interest revenue	31,468	29,915	61,383	7,410
Interest expense and fiscal charges	(7,909,255)	-	(7,909,255)	-
Other nonoperating revenues, net	1,129,576	257,597	1,387,173	-
Total Nonoperating Revenues (Expenses)	(6,748,211)	287,512	(6,460,699)	7,410
Income (Loss) Before Contributions and Transfers	1,833,940	932,727	2,766,667	(2,753,518)
Capital contributions	12,768,340	-	12,768,340	-
Transfers in	-	125,000	125,000	-
Transfers out	(435,910)	(86,260)	(522,170)	-
Change in Net Position	14,166,370	971,467	15,137,837	(2,753,518)
Total net position, beginning of year	316,771,970	27,079,957		3,753,897
Total net position, ending	\$ 330,938,340	\$ 28,051,424		\$ 1,000,379

Reconciliation to government - wide statement of activities:

Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds (985,128)

Change in net position of business type activities for government - wide statement of activities \$ 14,152,709

(This Page Intentionally Left Blank)

City of Fort Smith, Arkansas
Statement of Cash Flows – Proprietary Funds
For the Year Ended December 31, 2012

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Operating Activities				
Cash received from customers	\$ 41,364,369	\$ 12,541,439	\$ 53,905,808	\$ -
Cash received from service users	-	-	-	1,438,574
Cash received from city and employee contributions	-	-	-	7,036,726
Cash payments for goods and services	(8,442,213)	(5,046,491)	(13,488,704)	(1,008,735)
Cash paid to employees	(10,486,993)	(5,396,573)	(15,883,566)	-
Cash payments for premiums and other operating expenses	-	-	-	(9,106,586)
Cash payments for claims paid	-	-	-	(894,609)
Cash received from other operating revenues	1,402,924	313,493	1,716,417	-
Net cash provided by (used for) operating activities	<u>23,838,087</u>	<u>2,411,868</u>	<u>26,249,955</u>	<u>(2,534,630)</u>
Noncapital Financing Activities				
Transfers in from other funds	-	125,000	125,000	-
Transfers out to other funds	(435,910)	(86,260)	(522,170)	-
Net cash provided by (used for) noncapital financing activities	<u>(435,910)</u>	<u>38,740</u>	<u>(397,170)</u>	<u>-</u>
Capital and Related Financing Activities				
Proceeds from sale of capital assets	13,770	150,316	164,086	-
Acquisition and construction of capital assets	(11,508,640)	(1,397,569)	(12,906,209)	-
Principal paid on bonds	(5,250,000)	-	(5,250,000)	-
Interest paid on bonds	(7,109,116)	-	(7,109,116)	-
Net cash used for capital and related financing activities	<u>(23,853,986)</u>	<u>(1,247,253)</u>	<u>(25,101,239)</u>	<u>-</u>
Investing Activities				
Proceeds from sales and maturities of investment securities	27,052,692	2,560,509	29,613,201	3,328,735
Outlays for purchases of investment securities	(29,288,650)	(8,981,207)	(38,269,857)	(2,296,129)
Interest on investments	9,431	10,293	19,724	3,495
Net cash provided by (used for) investing activities	<u>(2,226,527)</u>	<u>(6,410,405)</u>	<u>(8,636,932)</u>	<u>1,036,101</u>
Net Decrease in Cash	(2,678,336)	(5,207,050)	(7,885,386)	(1,498,529)
Cash, January 1	<u>3,426,285</u>	<u>5,637,983</u>	<u>9,064,268</u>	<u>2,034,687</u>
Cash, December 31	<u>\$ 747,949</u>	<u>\$ 430,933</u>	<u>\$ 1,178,882</u>	<u>\$ 536,158</u>

City of Fort Smith, Arkansas
Statement of Cash Flows – Proprietary Funds (Continued)
For the Year Ended December 31, 2012

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ 8,582,151	\$ 645,215	\$ 9,227,366	\$ (2,760,928)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	10,447,574	1,069,677	11,517,251	-
Miscellaneous revenue	1,482,109	3,021	1,485,130	-
Change in assets and liabilities				
Accounts receivable	344,003	(98,983)	245,020	20,256
Due from other funds	-	-	-	1,714
Inventory	(14,927)	-	(14,927)	14,236
Prepaid items	(51,462)	(14,391)	(65,853)	93,638
Accounts payable and accrued liabilities	1,951,389	365,619	2,317,008	(132,450)
Deposits	3,935	-	3,935	-
Accrued vacation and sick leave	(20,977)	(10,580)	(31,557)	-
Liability for claims and judgments	-	-	-	228,904
OPEB liabilities	1,114,016	452,290	1,566,306	-
Other liabilities	276	-	276	-
 Total adjustments	 15,255,936	 1,766,653	 17,022,589	 226,298
 Net cash provided by (used for) operating activities	 \$ 23,838,087	 \$ 2,411,868	 \$ 26,249,955	 \$ (2,534,630)

Noncash investing, capital and financing activities:

Enterprise funds:

The Water and Sewer Fund received contributions of capital assets of \$12,768,340 for 2012. The 2002 advance refunding, the 2005 advance refunding, and the 2012 advance refunding for water and sewer revenue bonds resulted in cash flow savings of \$38,375, \$28,660, and \$1,343,934, respectively, for 2012.

City of Fort Smith, Arkansas
Statement of Fiduciary Net Position
OPEB Trust Fund
December 31, 2012

Assets

Assets

Current Assets

Investments	\$ 1,499,451
Total Current Assets	1,499,451
Total Assets	1,499,451

Liabilities

Current Liabilities

Accounts payable	3,773
Total Current Liabilities	3,773
Total Liabilities	3,773

Net Position

Held in trust for OPEB	1,495,678
Total Net Position	\$ 1,495,678

City of Fort Smith, Arkansas
Statement of Changes in Fiduciary Net Position
OPEB Trust Fund
For the Year Ended December 31, 2012

Additions:

Investment earnings:		
Interest	\$	13,594
Net increase in fair value of investments		11,008
Total investment earnings		<u>24,602</u>
Less investment expense		<u>14,977</u>
Net investment earnings		<u>9,625</u>
Total Additions		<u>9,625</u>
Change in Net Position		9,625
Net position, beginning		<u>1,486,053</u>
Net position, ending	\$	<u><u>1,495,678</u></u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

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

Nature of Operations

The City of Fort Smith, Arkansas (the “City”) is a municipal corporation operating under the authority of Arkansas state statute. The City operates under a city administrator form of government. Seven elected directors and the Mayor set policy. The directors employ the City Administrator. The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body accepted in the United States for establishing governmental accounting and financial reporting principles.

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, 2012

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 95-96 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 95-96 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 95-96 of these notes for condensed financial statements.

Public Library - The board of trustees for the Fort Smith Public Library manages the Public Library and consists of seven members appointed by the Mayor and confirmed by the Board. Debt is issued in the name of the City and the City levies the Public Library's ad valorem tax annually. The Public Library is a special purpose government engaged in governmental activities and is discretely presented in the City's basic financial statements. Financial statements of the Public Library can be obtained from the Library's administrative office located at 3201 Rogers Avenue, Fort Smith, Arkansas, 72903, or from the City Clerk's office. See Note 13 on pages 95-96 of these notes for condensed financial statements.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2012

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.

Government-Wide and Fund Financial Statements

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

The City reports the following major governmental funds:

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

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2012

The *Street Maintenance Fund* is a special revenue fund that accounts for state gas turnback revenues and property taxes from the Sebastian County road tax allocation restricted for street and traffic control operations. Minor maintenance, repair, and construction of streets and traffic control signals as well as street lighting are included in this fund.

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

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

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

The City reports the following major enterprise funds:

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

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

The City reports the following fiduciary fund type:

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

Additionally, the City reports the following fund types:

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

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

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Measurement Focus and Basis of Accounting

Government-Wide and Proprietary Funds

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

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

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

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The City considers revenues reported in the governmental funds to be available if they are collectible within sixty (60) days after year-end with the exception of grant revenues that are considered available if collected within one year. Principal revenue sources considered susceptible to accrual include ad valorem taxes, sales taxes, utility franchise fees, grant revenues, and interest. Other revenues, such as fines and forfeitures and service charges, are considered to be measurable and available only when cash is received by the City. Expenditures generally are recorded when the related liability is incurred under the accrual basis of accounting,

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

except for expenditures related to principal and interest on long-term debt, claims and judgments, and compensated absences which are recorded only when payment is due.

Cash and Investments

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

Inventories

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

Capital Assets

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

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

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

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

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

Interest is capitalized on enterprise fund capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There was no capitalized interest in 2012.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2012

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

Property Tax Revenue

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

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

The City is permitted by Arkansas State Law to levy taxes up to \$0.50 per \$100 of assessed valuation on real and personal property for general governmental services, \$0.50 per \$100 of assessed valuation on real and personal property for the payment of principal and interest on long-term debt, \$0.10 per \$100 of assessed valuation on real and personal property for the police pension funds and \$0.10 per \$100 of assessed valuation on real and personal property for the fire pension funds. The combined tax rate levied by the City in 2011 to finance the above operations was \$0.70 per \$100 of assessed valuation on real and personal property, leaving a tax margin of \$0.50 per \$100 of assessed valuation on real and personal property. Approximately \$6.6 million of additional taxes could be raised per year based on the current year's assessed value of \$968,690,035 for real property and \$357,156,805 for personal property before the limit is reached.

Compensated Absences

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

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

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2012

Risk Management

The City maintains a medical self-insurance plan funded by the City and administered by a third party. The plan provides certain healthcare benefits to active and retired City employees. Substantially all regular, full-time City employees are eligible for these benefits. The City's costs of providing these benefits, including premiums, totaled \$9,366,178 in 2012, 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 dependents. Retired employees may continue coverage under the City's policy, but must bear the entire cost of these contributions. See Note 8 on pages 87-89.

The City also makes contributions to fund a self-insured workers' compensation program. The City contributed \$929,369 in 2012 to fund this program. There have been no significant reductions in insurance coverage from the prior year and there were no settlements that exceeded insurance coverage in the past three fiscal years.

Sales Taxes

In November 1985, the City began assessing a 1% sales and use tax on retail sales in the City. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes for this purpose totaled \$19,605,123 for fiscal year 2012, 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 68% of the county tax. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes totaled \$15,279,008 for fiscal year 2012. These taxes are included in the General Fund's sales tax revenues. The County refers the tax to the voters every ten years for reapproval. The tax is currently in place through August 2024 as the tax was reapproved during May 2013 for the period August 2014 through August 2024.

In March 2012, 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 2006, 2008 and 2010, to fund a new aquatics center, construct a new fire station, purchase and replace fire apparatus, improve existing fire stations, water improvements and wastewater improvements. The 1% sales tax revenue is split at $\frac{3}{4}$ % for the repayment of the Sales and Use Tax Refunding and Construction Bonds, Series 2012 and $\frac{1}{4}$ % for fire and parks departments operating and capital asset costs. These taxes are collected by the state and remitted to the City, net of a collection fee. The taxes for this purpose totaled \$19,605,123 for fiscal year 2012.

Statement of Cash Flows

For purposes 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 position.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Long-Term Obligations

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

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

Restricted Assets

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

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

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

Cash	\$	236,371
Investments		83,835,610
Sales taxes receivable		<u>1,170,317</u>
Total restricted assets - general government	\$	<u><u>85,242,298</u></u>

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

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

Current Assets:

Investments - water and sewer bond account	\$	4,542,564
Investments - water and sewer bond construction account		6,506,954
Investment - meter deposits		411,389
Investments - asset replacement		499,214
Accounts receivable - solid waste cleanup program account		175,745
Interest receivable - water and sewer bond account/asset replacement		1,576
Total current assets - restricted		12,137,442

Noncurrent assets:

Investments - solid waste landfill construction/closure and postclosure care account		4,475,504
Prepaid items and deposits - water and sewer operating account		6,654
Prepaid items and deposits - water and sewer bond construction account		110,527
Total noncurrent assets		4,592,685

Total restricted assets - enterprise funds	\$	16,730,127
--	----	------------

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.

Fund Balances – Governmental Funds

The fund balances for the City’s governmental funds are displayed in five components:

Nonspendable – Nonspendable fund balances are not in a spendable form or are required to remain intact.

Restricted – Restricted fund balances may be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Committed fund balances may be used only for the specific purposes determined by an Ordinance of the Board of Directors (BOD). Commitments may be changed by issuance of an Ordinance by the BOD.

Assigned – Assigned fund balances are intended to be used by the City for specific purposes as determined by management. In governmental funds other than the General Fund, assigned fund balances represent the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all amounts not contained in other classifications.

The City considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The City applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Note 2: Cash and Investments

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

The City follows GASB Statement 3, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement 40, *Deposit and Investment Risk Disclosure*. The investments and deposits of the primary government are stated at quoted fair values. As a result, a net unrealized loss of \$273,358 is recorded as a decrease in fair value of investments for the primary government in 2012 related to the City’s governmental funds.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government’s deposits may not be returned to it. The City’s deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Arkansas. At December 31, 2012, all the City’s deposits were fully collateralized with securities held by independent third party safekeeping institutions in the name of the City and, therefore, were not exposed to custodial credit risk. The bank balances and carrying amount of the City’s deposits held as of December 31, 2012 were as follows:

Pooled and Nonpooled Funds

Description	Bank Balance	Carrying Amount
Demand deposits	\$ 51,760,488	\$ 56,402,761
Certificates of deposit	6,796,299	6,796,299
	\$ 58,556,787	\$ 63,199,060

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Component Units

At year-end, the carrying amount and the bank balance of the Advertising and Promotion Commission deposits was \$138,278. At December 31, 2012, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Public Library's deposits was \$975,124 and the bank balance was \$1,025,930. At December 31, 2012, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount and the bank balance of the Parking Authority's deposits was \$510,322. At December 31, 2012, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Airport Commission's deposits was \$2,979,220 and the bank balance was \$2,953,563. At December 31, 2012, none of the balances were exposed to custodial credit risk.

Investments

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

The City's investments, including accrued interest, held as of December 31, 2012 were as follows:

Pooled and Nonpooled funds

Description	Fair Value	Investment Maturities Less than 1 Year	Investment Maturities 1-5 Years
U.S. Treasury Bills	\$ 33,663,811	\$ 33,663,811	\$ -
U.S. Treasury Notes	66,613,903	-	66,613,903
	<u>\$ 100,277,714</u>	<u>\$ 33,663,811</u>	<u>\$ 66,613,903</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Component Units

At year-end, the Public Library held \$300,954 in money market funds. The Public Library reports investments at fair value.

At year-end, the Parking Authority fund held \$68,912 in U.S. Treasury Bills and \$23,341 in governmental money market accounts. The Parking Authority reports investments at fair value and the maturity of the bills is December 12, 2013.

At year-end, the Airport Commission held \$76,232 in money market mutual funds and \$305,921 in U.S. Treasury Bills. The Airport Commission reports investments at fair value. The investments mature in 2013.

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, 2012 are securities issued and guaranteed by the U.S. Government.

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

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

Primary Government:

Carrying value of deposits -	
Pooled and nonpooled funds	\$ 63,199,060
Deposits classified as investments	<u>(58,141,217)</u>
	<u>\$ 5,057,843</u>
Cash as reported on the government-wide statement of net position	\$ 4,821,472
Restricted cash as reported on the government-wide statement of net position	<u>236,371</u>
	<u>\$ 5,057,843</u>
Carrying value of investments -	
Pooled and nonpooled funds	\$ 100,277,714
Deposits classified as investments	<u>58,141,217</u>
	<u>\$ 158,418,931</u>
As reported on the government-wide statement of net position:	
Investments	\$ 57,787,271
Interest receivable	109,274
Restricted investments	100,271,235
Restricted interest receivable	<u>251,151</u>
	<u>\$ 158,418,931</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Component Units:

Governmental type-

Carrying value of deposits -		
Advertising and Promotion		
Commission	\$	138,278
Public Library		975,124
Carrying value of investments -		
Public Library		300,954
		300,954
	\$	1,414,356

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

Cash	\$	979,344
Investments		434,802
Interest receivable		210
		210
	\$	1,414,356

Business type-

Carrying value of deposits -		
Parking Authority	\$	510,322
Airport Commission		2,979,220
Carrying value of investments -		
Parking Authority		92,253
Airport Commission		305,921
		305,921
	\$	3,887,716

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

Cash	\$	2,956,667
Investments		455,927
Interest receivable		1,044
Restricted cash		381,831
Restricted investments		92,247
		92,247
	\$	3,887,716

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Note 3: Capital Assets

Capital assets activity for the year ended December 31, 2012 was as follows:

Primary Government:

	<u>December 31, 2011</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2012</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 26,034,596	\$ 813,662	\$ -	\$ 26,848,258
Construction in progress	22,040,072	16,222,529	(23,183,463)	15,079,138
Total capital assets not being depreciated	<u>48,074,668</u>	<u>17,036,191</u>	<u>(23,183,463)</u>	<u>41,927,396</u>
Capital assets being depreciated				
Buildings	72,725,398	-	1,295,870	74,021,268
Improvements other than buildings	13,517,226	-	-	13,517,226
Infrastructure	305,845,345	-	21,887,595	327,732,940
Machinery and equipment	40,394,457	1,360,930	(283,367)	41,472,020
Total depreciable capital assets at historical cost	<u>432,482,426</u>	<u>1,360,930</u>	<u>22,900,098</u>	<u>456,743,454</u>
Less accumulated depreciation for				
Buildings	17,661,338	1,576,641	-	19,237,979
Improvements other than buildings	7,119,804	393,607	-	7,513,411
Infrastructure	72,891,951	8,021,553	-	80,913,504
Machinery and equipment	19,271,501	1,289,092	(230,165)	20,330,428
Total accumulated depreciation	<u>116,944,594</u>	<u>11,280,893</u>	<u>(230,165)</u>	<u>127,995,322</u>
Capital assets being depreciated, net	<u>315,537,832</u>	<u>(9,919,963)</u>	<u>23,130,263</u>	<u>328,748,132</u>
Governmental activities capital assets, net	<u>\$ 363,612,500</u>	<u>\$ 7,116,228</u>	<u>\$ (53,200)</u>	<u>\$ 370,675,528</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Primary Government:

	<u>December 31, 2011</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2012</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 12,726,581	\$ 89,422	\$ -	\$ 12,816,003
Construction in progress	76,110,521	11,330,572	(80,536,101)	6,904,992
	<u>88,837,102</u>	<u>11,419,994</u>	<u>(80,536,101)</u>	<u>19,720,995</u>
Total capital assets not being depreciated				
Capital assets being depreciated:				
Water system	325,595,081	709,133	50,049,264	376,353,478
Sewer system	192,539,376	9,631,887	30,486,837	232,658,100
Buildings	1,999,645	-	-	1,999,645
Improvements other than buildings	21,016,775	60,000	-	21,076,775
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	28,676,692	3,285,405	(1,032,343)	30,929,754
	<u>570,537,521</u>	<u>13,686,425</u>	<u>79,503,758</u>	<u>663,727,704</u>
Total depreciable capital assets at historical cost				
Less accumulated depreciation for:				
Water system	80,187,511	5,662,530	-	85,850,041
Sewer system	60,833,075	4,426,280	-	65,259,355
Buildings	828,871	65,717	-	894,588
Improvements other than buildings	10,004,078	32,052	-	10,036,130
Leasehold improvements	748,034	(38,082)	-	709,952
Machinery and equipment	18,066,272	1,368,754	(946,369)	18,488,657
	<u>170,667,841</u>	<u>11,517,251</u>	<u>(946,369)</u>	<u>181,238,723</u>
Total accumulated depreciation				
Capital assets being depreciated, net	<u>399,869,680</u>	<u>2,169,174</u>	<u>80,450,127</u>	<u>482,488,981</u>
Business-type activities capital assets, net	<u>\$ 488,706,782</u>	<u>\$ 13,589,168</u>	<u>\$ (85,974)</u>	<u>\$ 502,209,976</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

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

Governmental activities:	
General government -	
Administration	\$ 19,582
Legal	1,271
Finance	153,196
Public safety -	
Police	565,105
Fire	290,212
Public works -	
Operations	5,919
Streets	8,212,254
Traffic control	18,426
Community services -	
Health and social services	9,078
Parks and recreation	1,064,752
Convention center	666,212
Transit	261,794
Housing and rehabilitation	13,092
	<hr/>
Total governmental activities depreciation expense	11,280,893
	<hr/>
Business type activities:	
Water and Sewer	10,447,574
Sanitation	1,069,677
	<hr/>
Total business-type activities depreciation expense	11,517,251
	<hr/>
Total depreciation expense	\$ 22,798,144
	<hr/> <hr/>

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

Capital asset activity (on page 34):	
Additions for capital assets not being depreciated	\$ 17,036,191
Additions for capital assets being depreciated	1,360,930
	<hr/>
	\$ 18,397,121
	<hr/> <hr/>
Capital outlay reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 30,928,218
Less: capital contributions to the water and sewer fund	(12,531,097)
	<hr/>
	\$ 18,397,121
	<hr/> <hr/>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Capital asset activity for the year ended December 31, 2012 for the major enterprise funds was as follows:

Primary Government:

	December 31, 2011	Additions/ Transfers	Deletions/ Transfers	December 31, 2012
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 12,352,809	\$ 89,422	\$ -	\$ 12,442,231
Construction in progress	75,979,382	11,280,966	(80,536,101)	6,724,247
Total capital assets not being depreciated:	88,332,191	11,370,388	(80,536,101)	19,166,478
Capital assets being depreciated:				
Water system	325,595,081	709,133	50,049,264	376,353,478
Sewer system	192,539,376	9,631,887	30,486,837	232,658,100
Machinery and equipment	9,196,983	1,791,974	(192,722)	10,796,235
Total depreciable capital assets at historical cost	527,331,440	12,132,994	80,343,379	619,807,813
Less accumulated depreciation for:				
Water system	80,187,511	5,662,530	-	85,850,041
Sewer system	60,833,075	4,426,280	-	65,259,355
Machinery and equipment	6,722,865	358,764	(192,722)	6,888,907
Total accumulated depreciation	147,743,451	10,447,574	(192,722)	157,998,303
Capital assets being depreciated, net	379,587,989	1,685,420	80,536,101	461,809,510
Total water and sewer fund capital assets, net	\$ 467,920,180	\$ 13,055,808	\$ -	\$ 480,975,988

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

	<u>December 31, 2011</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2012</u>
Sanitation Fund:				
Capital assets not being depreciated:				
Land	\$ 373,772	\$ -	\$ -	\$ 373,772
Construction in progress	131,139	49,606	-	180,745
	<u>504,911</u>	<u>49,606</u>	<u>-</u>	<u>554,517</u>
Total capital assets not being depreciated:				
	<u>504,911</u>	<u>49,606</u>	<u>-</u>	<u>554,517</u>
Capital assets being depreciated:				
Buildings	1,999,645	-	-	1,999,645
Improvements other than buildings	21,016,775	60,000	-	21,076,775
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	19,479,709	1,493,431	(839,621)	20,133,519
	<u>43,206,081</u>	<u>1,553,431</u>	<u>(839,621)</u>	<u>43,919,891</u>
Total depreciable capital assets at historical cost				
	<u>43,206,081</u>	<u>1,553,431</u>	<u>(839,621)</u>	<u>43,919,891</u>
Less accumulated depreciation for:				
Buildings	828,871	65,717	-	894,588
Improvements other than buildings	10,004,078	32,052	-	10,036,130
Leasehold improvements	748,034	(38,082)	-	709,952
Machinery and equipment	11,343,407	1,009,990	(753,647)	11,599,750
	<u>22,924,390</u>	<u>1,069,677</u>	<u>(753,647)</u>	<u>23,240,420</u>
Total accumulated depreciation				
	<u>22,924,390</u>	<u>1,069,677</u>	<u>(753,647)</u>	<u>23,240,420</u>
Capital assets being depreciated, net				
	<u>20,281,691</u>	<u>483,754</u>	<u>(85,974)</u>	<u>20,679,471</u>
Total sanitation fund capital assets, net				
	<u>\$ 20,786,602</u>	<u>\$ 533,360</u>	<u>\$ (85,974)</u>	<u>\$ 21,233,988</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Component Units-

	December 31, 2011	Additions/ Transfers	Deletions/ Transfers	December 31, 2012
Governmental Activities:				
Public Library				
Capital assets not being depreciated:				
Land	\$ 422,132	\$ -	\$ -	\$ 422,132
Capital assets not being depreciated	<u>422,132</u>	<u>-</u>	<u>-</u>	<u>422,132</u>
Capital assets being depreciated:				
Equipment	1,064,367	36,038	-	1,100,405
Transportation equipment	139,952	-	-	139,952
Total depreciable capital assets at historical cost	1,204,319	36,038	-	1,240,357
Less accumulated depreciation	<u>801,122</u>	<u>66,513</u>	<u>-</u>	<u>867,635</u>
Capital assets being depreciated, net	<u>403,197</u>	<u>(30,475)</u>	<u>-</u>	<u>372,722</u>
Governmental activities capital assets, net Public Library	<u>\$ 825,329</u>	<u>\$ (30,475)</u>	<u>\$ -</u>	<u>\$ 794,854</u>

	December 31, 2011	Additions/ Transfers	Deletions/ Transfers	December 31, 2012
Business-type activities:				
Parking Authority				
Capital assets not being depreciated:				
Land	\$ 1,359,160	\$ -	\$ -	\$ 1,359,160
Capital assets being depreciated:				
Buildings	2,370,552	23,708	-	2,394,260
Machinery and equipment	73,525	-	-	73,525
Total depreciable capital assets at historical cost	2,444,077	23,708	-	2,467,785
Less accumulated depreciation for:				
Buildings	1,434,817	55,192	-	1,490,009
Machinery and equipment	66,485	-	-	66,485
Total accumulated depreciation	<u>1,501,302</u>	<u>55,192</u>	<u>-</u>	<u>1,556,494</u>
Capital assets being depreciated, net	<u>942,775</u>	<u>(31,484)</u>	<u>-</u>	<u>911,291</u>
Business-type activities capital assets, net Parking Authority	<u>\$ 2,301,935</u>	<u>\$ (31,484)</u>	<u>\$ -</u>	<u>\$ 2,270,451</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

	December 31, 2011	Additions/ Transfers	Deletions/ Transfers	December 31, 2012
Airport Commission:				
Capital assets not being depreciated:				
Land	\$ 6,058,806	\$ 136,489	\$ -	\$ 6,195,295
Construction in progress	1,193,396	23,360	(1,193,396)	23,360
Total capital assets not being depreciated	<u>7,252,202</u>	<u>159,849</u>	<u>(1,193,396)</u>	<u>6,218,655</u>
Capital assets being depreciated:				
Buildings	21,538,988	-	-	21,538,988
Runways & other airport infrastructure	43,157,353	1,844,998	-	45,002,351
Equipment, furniture & fixtures, and other	10,362,018	395,320	(54,997)	10,702,341
Total depreciable capital assets at historical cost	<u>75,058,359</u>	<u>2,240,318</u>	<u>(54,997)</u>	<u>77,243,680</u>
Less accumulated depreciation for:				
Buildings	9,607,165	741,173	-	10,348,338
Runways & other airport infrastructure	29,093,788	1,361,079	-	30,454,867
Equipment, furniture & fixtures, and other	7,007,678	577,114	(54,939)	7,529,853
Total accumulated depreciation	<u>45,708,631</u>	<u>2,679,366</u>	<u>(54,939)</u>	<u>48,333,058</u>
Capital assets being depreciated, net	<u>29,349,728</u>	<u>(439,048)</u>	<u>(58)</u>	<u>28,910,622</u>
Business-type activities capital assets, net Airport Commission	<u>\$ 36,601,930</u>	<u>\$ (279,199)</u>	<u>\$ (1,193,454)</u>	<u>\$ 35,129,277</u>

Construction-in-progress is composed of the following:

	Primary Appropriation	Expended to December 31, 2012	Committed
Primary government:			
Governmental activities	\$ 69,582,348	\$ 15,079,138	\$ 54,503,210
Business-type activities			
Sanitation capital improvements	9,454,842	180,745	9,274,097
Water and sewer capital improvements	100,228,783	6,724,247	93,504,536
Total	<u>\$ 179,265,973</u>	<u>\$ 21,984,130</u>	<u>\$ 157,281,843</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

The City's governmental construction projects include major street and drainage improvements, a new aquatics park, a new fire station and improvements to the existing fire stations. Funding is in place for these projects. The water and sewer capital improvement projects include the water and wastewater projects that are being funded by the Sales and Use Tax Refunding and Construction Bonds, Series 2012. These assets are being transferred to the Water and Sewer Fund as contributed capital from a general government fund. Funds are available for these projects. The water and sewer capital improvement projects also include the waterline improvements in the southern areas of the City, wet weather wastewater improvements, and plant designs that are funded by the 2007 and 2008 water and sewer system revenue bonds. The sanitation project currently includes engineering work and design for a new and expanded scale house for operations at the landfill. Funds are in place for the scale house project.

Reconciliation of Capital Assets to Net Investment in Capital Assets on the Statement of Net Position:

	Governmental	Business-Type		Total
		Water and Sewer	Sanitation	
Primary Government:				
Net book value	\$ 370,675,528	\$ 480,975,988	\$ 21,233,988	\$ 502,209,976
Current and noncurrent debt	(116,259,692)	(174,930,701)	(735,312)	(175,666,013)
Restricted assets - unspent bond/not proceeds	68,706,855	6,506,954	-	6,506,954
Net investment in capital assets	<u>\$ 323,122,691</u>	<u>\$ 312,552,241</u>	<u>\$ 20,498,676</u>	<u>\$ 333,050,917</u>
	Governmental	Business-Type		
Component Units:				
Net book value	\$ 794,854	37,399,728		
Current and noncurrent debt	-	(3,336,348)		
Net investment in capital assets	<u>\$ 794,854</u>	<u>\$ 34,063,380</u>		

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Note 4: Long-Term Liabilities

Changes in long-term liabilities for the year ended December 31, 2012 were as follows:

Primary Government-

	Balance December 31, 2011	Increases	Decreases	Balance December 31, 2012	Amount Due in One Year
Governmental Activities:					
Bonds Payable -					
Sales tax bonds	\$ 52,235,000	\$ 110,660,000	\$ 53,585,000	\$ 109,310,000	\$ 10,390,000
Deferral on refunded issue	-	1,606,846	803,423	803,423	-
Add issuance premium	659,533	6,269,913	1,077,532	5,851,914	-
Sales tax bonds payable, net	<u>52,894,533</u>	<u>118,536,759</u>	<u>55,465,955</u>	<u>115,965,337</u>	<u>10,390,000</u>
Capital leases payable	-	404,307	109,952	294,355	133,915
Compensated Absences	2,381,878	168,512	95,536	2,454,854	24,549
Claims Payable - General Fund					
Legal	82,500	-	-	82,500	82,500
Employee insurance/workers' compensation	1,192,801	176,530	-	1,369,331	1,369,331
OPEB liabilities	5,873,731	2,782,630	-	8,656,361	-
Other	162,278	15,324	-	177,602	-
Total governmental activities long-term liabilities	<u>\$ 62,587,721</u>	<u>\$ 122,084,062</u>	<u>\$ 55,671,443</u>	<u>\$ 129,000,340</u>	<u>\$ 12,000,295</u>
Business-Type Activities					
Bonds Payable -					
Revenue bonds	\$ 177,130,000	\$ 13,250,000	\$ 18,500,000	\$ 171,880,000	\$ 5,705,000
Less issuance discounts	(31,936)	-	(2,457)	(29,479)	-
Add issuance premium	2,124,334	1,147,058	380,978	2,890,414	-
Deferral on refunded issue	(233,856)	265,391	16,653	14,882	-
Revenue bonds payable, net	<u>178,988,542</u>	<u>14,662,449</u>	<u>18,895,174</u>	<u>174,755,817</u>	<u>5,705,000</u>
Capital leases payable	677,219	663,189	430,212	910,196	437,147
Compensated absences	1,239,241	22,629	54,189	1,207,681	12,077
Claims Payable-Employee insurance and worker's compensation					
OPEB liabilities	547,908	52,374	-	600,282	600,282
OPEB liabilities	2,893,031	1,566,306	-	4,459,337	-
Closure/postclosure landfill costs	4,475,504	-	-	4,475,504	-
Total other long-term liabilities	<u>9,832,903</u>	<u>2,304,498</u>	<u>484,401</u>	<u>11,653,000</u>	<u>1,049,506</u>
Total business-type activities long-term liabilities	<u>\$ 188,821,445</u>	<u>\$ 16,966,947</u>	<u>\$ 19,379,575</u>	<u>\$ 186,408,817</u>	<u>\$ 6,754,506</u>

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

Current Liabilities:	
Current portion of long-term debt	\$ 5,705,000
Noncurrent liabilities:	
Due within one year	1,049,506
Due in more than one year	<u>179,654,311</u>
 Total business-type activities long-term liabilities	 <u>\$ 186,408,817</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

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

The other postemployment benefit (OPEB) liabilities are related to healthcare benefits for retirees. The OPEB liabilities apply to governmental and business-type activities as applicable. For governmental activities, the General Fund generally liquidates OPEB liabilities.

Changes in long-term liabilities for the year ended December 31, 2012 for the major enterprise funds were as follows:

	Balance December 31,			Balance December 31,		Amount Due in One Year
	2011	Increases	Decreases	2012		
Water and Sewer Fund:						
Bonds Payable -						
Revenue bonds	\$ 177,130,000	\$ 13,250,000	\$ 18,500,000	\$ 171,880,000	\$	5,705,000
Less issuance discounts	(31,936)	-	(2,457)	(29,479)		-
Add issuance premium	2,124,334	1,147,058	380,978	2,890,414		-
Less deferral on refunded issue	(233,856)	265,391	16,653	14,882		-
Revenue bonds payable, net	<u>178,988,542</u>	<u>14,662,449</u>	<u>18,895,174</u>	<u>174,755,817</u>		<u>5,705,000</u>
Capital leases payable	73,967	157,339	56,422	174,884		68,188
Compensated absences	954,485	10,903	31,883	933,505		9,335
OPEB liabilities	1,981,288	1,114,016	-	3,095,304		-
Other long-term liabilities	3,009,740	1,282,258	88,305	4,203,693		77,523
Total water and sewer fund	<u>\$ 181,998,282</u>	<u>\$ 15,944,707</u>	<u>\$ 18,983,479</u>	<u>\$ 178,959,510</u>		<u>\$ 5,782,523</u>
Sanitation Fund:						
Capital leases payable	\$ 603,252	\$ 505,850	\$ 373,790	\$ 735,312	\$	368,959
Compensated absences	284,756	11,726	22,306	274,176		2,742
OPEB liabilities	911,743	452,290	-	1,364,033		-
Closure/postclosure landfill costs	4,475,504	-	-	4,475,504		-
Other long-term liabilities	<u>6,275,255</u>	<u>969,866</u>	<u>396,096</u>	<u>6,849,025</u>		<u>371,701</u>
Total sanitation fund	<u>\$ 6,275,255</u>	<u>\$ 969,866</u>	<u>\$ 396,096</u>	<u>\$ 6,849,025</u>		<u>\$ 371,701</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

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

	Water and Sewer Fund	Sanitation Fund
Current Liabilities		
Revenue bonds payable	\$ 5,705,000	\$ -
Capital leases payable	68,188	368,959
Accrued vacation and sick leave	9,335	2,742
Noncurrent Liabilities:		
Landfill closure and postclosure care	-	4,475,504
Revenue bonds, net	169,050,817	-
Capital leases payable	106,696	366,353
Accrued vacation and sick leave	924,170	271,434
OPEB liabilities	3,095,304	1,364,033
Total long-term liabilities for major enterprise funds	\$ 178,959,510	\$ 6,849,025

Changes in long-term liabilities for the year ended December 31, 2012, for the component units were as follows:

	Balance December 31, 2011	Increases	Decreases	Balance December 31, 2012	Amount Due in One Year
Component Units:					
Business-type activities-					
Parking Authority:					
Bonds Payable -					
Revenue bonds payable, net	\$ 610,000	\$ -	\$ 110,000	\$ 500,000	\$ 115,000
Less issuance discounts	(11,325)	-	(1,888)	(9,437)	-
Bonds payable, net	598,675	-	108,112	490,563	115,000
Compensated Absences	2,457	-	2,101	356	4
Total	601,132	-	110,213	490,919	115,004
Airport Commission:					
Bonds payable -					
Revenue Bonds	3,205,000	-	175,000	3,030,000	175,000
Less deferral on refunding	(205,413)	-	(20,842)	(184,571)	-
Bonds payable, net	2,999,587	-	154,158	2,845,429	175,000
Total	2,999,587	-	154,158	2,845,429	175,000
Total Component Units	\$ 3,600,719	\$ -	\$ 264,371	\$ 3,336,348	\$ 290,004

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Operating Leases

The City leases office space under a noncancelable-operating lease. Total costs for the lease to the General Fund were \$238,000 for the year ended December 31, 2012. The future minimum lease payments for the lease are as follows:

2013	\$	240,000
2014		250,000
2015		42,000
Total	\$	532,000

Capital Leases

The City has entered into lease agreements for the acquisition of capital assets beginning in 2009 through 2015. 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 position.

The assets acquired through capital lease are as follows:

	Primary Government		
	Governmental	Business - Type Activities	
	Activities	Water & Sewer	Sanitation
Machinery and Equipment	\$ 404,311	\$ 315,724	\$ 1,109,102
Less accumulated depreciation	-	(110,870)	(77,998)
Total	\$ 404,311	\$ 204,854	\$ 1,031,104

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2012 were as follows:

	Primary Government		
	Governmental	Business - Type Activities	
	Activities	Water & Sewer	Sanitation
2013	\$ 150,129	\$ 75,020	\$ 373,790
2014	143,557	56,181	373,790
2015	26,584	56,181	-
Total future minimum lease payments	320,270	187,382	747,580
Less interest	(25,915)	(12,498)	(12,268)
Net present value of future minimum lease payments	<u>\$ 294,355</u>	<u>\$ 174,884</u>	<u>\$ 735,312</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 governmental activities had capital leases payable of \$294,355 that is considered short-term financing as of December 31, 2012. The limit as of December 31, 2012 was \$66.3 million; therefore management believes the City is in compliance with state statutes for short-term financing at December 31, 2012.

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 were 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 were due in annual installments at varying amounts through September 1, 2013, with interest ranging from 3.875% to 5%, payable semiannually. These bonds were advance refunded in May 2012 and the debt is defeased as of December 31, 2012, and the liability has been removed from the governmental activities column of the statement of net position.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

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 total deferred amount on refunding has been amortized.

The 2006 Bonds were subject to extraordinary redemption from surplus tax receipts and proceeds of the Bonds not needed for purposes intended at a purchase price equal to the principal amount being redeemed plus accrued interest to the redemption date. A total of \$505,000 bonds were called during 2012.

On November 13, 2008, the City issued \$15,815,000 Sales and Use Tax Construction Bonds, Series 2008. The bonds were payable solely from the same sales tax that supported the 2006 Bonds. The bonds were due in annual installments at varying amounts through September 1, 2014, with interest ranging from 3.75% to 4%. These bonds were advance refunded in May 2012 and the debt is defeased as of December 31, 2012, and the liability has been removed from the governmental activities column of the statement of net position.

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

The 2008 Bonds were subject to extraordinary redemption from surplus tax receipts and proceeds of the Bonds not needed for purposes intended at a purchase price equal to the principal amount being redeemed plus accrued interest to the redemption date. A total of \$85,000 bonds were called during 2012.

On September 30, 2009, the City issued \$29,150,000 Sales and Use Tax Construction Bonds, Series 2009 with interest rates ranging from 2.3% to 2.5%. The bonds were payable solely from the same sales tax that supports the 2006 and 2008 sales tax bonds. However, the 2009 Bonds were to be redeemed after all outstanding 2006 and 2008 bonds were retired. The bonds were issued for additional wastewater improvements. These bonds were advance refunded in May 2012 and the debt is defeased as of December 31, 2012, and the liability has been removed from the governmental activities column of the statement of net position.

The 2009 Bonds were 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.

On May 22, 2012, the City issued \$110,660,000 Sales and Use Tax Refunding and Improvement Bonds, Series 2012. The bonds were partially issued to advance refund the outstanding Sales and Use Tax Refunding and Improvement Bonds, Series 2006, Sales and Use Tax Bonds, Series 2008, and Sales and Use Tax & Water and Sewer Revenue Bonds, Series 2009 that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of approximately \$54 million of sales and use tax bonds. The 2006 and 2008 Bonds will be redeemed by September 1, 2013 and the 2009 Bonds will be redeemed by September 1, 2014. The reacquisition price exceeded the carrying amount of the old debt by \$1,607,000. The unamortized amount is netted against the new debt and is being amortized over the remaining life of the

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

refunded debt. The advance refunding of the bonds reduced the City's total debt service payments over the next three years by approximately \$12 million, but included transfers of prior bond issue debt service funds of approximately \$14 million, resulting in an economic loss of approximately \$0.9 million. The bonds were also issued to fund \$39.4 million in wastewater improvements; \$20.7 million in water system improvements; \$8.6 million in fire improvements; and \$4 million in aquatic center improvements. The bonds are due May 1, 2013 through May 1, 2027 in varying amounts with interest ranging from 1% to 5%, payable semiannually. The effective interest rate of the 2012 bonds is 3%. On March 13, 2012, voters approved the reauthorization of two ½% sales and use taxes for these bonds and for operation costs. The bonds are supported by .75% sales and use tax. The bonds are subject to mandatory redemption in inverse order from surplus tax collections on any payment date. On November 1, 2012, \$1,350,000 of the 2012 bonds were called. The remaining .25% sales and use tax is to be used for fire and park operations.

Bond Retirement - The City is required to maintain a debt service reserve equal to \$5,533,000 during the life of the 2012 Bonds. The City held U.S. Treasury Bills at a carrying amount of \$5,541,115 at December 31, 2012 for this purpose.

Maturity Schedule – The debt service requirements for the Sales Tax Bonds at December 31, 2012 is as follows:

	Principal	Interest
2013	\$ 10,390,000	\$ 3,594,536
2014	8,205,000	3,460,536
2015	5,665,000	3,293,511
2016	5,835,000	3,121,011
2017	6,010,000	2,928,311
2018-2022	33,500,000	11,065,631
2023-2027	39,705,000	3,382,035
Total	109,310,000	\$ 30,845,571
Add deferral on refunded issue	803,423	
Add unamortized bond premium	5,851,914	
Net bonds outstanding at December 31, 2012	\$ 115,965,337	

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Revenue Bonds - Business-Type Activities

Revenue bonds outstanding at December 31, 2012, are comprised of the following individual issues:

Water and Sewer:

\$7,330,000 of Series 2005B Water and Sewer Revenue Bonds; due in annual installments of varying amounts through October 1, 2025 with interest ranging from 4% to 4.375% payable semiannually	\$ 7,330,000
\$24,470,000 of Series 2007 Water and Sewer Revenue Bonds; due in annual installments of varying amounts through October 1, 2027 with interest ranging from 4% to 5% payable semiannually	20,035,000
\$117,420,000 of Series 2008 Water and Sewer Refunding and Construction Revenue Bonds; due in varying amounts through October 1, 2033 with interest ranging from 4% to 5.25% payable semiannually	114,805,000
\$18,920,000 of Series 2011 Water and Sewer Refunding Revenue Bonds; due in varying amounts through October 1, 2023 with interest ranging from 2% to 4.5% payable semiannually	16,535,000
\$13,250,000 of Series 2012 Water and Sewer Refunding Revenue Bonds; due in varying amounts through October 1, 2019 with interest ranging from 2% to 3.807% payable semiannually	<u>13,175,000</u>
Bonds outstanding, December 31, 2012	171,880,000
Unamortized bond discount	(29,479)
Unamortized bond premium	2,890,414
Deferred amount on refunding	<u>14,882</u>
Net bonds outstanding, December 31, 2012	<u><u>\$ 174,755,817</u></u>

Water and Sewer-

On June 1, 2005, the City issued \$17,605,000 Water and Sewer Revenue Refunding Bonds, Series 2005A. The 2005A Bonds were issued to refund \$16,375,000 of outstanding Series 1999 Water and Sewer System Revenue Bonds that were redeemed on October 1, 2009. The reacquisition price exceeded the carrying amount of the old debt by \$1,629,426. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life. The deferred amount on refunding has been amortized. The City completed the refunding to reduce its total debt service payments over the next five (5) years by \$861,756 and to obtain an economic gain of \$730,371. These bonds were refunded by the Water and Sewer Refunding Revenue Bonds, Series 2012 and the debt is defeased and the liability has been removed from the Water and Sewer Proprietary Fund's Statement of Net Position.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2012

On December 21, 2005, the City issued \$7,330,000 Water and Sewer Revenue Bonds, Series 2005B. The 2005B Bonds were issued to fund the purchase of 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 2005A Bonds.

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

On August 6, 2008, the City issued \$117,420,000 Water and Sewer Refunding and Construction Revenue Bonds, Series 2008. The 2008 Bonds were issued to advance refund the 2002A Bonds and to provide funding for improvements to the water and sewer facilities. The sewer improvements include extensions in growth areas of the City and the water improvements include the Mountainburg water treatment plant rehabilitation and expansion, the replacement of neighborhood water lines, and the Howard Hill elevated water storage tank. The 2008 Bonds advance refunded \$66.475 million of the outstanding Series 2002A Bonds. The carrying amount of the old debt exceeded the reacquisition price by \$440,770. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life. The remaining unamortized deferred amount on refunding was \$290,617 as of December 31, 2012. The 2008 Bonds were issued as additional bonds on a parity of security with the 2005A, 2005B, and 2007 bonds.

On November 10, 2011, the City issued \$18,920,000 Water and Sewer Refunding Revenue Bonds, Series 2011, to refund the outstanding \$2,325,000 of 2002B Series Bonds and to refund the outstanding \$16,595,000 of 2002C Series Bonds. The reacquisition price exceeded the carrying amount of the old debt by \$93,625. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life. The deferred amount on refunding was \$78,021 as of December 31, 2012. The City completed the refunding to obtain an economic gain of \$1,372,849 over the remaining life of the bonds. The 2002C Bonds Series were redeemed during 2012; therefore the escrow account at December 31, 2012 was zero.

On February 23, 2012, the City issued \$13,250,000 Water and Sewer Revenue Refunding Bonds, Series 2012, to advance refund the outstanding 2005A Water and Sewer Revenue Refunding Bonds that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of approximately \$15 million. The bonds are due in varying amounts on October 1, 2012 through 2019 with interest rates ranging from 2% to 3.807%, payable semiannually. The reacquisition price exceeded the carrying amount of the old debt by \$265,391. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life. The deferred amount on refunding was \$265,390 as of December 31, 2012. The City completed the refunding to reduce its total debt service payments over the next seven (7) years by \$1,803,168 and to obtain an economic gain of \$1,115,323.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

The Series 2005B, 2007, 2008, 2011 and 2012 Revenue Bonds are collateralized by revenue of the water and sewer system and the various special funds established by the authorizing bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system, second to establish and maintain the revenue bond funds and third to pay the cost of replacements made necessary by the depreciation of the system. Any remaining revenues may then be used for redemption of the bonds prior to maturity, as discussed previously, for the purchase of bonds at a price not to exceed par and accrued interest, for construction, extension, betterments and improvements to the system, or for any other lawful purpose.

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

The ordinances also contain provisions that, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2012, management of the City believes it 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 \$727,354 related to the 2005B Bonds, \$1,891,369 related to the 2007 Bonds, \$11,712,104, related to the 2008 Bonds, \$1,892,000 related to the 2011 Bonds and \$1,325,000 related to the 2012 Bonds. The City held surety bonds valued at \$727,354, \$1,891,369, \$11,712,104, \$1,892,000 and \$1,325,000 at December 31, 2012 for this purpose.

Asset Replacement- The City is required to deposit 3% of the gross revenues of the water and sewer system for the then preceding month plus \$5,000 per month until the sum of \$500,000 has been accumulated in the Depreciation Fund. Amounts are to be used for replacements made necessary by the depreciation of the system. The City has accumulated \$500,000 for asset replacement as of December 31, 2012.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Maturity Schedule

Aggregate debt service requirements at December 31, 2012 for business-type activity related bonds were as follows:

	Total Business-Type Activities	
	Water and Sewer	
	Principal	Interest
2013	\$ 5,705,000	\$ 7,896,015
2014	5,870,000	7,728,715
2015	6,085,000	7,512,742
2016	6,320,000	7,287,218
2017	6,525,000	7,073,982
2018-2022	36,570,000	31,452,440
2023-2027	45,920,000	22,114,550
2028-2032	58,885,000	9,149,088
	<hr/>	<hr/>
Total	<u>\$ 171,880,000</u>	<u>\$ 100,214,750</u>

Component Units Revenue Bonds-Business-Type Activities

Airport Commission-

On August 2, 2011, the Airport Commission issued \$3,205,000 of City of Fort Smith, Arkansas Airport Refunding and Improvement Revenue Bonds, Series 2011, to refund the remaining outstanding Series 1999 Bonds. The current refunding transaction resulted in a cash flows savings over the next 15 years of \$517,210 and a net present value debt service savings of \$265,391, discounted at 4.6%. The bonds bear interest at 1.5% to 5.35%, payable semi-annually and the bonds are payable in annual installments through October 1, 2026. All the bonds still outstanding may be redeemed at the Airport's option on or after October 1, 2020. At December 31, 2012, bonds payable were \$3,030,000. The bonds outstanding net of amortized discount at December 31, 2012, were \$2,845,429.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

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

	<u>Principal</u>	<u>Interest</u>
2013	\$ 175,000	\$ 127,537
2014	180,000	124,388
2015	180,000	120,967
2016	190,000	115,658
2017	195,000	109,387
2018-2022	1,090,000	422,123
2023-2026	<u>1,020,000</u>	<u>132,623</u>
 Total Payments	 3,030,000	 <u><u>\$ 1,152,683</u></u>
 Less unamortized deferral on refunding	 <u>(184,571)</u>	
 Net bond outstanding, December 31, 2012	 <u><u>\$ 2,845,429</u></u>	

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 \$382,153, which are classified as restricted assets on the balance sheet, as of December 31, 2012. The Airport Commission held cash and investments equal to this amount at December 31, 2012.

Parking Authority-

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

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, 2012, the Parking Authority held investments equal to this amount.

The Series 1998 Bonds are subject to optional, extraordinary, and mandatory sinking fund redemption. The Authority may prepay all or a portion of the bonds in inverse order or maturity in whole at any time, or in part on any interest payment date on or after December 1, 2003, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date. The Series 1998 Bonds must be redeemed from proceeds not needed for the

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

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 maturity on December 1, 2015 is subject to mandatory sinking fund redemption. On June 1, 2005, \$415,000 of outstanding 1998 Bonds was redeemed. The redemption was accomplished with the sale of property to a hotel developer.

At December 31, 2012, Parking Authority Revenue Bonds payable was \$500,000. The bonds are due in annual installments at varying amounts through December 1, 2017, with interest ranging from 4.65% to 4.75%, payable semiannually. The bonds outstanding net of unamortized discount at December 31, 2012, was \$490,563.

Debt service requirements for the bonds at December 31, 2012 were as follows:

	Principal	Interest
2013	\$ 115,000	\$ 23,390
2014	120,000	18,042
2015	125,000	12,463
2016	130,000	6,650
2017	10,000	475
Total Payments	500,000	\$ 61,020
Less unamortized bond discount	(9,437)	
Net bond outstanding, December 31, 2012	\$ 490,563	

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, 2012, the City has recorded \$19,932 as arbitrage payable. This liability is included as other long-term liabilities in the Sales and Use Tax Construction Fund.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

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, 2012, there were thirteen series of Industrial Development Revenue Bonds outstanding with an aggregate principal amount payable of \$208,600,000, two series of Fair and Exhibition Facilities Bonds outstanding with an aggregate principal amount payable of \$5,865,000, and two series of Residential Housing Facilities Board Multi-Family Housing Revenue Bonds outstanding with an aggregate principal payable of \$6,375,000.

Note 5: Risk Management

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

All funds of the City participate in the City's insurance programs and make payments to the respective self-insurance funds based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for future claims. The Airport Commission and the Fort Smith Public Library participate in the City's health plans by making contributions as required by the City. At December 31, 2012 the net position was \$320,373 and \$634,528 in the Employee Insurance and Workers' Compensation Funds, respectively. The claims liability balances of \$1,577,600 and \$392,013 reported in the Employee Insurance and Workers' Compensation Funds, respectively, are based on the requirements of GASB Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The claims liability includes the effect of specific incremental claims, adjustment expenses, and if probable and material, salvages and subrogation. These liabilities include accruals for claims incurred but not reported, based upon the City's historical claims rate. These liabilities are the City's best estimate based on available information. Changes in the reported liabilities during 2012 are detailed below:

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

	Employee Insurance	Workers' Compensation
Self-insurance liability, December 31, 2010	\$ 1,399,016	\$ 563,805
Current year claims and changes in estimate	7,814,601	195,922
Claim payments	(7,862,992)	(369,643)
Self-insurance liability, December 31, 2011	1,350,625	390,084
Current year claims and changes in estimate	8,873,663	591,962
Claim payments	(8,646,688)	(590,033)
Self-insurance liability, December 31, 2012	\$ 1,577,600	\$ 392,013

Note 6: Deferred Compensation Plan

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

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

Note 7: Pension Plans

(a) Public Employees Retirement System

Plan Description

Effective April 1, 1997, the Public Employees' Retirement System (PERS) was converted to a money purchase retirement plan, a defined contribution plan, that is qualified under Section 401(a) of the Internal Revenue Code (the 401(a) Plan). ICMARC serves as administrator of the 401(a) Plan. All full-time, non-uniformed employees with the exception of the three district judges and the District Court Clerk are covered by the 401(a) Plan. Each participant has a plan account to which the contributions are made and each participant manages their account by selecting various investments options offered by ICMARC. Plan benefits are based upon the total amount of money

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

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 \$2,393,104 for 2012.

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

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

On January 1, 2005, the district judges became members of the Arkansas District Judges Retirement System (ADJRS). ADJRS is administered by the state as a defined benefit plan. Employer contributions for 2012 were made by the State.

On January 1, 2005, the district court clerk became a member of the Arkansas Public Employees' Retirement System (APERS). APERS is administered by the state as a defined benefit plan. The employer contribution rate was 13.47% from January 1 through June 30, 2012 and it was 14.24% from July 1 through December 31, 2012 of covered payroll. The Clerk's contribution rate was 5% of covered payroll for 2012.

Covered payroll for the clerk was \$82,841 for the fiscal year ended December 31, 2012. There is one retired clerk receiving benefits from APERS.

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

Plan Description

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Members and participants of the old plans at December 31, 2012 are:

	Fire	Police
Active Members:		
Vested	7	3
Retirees and beneficiaries	112	88
Total	119	91

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

Funding Policy and Funded Status

Arkansas state statutes require yearly contributions at a level percentage of covered payroll sufficient to cover the costs of benefit commitments made to participants for their service rendered in that year and, over a reasonable period of time, to fully cover the unfunded costs of benefit commitments for services previously rendered. The City is required to contribute the actuarially required normal costs and amortized costs of the unfunded actuarial accrued liability. In addition, active employees are required to make contributions equal to 6% of their gross salary to the Old Plans. The contributions for the 2012 plan year were based upon the December 31, 2011, actuarial report.

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

The actuarially required contributions rate as of December 31, 2012, 2011, and 2010, and amounts required by the City and active participants of the Old Plans for 2012, 2011, and 2010 were as follows:

	Fire Plan			Police Plan		
	2012	2011	2010	2012	2011	2010
Employer actuarially required contribution rates	40.68%	39.14%	36.97%	28.74%	27.53%	27.75%
Employer contributions as a percentage of annual covered payroll	40.68%	39.14%	36.97%	28.74%	27.53%	27.75%
Employer contributions to LOPFI	\$ 217,033	\$ 208,566	\$ 214,956	\$ 55,323	\$ 51,745	\$ 68,162
Annual Pension Cost (APC)	\$ 217,033	\$ 208,566	\$ 214,956	\$ 55,323	\$ 51,745	\$ 68,162
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	-	-	-	-	-	-

The Fire portion of the Old Plan, as of December 31, 2011, the most recent actuarial valuation date, was 50% funded. The actuarial accrued liability for benefits was \$33,089,514, and the actuarial value of assets was \$16,540,360, resulting in an unfunded actuarial accrued liability (UAAL) of \$16,549,154. The covered payroll (annual payroll of active employees covered by the plan) was \$7,532,651 and the ratio of the UAAL to the covered payroll was 220%.

The Police portion of the Old Plan, as of December 31, 2011, the most recent actuarial valuation date, was 33% funded. The actuarial accrued liability for benefits was \$23,537,921, and the actuarial value of assets was \$7,749,397, resulting in an unfunded actuarial accrued liability (UAAL) of \$15,788,524. The covered payroll (annual payroll of active employees covered by the plan) was \$8,248,459 and the ratio of the UAAL to the covered payroll was 191%.

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to compute the contribution rates for the year ended December 31, 2012, for the Old Plans:

	Old Fire and Police Plans
Valuation date	December 31, 2011
Cost method	Entry age
Asset valuation method	Smooth market over a period of 5 years
Amortization method	Level percentage
Amortization period	30 years closed
 Assumptions:	
Inflation rate	4.0%
Investment rate of return	8.0%
Projected salary increases	4.0%
Post-retirement benefit increases	3.0%

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

Plan Description

The Arkansas Local Police and Fire Retirement System (LOPFI) is a statewide cost-sharing multiple-employer defined benefit retirement program administered by the LOPFI Board of Trustees. LOPFI provides retirement, disability and survivor benefits to police and fire employees of political subdivisions of the State of Arkansas. LOPFI was created by ACT 364 of the 1981 General Assembly. Employees hired after January 1, 1983, whose political subdivision had a retirement system in effect at July 1, 1981, are eligible to participate in the plan. LOPFI issues a publicly available report, which may be obtained by writing to LOPFI, P.O. Drawer 34164, Little Rock, Arkansas, 72203, or by calling (501) 682-1745.

Funding Policy and Funded Status

The City contributes 40.68% of covered employees’ salaries to the new plan for firefighters and 28.74% of covered employees’ salaries to the new plan for police officers. Employees contributed \$1,313,618 to the contributory plan for the year ended December 31, 2012. City contributions to the new plan for the years ended December 31, 2012, 2011, and 2010, were approximately \$5,162,533, \$4,821,983, and \$4,647,639, respectively, and were equal to 100% of the required contributions for each year. The contribution provisions applicable to the City are established by the LOPFI Board of Trustees, and shall be based on the actuary’s determination of the rate required to fund the New Plans.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Note 8: Other Postemployment Benefits (OPEB)

Plan Description

The City of Fort Smith sponsors and administers an informal single-employer defined benefit healthcare plan that provides coverage for medical, dental and vision benefits. Arkansas statute provides that any municipal city official or employee vested in any of the City's retirement plans with 20 years of service and attains 55 years of age may continue to participate in the City's healthcare plan after retirement. In addition, members employed at least 5 years with age plus service exceeding 70 at retirement are eligible for benefits. The State of Arkansas has the authority to establish and amend the requirements of this statute. The City does not issue stand alone financial statements of the plan but all required information is presented in this report.

Contributions: The contribution requirements of plan members are established by City Council and may be amended as needed. Plan members pay the entire cost of monthly insurance premiums at the same rate charged to active employees and receive a benefit from the blended premium rate from all of the employees participating in the City's health insurance plans. Employees are required to elect the coverage at the time of termination. The City is not required to make contributions to the plan on behalf of the retirees. The plan has 866 active participants and 29 retirees and beneficiaries receiving benefits who pay monthly premiums between \$363 for single coverage and \$993 for family coverage. Administrative costs of the plan are financed through investment earnings and employer contributions.

Summary of Significant Accounting Policies

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

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Funded Status and Funding Progress

Annual OPEB Cost and Net OPEB Obligation: The City's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution (ARC)	\$ 4,529,831
30 - year amortization of net OPEB obligation	(706,482)
Interest on net OPEB obligation	<u>613,673</u>
Annual OPEB cost	4,437,022
Total annual employer contribution *	<u>88,066</u>
Increase in net OPEB obligation	4,348,956
Net OPEB obligation - beginning of year	<u>8,766,762</u>
Net OPEB obligation - end of year	<u><u>\$ 13,115,718</u></u>

* Includes pay-as-you-go costs not funded by the trust

The net OPEB obligation is recorded in the government-wide statement of net position as non-current liabilities due in more than one year for governmental activities at \$8,656,361 and for business-type activities at \$4,459,337. Furthermore, the obligation for business-type activities is reflected on the statement of fund net position for proprietary funds as non-current liabilities for the Water and Sewer Fund in the amount of \$3,095,304 and for the Sanitation Fund in the amount of \$1,364,033 as of December 31, 2012.

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

Normal cost	\$ 1,757,608
Amortization of transition obligation	<u>2,772,223</u>
Annual required contribution	<u><u>\$ 4,529,831</u></u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2011, and 2010 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	\$ 4,437,022	1.98%	\$ 13,115,718
12/31/2011	3,450,496	35.15%	8,766,762
12/31/2010	3,193,299	0.18%	6,529,026

Funded Status and Funding Progress: As of January 1, 2012, the most recent actuarial valuation date, the plan was 4.3% funded. The actuarial accrued liability for benefits was \$34,363,100, and the actuarial value of assets was \$1,489,183, resulting in an unfunded actuarial accrued liability (UAAL) of \$32,873,917. The covered payroll (annual payroll of active employees covered by the plan) was \$40,638,488, and the ratio of the UAAL to the covered payroll was 80.9%.

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

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

In the January 1, 2012, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7% investment rate of return based upon funding the plan in the future, a 5% inflation rate, and an annual healthcare cost trend rate of 10% for 2012 and then reduced by decrements of 0.5% to 1.0% annually to an ultimate rate of 5.5% after seven years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2012, was twenty-six years.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Note 9: Commitments and Contingencies

Litigation

In the course of business, a number of claims and lawsuits arise from individuals seeking compensation for personal injury and/or property damage resulting from accidents occurring in the City. In addition, the City has been named as a defendant in a number of lawsuits relating to personnel and contractual matters. Management does not believe that the outcome of these claims will have a material adverse effect on the City's financial position. The City appropriates funds necessary to meet settlements and awards. The City accrues a liability when it is incurred and when the contingency is probable and reasonably estimable. At December 31, 2012 the City has accrued a liability in the amount of \$82,500.

Contingencies

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

For the past several years, the City has been subject to various administrative orders issued by the Environmental Protection Agency (EPA) with reference to the sanitary sewer system's ability to adequately handle wet weather flows. On September 9, 2005, the EPA issued an additional administrative order. The latest order specifically orders the removal of several planned and constructed overflow sites in the City's sanitary sewer system which are necessary to prevent harm resulting from the overflows during wet weather conditions. The City has been notified by the Department of Justice that the EPA has referred the City's file to the Department of Justice. The City is communicating with the Department of Justice in an effort to establish timelines for the wastewater improvements required. The 2006 Sales and Use Tax Refunding and Construction Bonds included \$49.3 million for wastewater improvements in response to EPA regulations. Additionally, the Sales and Use Tax Construction Bonds, Series 2008, 2009, and 2010 included \$14 million, \$29.15 million, and \$3.595 million, respectively, for wastewater improvements as required by the EPA. The 2012 Sales and Use Tax Refunding and Construction Bonds included \$39.4 million for wastewater improvements. City management believes this matter will be resolved without litigation and penalty assessment.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Note 10: Individual Fund Disclosures

Interfund receivables and payables as of December 31, 2012 are as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
Governmental Funds:		
General Fund	\$ 46,134	\$ -
Special Revenue Funds		
CDBG Fund	-	30,380
HOME Fund	-	15,797
Internal Service Funds	<u>43</u>	<u>-</u>
Total	<u>\$ 46,177</u>	<u>\$ 46,177</u>

The \$46,134 receivable in the General Fund represents amounts paid for expenditures incurred by the Community Development Block Grant Fund (\$30,337) and the HOME Investment Partnership Act Fund (\$15,797). The \$43 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, 2012

Interfund transfers in (out) for the year ended December 31, 2012, is as follows:

Fund	Transfers	
	In	Out
Primary Government -		
Governmental Funds:		
Major funds:		
General Fund	\$ 2,786,238	\$ 1,152,000
Special revenue -		
Street Maintenance Fund	294,757	86,260
Sales Tax Fund	-	2,505,100
Debt service fund -		
Sales & Use Tax Bond Fund	349,650	72,934,621
Capital projects fund -		
Sales & Use Tax Construction Fund	72,934,621	-
Non-major funds:		
Special revenue -		
Convention Center Fund	777,000	-
Capital projects fund -		
Sidewalk Construction Fund	-	294,757
	<u>77,142,266</u>	<u>76,972,738</u>
Proprietary Funds:		
Water and Sewer Fund	-	435,910
Sanitation Fund	125,000	86,260
	<u>125,000</u>	<u>522,170</u>
Component Units -		
Advertising & Promotion Fund	-	22,358
Parking Authority Fund	250,000	-
	<u>250,000</u>	<u>22,358</u>
Total	<u>\$ 77,517,266</u>	<u>\$ 77,517,266</u>

The transfer out of \$2,505,100 from the Sales Tax Fund is to the General Fund and represents the allocation of overhead costs provided by General Fund programs during 2012. The \$72,934,621 transfer from the Sales & Use Tax Bond Fund to the Sales & Use Tax Construction Fund was the proceeds from the 2012 issuance of sales and use tax bonds. Of the \$435,940, transferred out from the Water and Sewer Fund, \$349,650 was a transfer to the Sales and Use Tax Bond Fund to provide funding for interest payments on the Sales and Use Tax Bonds, Series 2009 that were issued for wastewater improvements.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Note 11: Landfill Closure and Post Closure Care Costs

In October 1991, the EPA issued rules and regulations which require the City to place a final cover on its Municipal Solid 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 2050 rather than 2013. The landfill was opened on October 9, 1993. The City's reported landfill closure and postclosure care liability at December 31, 2012, is \$4,475,504. The remaining estimated closure and postclosure care costs of approximately \$32.6 million will be recognized as the remaining capacity is filled. The percentage of landfill capacity used to date was approximately 10% at December 31, 2012. 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, 2012. Actual costs may be significantly higher due to inflation, changes in technology, or changes in regulations by the Arkansas Department of Environmental Quality.

The City is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care costs. The amount of financial assurance required by the state as of December 31, 2012, is \$7,579,537. In order to comply with this requirement, the City held an irrevocable standby letter of credit with BancorpSouth that is pledged to the Arkansas Department of Environmental Quality in the amount of \$7,387,000 at December 31, 2012. The city has also pledged a certificate of deposit investment as collateral for the letter of credit. The City will increase the value of the letter of credit and certificate of deposit held as collateral to meet the required level of financial assurance during 2013.

Note 12: New Applicable GASB Standards

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

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

GASB Statement No. 65 - Items Previously Reported as Assets and Liabilities

This statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of GASB 65 are effective for periods beginning after December 15, 2012, and would be applied on a prospective basis. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

GASB Statement No. 66 - Technical Corrections – 2012

This statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. GASB 66 amends both GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 66 are effective for periods beginning after December 15, 2012, and would be applied on a prospective basis. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

GASB Statement No. 67 – Financial Reporting for Pension Plans – 2012

This statement establishes financial reporting standards for state and local government pension plans that are administered through trusts or equivalent arrangements. GASB 67 amends GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The provisions of GASB 67 are effective for periods beginning after June 15, 2013, and would be applied on a prospective basis. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

GASB Statement No. 68 – Accounting and Financial Reporting for Pension – 2012

This statement establishes standards of accounting and financial reporting for defined pension benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers that are administered through trusts or equivalent arrangements. GASB 68 amends GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The provisions of GASB 68 are effective for periods beginning after June 15, 2014, and would be applied on a prospective basis. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

GASB Statement No. 69 – Government Combinations and Disposals of Government Operations – 2013

This statement establishes accounting and financial reporting standards for government combinations and disposals of government operations. The provisions of GASB 68 are effective for periods beginning after December 15, 2013, and would be applied on a prospective basis. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

Note 13: Condensed Financial Statements-Discretely Presented Component Units

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

Statement of Net Position
December 31, 2012

	Governmental			Business-Type		
	Advertising and Promotion	Public Library	Total	Parking Authority	Airport Commission	Total
Assets						
Current assets	\$ 192,583	\$ 1,547,689	\$ 1,740,272	\$ 605,995	\$ 3,637,828	\$ 4,243,823
Sales taxes receivable from the City	-	93,625	93,625	-	-	-
Capital assets, net of accumulated depreciation, as applicable	-	794,854	794,854	2,270,451	35,129,277	37,399,728
Noncurrent assets	-	-	-	9,062	125,293	134,355
Total assets	192,583	2,436,168	2,628,751	2,885,508	38,892,398	41,777,906
Liabilities						
Current liabilities	27,113	37,581	64,694	141,880	322,838	464,718
Noncurrent liabilities	-	-	-	375,919	2,670,429	3,046,348
Total liabilities	27,113	37,581	64,694	517,799	2,993,267	3,511,066
Net Position						
Investment in capital assets, Restricted	165,470	-	165,470	69,620	440,438	510,058
Unrestricted	-	1,608,733	1,608,733	518,557	3,174,845	3,693,402
Total net position	<u>\$ 165,470</u>	<u>\$ 2,403,587</u>	<u>\$ 2,569,057</u>	<u>\$ 2,367,709</u>	<u>\$ 35,899,131</u>	<u>\$ 38,266,840</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Statement of Activities
For the Year Ended December 31, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities		
					Advertising and Promotion	Public Library
Advertising/Promotion	\$ 736,667	\$ -	\$ 4,160	\$ (732,507)	\$ -	\$ (732,507)
Public Library	2,840,229	175,444	478,656	-	(2,186,129)	(2,186,129)
Total	<u>\$ 3,576,896</u>	<u>\$ 175,444</u>	<u>\$ 482,816</u>	<u>(732,507)</u>	<u>(2,186,129)</u>	<u>(2,918,636)</u>
General revenues						
Property taxes				-	1,316,097	1,316,097
Sales taxes				-	916,740	916,740
Hospitality hotel/motel taxes				745,279	-	745,279
Unrestricted investments earnings				304	800	1,104
Other				-	43,543	43,543
Total general revenues				<u>745,583</u>	<u>2,277,180</u>	<u>3,022,763</u>
Change in net position				13,076	91,051	104,127
Net position, beginning				<u>152,394</u>	<u>2,312,536</u>	<u>2,464,930</u>
Net position, ending				<u>\$ 165,470</u>	<u>\$ 2,403,587</u>	<u>\$ 2,569,057</u>
Net (Expense) Revenue and Changes in Net Position						
	Program Revenues			Business-Type Activities		
	Expenses	Fees, Fines, and Charges for Services	Capital Grants and Contributions	Business-Type Activities		
					Parking Authority	Airport Commission
Parking Authority	\$ 261,793	\$ 185,703	\$ -	\$ (76,090)	\$ -	\$ (76,090)
Airport Commission	4,750,162	2,615,675	1,247,041	-	(887,446)	(887,446)
Total	<u>\$ 5,011,955</u>	<u>\$ 2,801,378</u>	<u>\$ 1,247,041</u>	<u>(76,090)</u>	<u>(887,446)</u>	<u>(963,536)</u>
General revenues						
Unrestricted investment earnings				1,073	22,833	23,906
Payment from City of Fort Smith				250,000	-	250,000
Total general revenues				<u>251,073</u>	<u>22,833</u>	<u>273,906</u>
Change in net position				174,983	(864,613)	(689,630)
Net position, beginning				<u>2,192,726</u>	<u>36,763,744</u>	<u>38,956,470</u>
Net position, ending				<u>\$ 2,367,709</u>	<u>\$ 35,899,131</u>	<u>\$ 38,266,840</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2012

Note 14: Subsequent Event

On May 14, 2013, voters in Fort Smith and Sebastian County approved the continuation of the 1% county-wide sales tax. The tax is now in place through August 2024.

(This Page Intentionally Left Blank)

**REQUIRED SUPPLEMENTARY
INFORMATION**

(This Page Intentionally Left Blank)

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

Actuarial Valuation Date	Actuarial Value of Plan Assets (1)	Actuarial Accrued Liability (2)	Funded Ratio (1)/(2) (3)	Total Funded Excess (Unfunded) Actuarial Liability (1) - (2) (4)	Annual Covered Payroll (5)	Ratio of Funded Excess (Unfunded) Actuarial Liability to Annual Covered Payroll (4)/(5)
Fire Relief and Pension Plan and Police Relief and Pension Plan (the Old Plans)						
Fire Plan:						
2011	\$ 16,540,360	\$ 33,089,514	50.0%	\$ (16,549,154)	\$ 7,532,651	-219.7%
2010	13,623,622	44,835,482	30.4%	(31,211,860)	7,333,658	-425.6%
2009	11,682,884	40,306,539	29.0%	(28,623,655)	7,235,164	-395.6%
Police Plan:						
2011	\$ 7,749,397	\$ 23,537,921	32.9%	\$ (15,788,524)	\$ 8,248,459	-191.4%
2010	11,728,706	35,427,310	33.1%	(23,698,604)	8,034,511	-295.0%
2009	12,404,021	35,656,105	34.8%	(23,252,084)	8,129,433	-286.0%
Other Post Employment Benefit Plan (OPEB)						
2012	\$ 1,489,183	\$ 34,363,100	4.3%	\$ (32,873,917)	\$ 40,638,488	-80.9%
2011	1,489,183	34,363,100	4.3%	(32,873,917)	38,782,126	-84.8%
2010	1,082,601	23,918,052	4.5%	(22,835,451)	38,966,330	-58.6%

OPEB Employer Contributions

2012	\$ 88,066
2011	\$ 1,212,760
2010	\$ 117,115

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, 2012

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
Revenues						
Taxes	\$ 7,133,880	\$ 6,951,600	\$ 6,720,195	\$ -	\$ 6,720,195	\$ (231,405)
Sales taxes	15,257,500	16,301,092	16,047,232	-	16,047,232	(253,860)
Licenses and permits	1,370,000	1,399,422	1,392,590	-	1,392,590	(6,832)
Utility franchise fees	6,191,500	6,059,139	6,071,893	-	6,071,893	12,754
Intergovernmental	4,105,077	4,478,387	4,623,801	-	4,623,801	145,414
Fines and forfeitures	2,050,000	2,104,786	2,266,844	-	2,266,844	162,058
Fees for services	648,000	650,325	676,910	-	676,910	26,585
Interest	5,000	5,000	12,430	-	12,430	7,430
Miscellaneous	165,163	165,163	244,211	-	244,211	79,048
Total revenues	36,926,120	38,114,914	38,056,106	-	38,056,106	(58,808)
Expenditures						
Current:						
General government						
Administration	3,875,421	3,883,691	3,573,643	46,051	3,619,694	263,997
Legal	1,926,120	2,022,120	1,876,101	34,000	1,910,101	112,019
Finance	2,152,260	2,056,980	1,934,657	30,132	1,964,789	92,191
Public safety						
Police	15,700,998	15,259,034	14,695,255	60,960	14,756,215	502,819
Fire	10,469,544	10,706,933	9,710,142	368,418	10,078,560	628,373
Community services						
Health and social services	129,800	159,800	128,995	-	128,995	30,805
Parks and recreation	2,171,554	2,560,765	1,677,321	395,368	2,072,689	488,076
Transit	2,177,600	2,143,700	2,067,289	2,478	2,069,767	73,933
Other	1,725,329	1,833,472	1,786,692	50,000	1,836,692	(3,220)
Capital outlay	648,576	1,286,284	1,300,833	380,377	1,681,210	(394,926)
Total expenditures	40,977,202	41,912,779	38,750,928	1,367,784	40,118,712	1,794,067
Excess (deficiency) of revenues over (under) expenditures	(4,051,082)	(3,797,865)	(694,822)	(1,367,784)	(2,062,606)	1,735,259
Other Financing Sources (Uses):						
Transfers in	2,786,030	2,786,030	2,786,238	-	2,786,238	208
Transfers out	(1,117,000)	(1,152,000)	(1,152,000)	-	(1,152,000)	-
Total other financing sources and uses	1,669,030	1,634,030	1,634,238	-	1,634,238	208
Net change in fund balances	(2,382,052)	(2,163,835)	939,416	(1,367,784)	(428,368)	1,735,467
Fund Balances, January 1	7,740,401	7,740,401	7,740,401	-	7,740,401	-
Fund Balances, December 31	\$ 5,358,349	\$ 5,576,566	\$ 8,679,817	\$ (1,367,784)	\$ 7,312,033	\$ 1,735,467

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, 2012

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
Revenues						
Taxes	\$ 2,140,164	\$ 2,029,500	\$ 1,959,311	\$ -	\$ 1,959,311	\$ (70,189)
Intergovernmental	4,094,928	3,866,474	4,247,904	-	4,247,904	381,430
Interest	5,000	1,800	5,908	-	5,908	4,108
Miscellaneous	5,000	5,000	28,596	-	28,596	23,596
Total revenues	<u>6,245,092</u>	<u>5,902,774</u>	<u>6,241,719</u>	<u>-</u>	<u>6,241,719</u>	<u>338,945</u>
Expenditures						
Current:						
General government						
Administration	233,236	237,278	212,714	1,286	214,000	23,278
Legal	57,750	60,750	58,429	-	58,429	2,321
Finance	341,831	342,118	317,046	11,942	328,988	13,130
Public works						
Operations	462,849	501,679	486,757	-	486,757	14,922
Streets	3,047,700	2,896,240	2,693,450	23,078	2,716,528	179,712
Traffic control	2,177,790	2,145,280	1,982,707	22,966	2,005,673	139,607
Community services						
Parks and recreation	252,010	253,759	243,543	2,224	245,767	7,992
Other	40,000	9,880	9,876	-	9,876	4
Capital Outlay	398,440	571,260	434,772	130,346	565,118	6,142
Total expenditures	<u>7,011,606</u>	<u>7,018,244</u>	<u>6,439,294</u>	<u>191,842</u>	<u>6,631,136</u>	<u>387,108</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(766,514)</u>	<u>(1,115,470)</u>	<u>(197,575)</u>	<u>(191,842)</u>	<u>(389,417)</u>	<u>726,053</u>
Other Financing Uses:						
Transfers in	-	366,751	294,757	-	294,757	(71,994)
Transfers out	(86,260)	(86,260)	(86,260)	-	(86,260)	-
Total Other Financing Uses	<u>(86,260)</u>	<u>280,491</u>	<u>208,497</u>	<u>-</u>	<u>208,497</u>	<u>(71,994)</u>
Net Change in Fund Balances	<u>(852,774)</u>	<u>(834,979)</u>	<u>10,922</u>	<u>(191,842)</u>	<u>(180,920)</u>	<u>654,059</u>
Fund Balances, January 1	<u>2,679,763</u>	<u>2,679,763</u>	<u>2,679,763</u>	<u>-</u>	<u>2,679,763</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 1,826,989</u>	<u>\$ 1,844,784</u>	<u>\$ 2,690,685</u>	<u>\$ (191,842)</u>	<u>\$ 2,498,843</u>	<u>\$ 654,059</u>

City of Fort Smith, Arkansas
Notes to Required Supplementary Information
December 31, 2012

Budgets and Budget Accounting

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

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

The City Administrator is authorized to transfer budgeted amounts within departments; however, the Board must approve any revisions that alter the total expenditures of any department. During 2012, supplemental appropriations (expenditures and transfers out) were adopted by the Board for the General Fund totaling \$970,577 to allocate the fire department SAFER grant awarded in September 2012 of \$123,413; to allocate the operating share of the ¼% sales tax for operations of \$414,662 for the fire department and \$414,662 for the parks department; and \$17,840 for televising regular board meetings as well as additional contractual legal and informational services. During 2012, the Board adopted supplemental appropriations for the Street Maintenance Fund totaling \$6,638 to provide for televising the regular board meetings and for additional contractual legal and informational services. For budgetary purposes, unencumbered appropriations lapse at year-end.

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

**SUPPLEMENTARY INFORMATION
SECTION**

(This Page Intentionally Left Blank)

City of Fort Smith, Arkansas
Nonmajor Governmental Funds
For the Fiscal Year Ended December 31, 2012

Special Revenue Funds:

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

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

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

Special Grants- To account for federal, state, and local grants received by the City. Current grants include: Department of Justice grants for personnel and equipment, ARRA Energy grant, Arkansas historic preservation grants, and a local grant from Sebastian County for drug law enforcement projects. These funds are restricted to expenditures for approved projects of the various agencies.

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

Economic Development- To account for State grants provided as pass-through funding to local entities for infrastructure improvements.

Convention Center- To account for operations of the convention center. The rental revenue generated by the center and a subsidy from the General Fund are accounted for in this fund. The City has an agreement with the Advertising & Promotion Commission (A & P) whereby the A & P manage the center.

Capital Projects Fund:

Sidewalk Construction- To account for resources utilized to construct sidewalks within the City limits. Revenues collected for sidewalk construction include contributions from the community and permit assessments on new construction. The City Board selects projects. The fund was closed at 12/31/12.

City of Fort Smith, Arkansas
Combining Balance Sheet – Nonmajor Governmental Funds
December 31, 2012

	Community Development Block Grant		HOME Investment Partnership Act	Special Revenue	LOPFI Contribution	Economic Development	Convention Center	Capital Projects	Total Nonmajor Governmental Funds
	Tilles Park			Special Grants			Sidewalk Construction		
Assets									
Cash	\$ 7,873	\$ -	\$ 61,216	\$ 10,524	\$ 615,979	\$ -	\$ 134,152	\$ 14,465	\$ 844,209
Investments	98,799	9,845	-	449,354	8,224,623	-	360,883	-	9,143,504
Receivables, net of allowance for uncollectibles									
Taxes	-	-	-	-	2,884,430	-	-	-	2,884,430
Accounts	-	400	-	-	-	-	53,669	-	54,069
Accrued interest	161	16	-	737	15,306	-	567	-	16,787
Due from other governments	36,158	-	92,093	77,886	-	79,432	-	-	285,569
Total assets	142,991	10,261	153,309	538,501	11,740,338	79,432	549,271	14,465	13,228,568
Liabilities and Fund Balances									
Liabilities:									
Accounts payable and accrued liabilities	30,783	-	92,010	13,447	-	79,432	48,366	14,465	278,503
Retainage payable	-	-	-	-	-	-	-	-	-
Due to other funds	30,380	-	15,797	-	-	-	-	-	46,177
Deferred revenues	75,474	-	45,502	415,376	2,836,264	-	47,103	-	3,419,719
Other	2,323	-	-	-	-	-	-	-	2,323
Total liabilities	138,960	-	153,309	428,823	2,836,264	79,432	95,469	14,465	3,746,722
Fund Balances:									
Restricted for:									
Construction projects	-	-	-	109,678	-	-	-	-	109,678
Parks & recreation	-	10,261	-	-	-	-	-	-	10,261
Housing and rehabilitation	4,031	-	-	-	-	-	-	-	4,031
Police & fire retirement contributions	-	-	-	-	8,904,074	-	-	-	8,904,074
Assigned to:									
Convention center	-	-	-	-	-	-	453,802	-	453,802
Total Fund Balances	4,031	10,261	-	109,678	8,904,074	-	453,802	-	9,481,846
Total liabilities and fund balances	\$ 142,991	\$ 10,261	\$ 153,309	\$ 538,501	\$ 11,740,338	\$ 79,432	\$ 549,271	\$ 14,465	\$ 13,228,568

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balance –
Nonmajor Governmental Funds
For the Year Ended December 31, 2012

	Special Revenue						Projects		Total Nonmajor Governmental Funds
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Economic Development	Convention Center	Sidewalk Construction	
Revenues									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,612,603	\$ -	\$ -	\$ -	\$ 2,612,603
Licenses and permits	-	-	-	-	-	-	-	161,098	161,098
Intergovernmental	613,095	-	488,999	758,099	1,238,324	662,940	-	-	3,761,457
Fines and forfeitures	-	-	-	-	141,387	-	-	-	141,387
Fees for services	-	-	-	-	-	-	600,359	-	600,359
Interest	-	23	-	195	22,481	-	845	739	24,283
Contributions	-	400	-	-	1,394,668	-	-	-	1,395,068
Miscellaneous	-	-	-	-	726	-	-	-	726
Total revenues	613,095	423	488,999	758,294	5,410,189	662,940	601,204	161,837	8,696,981
Expenditures									
Current:									
Public safety									
Police	-	-	-	241,113	3,112,104	-	-	-	3,353,217
Fire	-	-	-	372,676	3,464,938	-	-	-	3,837,614
Public works									
Operations	-	-	-	81,407	-	-	-	-	81,407
Streets	-	-	-	-	-	-	-	311,013	311,013
Community services									
Parks and Recreation	-	-	-	44,794	-	-	-	-	44,794
Convention Center	-	-	-	-	-	-	1,286,070	-	1,286,070
Housing and Rehabilitation	613,095	-	488,999	23,479	-	662,940	-	-	1,788,513
Total expenditures	613,095	-	488,999	763,469	6,577,042	662,940	1,286,070	311,013	10,702,628
Excess (deficiency) of revenues over (under) expenditures	-	423	-	(5,175)	(1,166,853)	-	(684,866)	(149,176)	(2,005,647)
Other Financing Sources (Uses)									
Transfers in	-	-	-	-	-	-	777,000	-	777,000
Transfers out	-	-	-	-	-	-	-	(294,757)	(294,757)
Total Other Financing Sources and Uses	-	-	-	-	-	-	777,000	(294,757)	482,243
Net Change in Fund Balances	-	423	-	(5,175)	(1,166,853)	-	92,134	(443,933)	(1,523,404)
Fund Balances, January 1	4,031	9,838	-	114,853	10,070,927	-	361,668	443,933	11,005,250
Fund Balances, December 31	<u>\$ 4,031</u>	<u>\$ 10,261</u>	<u>\$ -</u>	<u>\$ 109,678</u>	<u>\$ 8,904,074</u>	<u>\$ -</u>	<u>\$ 453,802</u>	<u>\$ -</u>	<u>\$ 9,481,846</u>

City of Fort Smith, Arkansas
Internal Service Funds
For the Fiscal Year Ended December 31, 2012

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 Position
Internal Service Funds
December 31, 2012

	Working Capital	Employee Insurance	Workers' Compensation	Total
Assets				
Current Assets				
Cash	\$ 50,451	\$ 424,125	\$ 61,582	\$ 536,158
Investments	-	1,464,763	770,050	2,234,813
Receivables, net of allowance for uncollectibles				
Accounts	-	51,614	161,161	212,775
Accrued interest	-	2,929	1,524	4,453
Inventory	42,629	-	-	42,629
Prepaid items & deposits	-	6,750	32,224	38,974
Due from other funds	43	-	-	43
	<hr/>	<hr/>	<hr/>	<hr/>
Total Current Assets	93,123	1,950,181	1,026,541	3,069,845
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	93,123	1,950,181	1,026,541	3,069,845
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	47,645	52,208	-	99,853
Claims and judgments	-	1,577,600	392,013	1,969,613
	<hr/>	<hr/>	<hr/>	<hr/>
Total Current Liabilities	47,645	1,629,808	392,013	2,069,466
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	47,645	1,629,808	392,013	2,069,466
Net Assets				
Unrestricted	45,478	320,373	634,528	1,000,379
	<hr/>	<hr/>	<hr/>	<hr/>
Total Net Position	\$ 45,478	\$ 320,373	\$ 634,528	\$ 1,000,379
	<hr/>	<hr/>	<hr/>	<hr/>

City of Fort Smith, Arkansas
Combining Statement of Revenues, Expenses and
Changes in Fund Net Position
Internal Service Funds
For the Year Ended December 31, 2012

	Working Capital	Employee Insurance	Workers' Compensation	Total
Operating Revenues				
Charges for services - internal	\$ 1,011,468	\$ 6,121,319	\$ 929,369	\$ 8,062,156
Charges for services - external	-	391,174	-	391,174
Total Operating Revenues	<u>1,011,468</u>	<u>6,512,493</u>	<u>929,369</u>	<u>8,453,330</u>
Operating Expenses				
Contractual services	-	719,490	232,507	951,997
Materials and supplies	1,025,540	-	-	1,025,540
Insurance claims and expenses	-	8,646,688	590,033	9,236,721
Total Operating Expenses	<u>1,025,540</u>	<u>9,366,178</u>	<u>822,540</u>	<u>11,214,258</u>
Operating Income (Loss)	<u>(14,072)</u>	<u>(2,853,685)</u>	<u>106,829</u>	<u>(2,760,928)</u>
Nonoperating Revenues				
Investment earnings	-	5,060	2,350	7,410
Total Nonoperating Revenues	<u>-</u>	<u>5,060</u>	<u>2,350</u>	<u>7,410</u>
Change in Net Position	(14,072)	(2,848,625)	109,179	(2,753,518)
Total net position, beginning	<u>59,550</u>	<u>3,168,998</u>	<u>525,349</u>	<u>3,753,897</u>
Total net position, ending	<u>\$ 45,478</u>	<u>\$ 320,373</u>	<u>\$ 634,528</u>	<u>\$ 1,000,379</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows
Internal Service Funds
For the Year December 31, 2012

	Working Capital	Employee Insurance	Workers' Compensation	Total
Cash Flows from Operating Activities:				
Cash received from service users	\$ 1,013,182	\$ 425,392	\$ -	\$ 1,438,574
Cash received from city and employee contributions	-	6,121,319	915,407	7,036,726
Cash payments for goods and services	(1,008,735)	-	-	(1,008,735)
Cash payments for premiums and other operating expenses	-	(8,518,482)	(588,104)	(9,106,586)
Cash payments for claims paid	-	(719,490)	(175,119)	(894,609)
Net cash provided by (used in) operating activities	<u>4,447</u>	<u>(2,691,261)</u>	<u>152,184</u>	<u>(2,534,630)</u>
Cash Flows from Investing Activities				
Proceeds from sales and maturities of investment securities	-	2,660,315	668,420	3,328,735
Outlays for purchases of investment securities	-	(1,494,033)	(802,096)	(2,296,129)
Interest on investments	-	2,586	909	3,495
Net cash provided by (used in) investing activities	<u>-</u>	<u>1,168,868</u>	<u>(132,767)</u>	<u>1,036,101</u>
Net Increase (Decrease) in Cash	4,447	(1,522,393)	19,417	(1,498,529)
Cash, January 1	<u>46,004</u>	<u>1,946,518</u>	<u>42,165</u>	<u>2,034,687</u>
Cash, December 31	<u><u>\$ 50,451</u></u>	<u><u>\$ 424,125</u></u>	<u><u>\$ 61,582</u></u>	<u><u>\$ 536,158</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities				
Operating income (loss)	\$ (14,072)	\$ (2,853,685)	\$ 106,829	\$ (2,760,928)
Change in assets and liabilities				
Accounts receivable	-	34,218	(13,962)	20,256
Due from other funds	1,714	-	-	1,714
Inventory	14,236	-	-	14,236
Prepaid items	-	36,250	57,388	93,638
Accounts payable and accrued liabilities	2,569	(135,019)	-	(132,450)
Liability for claims and judgments	-	226,975	1,929	228,904
Total adjustments	<u>18,519</u>	<u>162,424</u>	<u>45,355</u>	<u>226,298</u>
Net cash provided by (used in) operating activities	<u><u>\$ 4,447</u></u>	<u><u>\$ (2,691,261)</u></u>	<u><u>\$ 152,184</u></u>	<u><u>\$ (2,534,630)</u></u>

City of Fort Smith, Arkansas
Discretely Presented Component Units
For the Fiscal Year Ended December 31, 2012

Governmental Fund Types – Special Revenue Funds

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

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

Proprietary Fund Types – Enterprise Funds

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

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

City of Fort Smith, Arkansas
Combining Statement of Net Position
Governmental Component Units
December 31, 2012

	Advertising and Promotion	Public Library	Total
Assets			
Cash	\$ 4,220	\$ 975,124	\$ 979,344
Investments	133,848	300,954	434,802
Receivables, net of allowance for uncollectibles			
Taxes	49,513	160,796	210,309
Sales taxes	-	93,625	93,625
Accounts	-	60,902	60,902
Accrued interest	210	-	210
Prepaid items	4,792	49,913	54,705
Inventory, at cost	-	5,000	5,000
Capital assets			
Nondepreciable	-	422,132	422,132
Depreciable	-	372,722	372,722
	<u>192,583</u>	<u>2,441,168</u>	<u>2,633,751</u>
Total Assets			
Liabilities			
Accounts payable and accrued liabilities	<u>27,113</u>	<u>37,581</u>	<u>64,694</u>
Total Liabilities	<u>27,113</u>	<u>37,581</u>	<u>64,694</u>
Net Position			
Net investment in capital assets	-	794,854	794,854
Restricted for:			
Tourism & promotion	165,470	-	165,470
Assigned to:			
Library	-	1,608,733	1,608,733
	<u>165,470</u>	<u>2,403,587</u>	<u>2,569,057</u>
Total Net Position	<u>\$ 165,470</u>	<u>\$ 2,403,587</u>	<u>\$ 2,569,057</u>

City of Fort Smith, Arkansas
Combining Statement of Activities – Governmental Component Units
For the Year Ended December 31, 2012

	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities	
			Advertising & Promotion	Public Library	Total
Advertising & Promotion	\$ 736,667	\$ -	\$ (732,507)	\$ -	\$ (732,507)
Public Library	2,840,229	175,444	-	(2,186,129)	(2,186,129)
Total	\$ 3,576,896	\$ 175,444	(732,507)	(2,186,129)	(2,918,636)
General revenues					
Property taxes			-	1,316,097	1,316,097
Sales taxes			-	916,740	916,740
Hospitality taxes			745,279	-	745,279
Unrestricted investment earnings			304	800	1,104
Other			-	43,543	43,543
Total general revenues			745,583	2,277,180	3,022,763
Change in net position			13,076	91,051	104,127
Net position, beginning			152,394	2,312,536	2,464,930
Net position, ending			\$ 165,470	\$ 2,403,587	\$ 2,569,057

City of Fort Smith, Arkansas
Balance Sheet – Advertising and Promotion
Governmental Component Unit
December 31, 2012

Assets:	
Cash	\$ 4,220
Investments	133,848
Receivables, net of allowance for uncollectibles	
Taxes	49,513
Accrued interest	210
Prepaid items	4,792
	192,583
Total Assets	\$ 192,583
 Liabilities and Fund Balance:	
Current:	
Accounts payable and accrued liabilities	\$ 27,113
	27,113
Total Liabilities	27,113
 Fund Balance:	
Restricted for:	
Tourism & promotion	165,470
	165,470
Total Liabilities and Fund Balance	\$ 192,583

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balance
Advertising and Promotion - Governmental Component Unit
For the Year Ended December 31, 2012

Revenues	
Taxes	\$ 745,279
Interest	304
Contributions	4,160
	4,160
Total revenues	749,743
Expenditures	
Other	714,309
Capital outlay	-
	-
Total Expenditures	714,309
Excess of revenues over expenditures	35,434
Other Financing Uses:	
Transfers out to primary government	(22,358)
Total other financing uses	(22,358)
Net change in fund balance	13,076
Fund Balance, January 1	152,394
Fund Balance, December 31	\$ 165,470

City of Fort Smith, Arkansas
Combining Statement of Net Position
Business-Type Component Units
December 31, 2012

	Parking Authority	Airport	Total
Assets			
Current Assets			
Cash	\$ 53,679	\$ 2,902,988	\$ 2,956,667
Investments	455,927	-	455,927
Receivables, net of allowance for uncollectibles			
Accounts	1,740	221,695	223,435
Accrued interest	722	322	1,044
Restricted			
Cash and cash equivalents	-	381,831	381,831
Investments	92,247	-	92,247
Grants and other governments	-	58,285	58,285
Prepaid items and deposits	1,680	55,784	57,464
Inventory	-	16,923	16,923
	<u>605,995</u>	<u>3,637,828</u>	<u>4,243,823</u>
Total Current Assets			
Noncurrent Assets			
Deferred charges	9,062	125,293	134,355
Capital assets			
Nondepreciable	1,359,160	6,218,655	7,577,815
Depreciable	911,291	28,910,622	29,821,913
	<u>2,279,513</u>	<u>35,254,570</u>	<u>37,534,083</u>
Total Noncurrent Assets			
Total Assets	<u>2,885,508</u>	<u>38,892,398</u>	<u>41,777,906</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	24,931	147,838	172,769
Payable from restricted assets:			
Accrued interest	1,949	-	1,949
Revenue bonds payable, current	115,000	175,000	290,000
	<u>141,880</u>	<u>322,838</u>	<u>464,718</u>
Total Current Liabilities			
Noncurrent liabilities			
Due within one year	4	-	4
Due in more than one year	375,915	2,670,429	3,046,344
	<u>375,919</u>	<u>2,670,429</u>	<u>3,046,348</u>
Total Noncurrent Liabilities			
Total Liabilities	<u>517,799</u>	<u>2,993,267</u>	<u>3,511,066</u>
Net Position			
Net investment in capital assets	1,779,532	32,283,848	34,063,380
Restricted for bond retirement	69,620	382,153	451,773
Restricted for capital projects	-	58,285	58,285
Unrestricted	518,557	3,174,845	3,693,402
	<u>\$ 2,367,709</u>	<u>\$ 35,899,131</u>	<u>\$ 38,266,840</u>
Total Net Position			

City of Fort Smith, Arkansas
Combining Statement of Activities – Business-Type Component Units
For the Year Ended December 31, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines, and Charges for Services	Capital Grants and Contributions	Business-Type Activities		
					Parking Authority	Airport Commission
Parking Authority	\$ 261,793	\$ 185,703	\$ -	\$ (76,090)	\$ -	\$ (76,090)
Airport	4,750,162	2,615,675	1,247,041	-	(887,446)	(887,446)
Total	<u>\$ 5,011,955</u>	<u>\$ 2,801,378</u>	<u>\$ 1,247,041</u>	<u>(76,090)</u>	<u>(887,446)</u>	<u>(963,536)</u>
General revenues						
				1,073	22,833	23,906
				250,000	-	250,000
				<u>251,073</u>	<u>22,833</u>	<u>273,906</u>
				174,983	(864,613)	(689,630)
				<u>2,192,726</u>	<u>36,763,744</u>	<u>38,956,470</u>
				<u>\$ 2,367,709</u>	<u>\$ 35,899,131</u>	<u>\$ 38,266,840</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows – Business-Type Component Units
For the Year Ended December 31, 2012

	Parking Authority	Airport	Total
Operating Activities			
Cash received from customers	\$ 182,984	\$ 2,632,060	\$ 2,815,044
Cash payments for goods and services	(69,253)	(1,236,025)	(1,305,278)
Cash paid to employees	(121,593)	(732,218)	(853,811)
Net cash provided by (used for) operating activities	<u>(7,862)</u>	<u>663,817</u>	<u>655,955</u>
Noncapital Financing Activities			
Operating transfers in from primary government	250,000	-	250,000
Net cash provided by noncapital financing activities	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Capital and Related Financing Activities			
Proceeds from capital grants	-	1,550,983	1,550,983
Passenger facility charges received	-	334,233	334,233
Acquisition and construction of capital assets	(23,708)	(1,819,360)	(1,843,068)
Principal paid on bonds	(106,300)	(175,000)	(281,300)
Interest paid on bonds	(28,341)	(130,164)	(158,505)
Net cash used for capital and related financing activities	<u>(158,349)</u>	<u>(239,308)</u>	<u>(397,657)</u>
Investing Activities			
Proceeds from sales and maturities of investment securities	376,699	941,307	1,318,006
Outlays for purchases of investment securities	(443,838)	-	(443,838)
Interest on investments	394	23,191	23,585
Net cash provided by (used for) investing activities	<u>(66,745)</u>	<u>964,498</u>	<u>897,753</u>
Net increase in cash and restricted cash	17,044	1,389,007	1,406,051
Cash and restricted cash, January 1	<u>36,635</u>	<u>1,895,812</u>	<u>1,932,447</u>
Cash and restricted cash, December 31	<u>\$ 53,679</u>	<u>\$ 3,284,819</u>	<u>\$ 3,338,498</u>
Reconciliation of cash and restricted cash at December 31 to statement of net position			
Cash	\$ 53,679	\$ 2,902,988	\$ 2,956,667
Restricted cash and cash equivalents	-	381,831	381,831
Total	<u>\$ 53,679</u>	<u>\$ 3,284,819</u>	<u>\$ 3,338,498</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows – Business-Type Component Units
(Continued)
For the Year Ended December 31, 2012

	Parking Authority	Airport	Total
Reconciliation of Operating Loss to Net Cash Provided by (Used for) Operating Activities			
Operating loss	\$ (44,603)	\$(1,984,138)	\$ (2,028,741)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities			
Depreciation	55,192	2,652,697	2,707,889
Miscellaneous expenses (net)	(3,559)	-	(3,559)
Change in assets and liabilities			
Accounts receivable	840	16,385	17,225
Inventory	-	(6,202)	(6,202)
Prepaid items	-	(2,000)	(2,000)
Accounts payable and accrued liabilities	(13,631)	(12,925)	(26,556)
Liabilities for accrued vacation and sick leave	(2,101)	-	(2,101)
 Total adjustments	 36,741	 2,647,955	 2,684,696
 Net cash provided by (used for) operating activities	 \$ (7,862)	 \$ 663,817	 \$ 655,955

STATISTICAL SECTION

(This Page Intentionally Left Blank)

City of Fort Smith, Arkansas

Statistical Section

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

Contents	Page
Financial Trends (Tables 1-5)	
These schedules contain trend information to assist the reader in understanding how the City’s financial performance and well-being have changed over time	119
Revenue Capacity (Tables 6-11)	
These schedules contain information to help the reader assess the City’s most significant revenue sources, local sales taxes and property taxes	125
Debt Capacity (Tables 12-15)	
These schedules present information to help the reader assess the affordability of the City’s current levels of outstanding debt and the City’s ability to issue additional debt in the future	131
Demographic and Economic Information (Tables 16-17)	
These schedules offer demographic and economic indicators to assist the reader in understanding the environment within which the City’s financial activities take place	135
Operating Information (Tables 18-20)	
These schedules contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to services the City provides and the activities it performs	137
Continuing Disclosure Requirement Information (Tables 21-22)	
These schedules provide information required to be disseminated for investors of City debt. By including this data, the CAFR may be used as the document that provides all debt covenant required reports and information	140

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

(This Page Intentionally Left Blank)

Table 1

City of Fort Smith, Arkansas
Net Position by Component
Last Ten Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year									
	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Net investment in capital assets	\$ 233,152,845	\$ 254,719,750	\$ 260,483,758	\$ 250,104,666	\$ 275,722,692	\$ 293,634,375	\$ 294,746,494	\$ 305,663,999	\$ 323,022,637	\$ 323,122,691
Restricted	6,135,903	4,470,232	3,988,372	44,488,640	47,754,213	46,981,658	24,205,366	23,050,850	39,016,328	46,300,461
Unrestricted	55,062,995	55,390,169	66,055,588	33,741,938	29,580,570	27,130,241	38,763,651	34,297,504	15,010,176	11,858,381
Total governmental activities net position	\$ 294,351,743	\$ 314,580,151	\$ 330,527,718	\$ 328,335,244	\$ 353,057,475	\$ 367,746,274	\$ 357,715,511	\$ 363,012,353	\$ 377,049,141	\$ 381,281,533
Business-Type activities										
Net investment in capital assets	\$ 135,630,581	\$ 152,618,444	\$ 181,439,396	\$ 229,748,148	\$ 225,664,963	\$ 249,818,159	\$ 293,549,646	\$ 314,941,959	\$ 324,215,779	\$ 333,050,917
Restricted	25,199,051	24,005,631	26,844,476	23,486,930	20,514,957	27,385,513	24,102,177	24,385,436	18,608,798	18,173,298
Unrestricted (deficit)	(9,043,315)	(5,371,394)	(12,506,307)	(15,666,417)	1,390,057	(4,385,785)	(3,057,942)	(7,596,655)	2,270,311	8,023,382
Total business-type activities	\$ 151,786,317	\$ 171,252,681	\$ 195,777,565	\$ 237,568,661	\$ 247,569,977	\$ 272,817,887	\$ 314,593,881	\$ 331,730,740	\$ 345,094,888	\$ 359,247,597
Primary government										
Net investment in capital assets	\$ 368,783,426	\$ 407,338,194	\$ 441,923,154	\$ 479,852,814	\$ 501,387,655	\$ 543,452,534	\$ 588,296,140	\$ 620,605,958	\$ 647,238,416	\$ 656,173,608
Restricted	31,334,954	28,475,863	30,832,848	67,975,570	68,269,170	74,367,171	48,307,543	47,436,286	57,625,126	64,473,759
Unrestricted	46,019,680	50,018,775	53,549,281	18,075,521	30,970,627	22,744,456	35,705,709	26,700,849	17,280,487	19,881,763
Total business-type activities	\$ 446,138,060	\$ 485,832,832	\$ 526,305,283	\$ 565,903,905	\$ 600,627,452	\$ 640,564,161	\$ 672,309,392	\$ 694,743,093	\$ 722,144,029	\$ 740,529,130

Table 2

City of Fort Smith, Arkansas
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year									
	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental Activities:										
General government	\$ 6,285,719	\$ 6,291,295	\$ 7,204,031	\$ 7,401,742	\$ 8,121,090	\$ 10,384,215	\$ 8,783,548	\$ 9,464,539	\$ 9,874,051	\$ 9,373,912
Public safety	22,479,701	22,814,182	25,007,200	28,283,667	29,635,609	28,634,055	31,836,140	32,350,902	34,009,318	36,537,493
Public works	9,750,060	8,547,371	8,624,464	11,583,305	10,862,082	12,091,319	12,169,873	13,226,363	14,541,350	14,541,430
Community services	9,881,779	10,319,043	10,723,724	11,465,302	10,559,736	9,637,947	13,438,158	12,165,578	10,732,048	11,633,976
Interest on long-term debt	519,078	128,042	-	671,893	3,757,618	4,109,187	3,917,534	3,838,008	2,933,735	4,099,571
Total governmental activities expenses	<u>48,916,337</u>	<u>48,099,933</u>	<u>51,559,419</u>	<u>59,405,909</u>	<u>62,936,135</u>	<u>64,856,723</u>	<u>70,145,253</u>	<u>71,045,390</u>	<u>72,090,502</u>	<u>76,186,382</u>
Business-Type Activities:										
Water and Sewer	31,172,483	29,270,855	29,678,171	32,920,994	36,693,984	41,745,466	34,198,511	37,974,129	38,875,863	41,283,645
Sanitation	8,466,593	9,300,590	9,075,365	10,507,258	11,455,050	11,465,629	11,403,090	11,670,602	11,287,956	12,361,032
Total business-type activities expenses	<u>39,639,076</u>	<u>38,571,445</u>	<u>38,753,536</u>	<u>43,428,252</u>	<u>48,149,034</u>	<u>53,211,095</u>	<u>45,601,601</u>	<u>49,644,731</u>	<u>50,163,819</u>	<u>53,644,677</u>
Total primary government expenses	<u>\$ 88,555,413</u>	<u>\$ 86,671,378</u>	<u>\$ 90,312,955</u>	<u>\$ 102,834,161</u>	<u>\$ 111,085,169</u>	<u>\$ 118,067,818</u>	<u>\$ 115,746,854</u>	<u>\$ 120,690,121</u>	<u>\$ 122,254,321</u>	<u>\$ 129,831,059</u>
Program Revenues										
Governmental Activities:										
Charges for services										
General government	2,933,495	3,141,036	3,445,662	3,551,771	3,370,526	4,267,976	3,644,887	3,874,758	3,935,526	3,864,179
Public safety	233,786	223,224	219,114	283,460	288,258	266,085	245,863	312,543	325,298	358,888
Public works	-	466,849	-	50	50	-	1,200	4,605	9,535	261,792
Community services	754,306	849,429	890,174	1,009,470	1,001,004	1,125,845	1,003,750	1,153,674	994,444	1,099,960
Operating grants and contributions	9,786,072	9,837,419	10,413,626	7,006,913	7,524,294	7,928,553	12,754,491	13,142,881	12,269,135	11,374,291
Capital grants and contributions	6,650,958	6,600,991	2,106,374	3,082,171	1,610,147	8,260,531	1,763,263	1,357,800	1,796,754	3,394,792
Total governmental activities program revenues	<u>20,358,617</u>	<u>21,118,948</u>	<u>17,074,950</u>	<u>14,933,835</u>	<u>13,794,279</u>	<u>21,848,990</u>	<u>19,413,454</u>	<u>19,846,261</u>	<u>19,330,692</u>	<u>20,353,902</u>
Business-Type Activities:										
Charges for services										
Water and sewer	28,306,482	28,995,627	30,402,025	32,645,032	33,238,901	36,391,791	35,652,828	38,509,851	40,818,042	41,049,517
Sanitation	9,393,659	10,474,818	11,129,352	11,811,666	12,561,103	14,095,412	12,560,096	13,246,801	12,337,186	12,640,422
Operating grants and contributions	596,100	343,786	-	-	-	-	-	-	-	-
Capital grants and contributions	259,167	980,093	1,376,054	1,954,879	2,197,861	2,731,780	3,683,324	512,378	638,698	1,245,672
Total business-type activities program revenues	<u>38,555,408</u>	<u>40,794,324</u>	<u>42,907,431</u>	<u>46,411,577</u>	<u>47,997,865</u>	<u>53,218,983</u>	<u>51,896,248</u>	<u>52,269,030</u>	<u>53,793,926</u>	<u>54,935,611</u>
Total primary government program revenues	<u>\$ 58,914,025</u>	<u>\$ 61,913,272</u>	<u>\$ 59,982,381</u>	<u>\$ 61,345,412</u>	<u>\$ 61,792,144</u>	<u>\$ 75,067,973</u>	<u>\$ 71,309,702</u>	<u>\$ 72,115,291</u>	<u>\$ 73,124,618</u>	<u>\$ 75,289,513</u>
Net (expense) revenue										
Governmental activities	\$ (28,557,720)	\$ (26,980,985)	\$ (34,484,469)	\$ (44,472,074)	\$ (49,141,856)	\$ (43,007,733)	\$ (50,731,799)	\$ (51,199,129)	\$ (52,759,810)	\$ (55,832,480)
Business-type activities	(1,083,668)	2,222,879	4,153,895	2,983,325	(151,169)	7,888	6,294,647	2,624,299	3,630,107	1,290,934
Total primary government net expense	<u>\$ (29,641,388)</u>	<u>\$ (24,758,106)</u>	<u>\$ (30,330,574)</u>	<u>\$ (41,488,749)</u>	<u>\$ (49,293,025)</u>	<u>\$ (42,999,845)</u>	<u>\$ (44,437,152)</u>	<u>\$ (48,574,830)</u>	<u>\$ (49,129,703)</u>	<u>\$ (54,541,546)</u>

Table 2 (Continued)

City of Fort Smith, Arkansas
Changes in Net Position (Continued)
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year									
	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008	2009	2010	2011	2012
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 16,117,664	\$ 8,812,154	\$ 8,932,234	\$ 9,392,423	\$ 8,821,508	\$ 9,360,659	\$ 12,267,731	\$ 10,623,101	\$ 13,143,979	\$ 11,111,344
Sales taxes	35,748,841	30,940,060	31,236,465	40,747,820	53,014,309	57,837,124	52,601,763	52,091,471	53,838,552	54,489,254
Utility franchise fees	5,530,957	5,986,546	6,833,462	7,406,294	6,760,463	7,366,814	5,990,452	6,492,100	6,571,993	6,071,893
Alcoholic beverage taxes and miscellaneous tax	463,596	-	-	-	-	-	-	-	-	-
Unrestricted grants and contributions	1,411,739	1,280,450	1,277,089	5,139,979	6,558,212	1,386,747	226,195	10,085	-	55,357
Unrestricted investment earnings	813,104	740,108	1,489,322	3,220,403	6,155,547	3,065,530	538,627	163,172	18,480	474
Gain (loss) on sale of capital assets	4,174	24,462	852	22,838	-	-	-	-	-	-
Insurance proceeds from hail storm	-	-	-	-	-	-	1,778,572	-	-	-
Other	100,331	14,907	768,612	1,088,665	251,941	309,447	1,318,649	1,199,332	1,539,449	527,041
Transfers	(579,200)	(589,294)	(206,000)	(24,738,822)	(7,697,893)	(21,629,789)	(34,020,953)	(14,083,290)	(8,315,855)	(12,190,491)
Total governmental activities	<u>59,611,206</u>	<u>47,209,393</u>	<u>50,332,036</u>	<u>42,279,600</u>	<u>73,864,087</u>	<u>57,696,532</u>	<u>40,701,036</u>	<u>56,495,971</u>	<u>66,796,598</u>	<u>60,064,872</u>
Business-type activities:										
Sales taxes	7,817,663	15,024,256	17,372,140	10,812,656	-	-	-	-	-	-
Unrestricted investment earnings	2,360,225	1,417,046	2,475,149	2,951,710	1,950,264	2,362,717	343,471	89,914	14,459	61,383
Other	283,977	212,889	317,700	304,583	504,328	1,247,516	1,116,923	339,356	1,403,727	609,901
Transfers	579,200	589,294	206,000	24,738,822	7,697,893	21,629,789	34,020,953	14,083,290	8,315,855	12,190,491
Total business-type activities	<u>11,041,065</u>	<u>17,243,485</u>	<u>20,370,989</u>	<u>38,807,771</u>	<u>10,152,485</u>	<u>25,240,022</u>	<u>35,481,347</u>	<u>14,512,560</u>	<u>9,734,041</u>	<u>12,861,775</u>
Total primary government	<u>70,652,271</u>	<u>64,452,878</u>	<u>70,703,025</u>	<u>81,087,371</u>	<u>84,016,572</u>	<u>82,936,554</u>	<u>76,182,383</u>	<u>71,008,531</u>	<u>76,530,639</u>	<u>72,926,647</u>
Changes in net position										
Governmental activities	\$ 31,053,486	\$ 20,228,408	\$ 15,847,567	\$ (2,192,474)	\$ 24,722,231	\$ 14,688,799	\$ (10,030,763)	\$ 5,296,842	\$ 14,036,788	\$ 4,232,392
Business-type activities	9,957,397	19,466,364	24,524,884	41,791,096	10,001,316	25,247,910	41,775,994	17,136,859	13,364,148	14,152,709
Total primary government	<u>\$ 41,010,883</u>	<u>\$ 39,694,772</u>	<u>\$ 40,372,451</u>	<u>\$ 39,598,622</u>	<u>\$ 34,723,547</u>	<u>\$ 39,936,709</u>	<u>\$ 31,745,231</u>	<u>\$ 22,433,701</u>	<u>\$ 27,400,936</u>	<u>\$ 18,385,101</u>

Table 3

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

	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes (1)	\$ 49,189,546	\$ 45,012,256	\$ 46,694,358	\$ 57,108,031	\$ 68,510,896	\$ 74,585,914	\$ 69,476,528	\$ 69,689,304	\$ 71,868,941	\$ 71,853,256
Licenses and permits	1,338,949	1,271,411	1,499,151	1,473,234	1,501,022	2,126,151	1,559,950	1,489,526	1,628,157	1,553,688
Intergovernmental	16,638,318	16,120,435	12,952,988	12,734,833	13,395,035	13,608,213	13,117,444	12,881,250	12,552,267	12,856,254
Fines and forfeitures	2,081,628	1,888,668	2,064,332	2,063,755	2,858,829	2,188,504	2,098,901	2,299,274	2,356,809	2,408,231
Charges for services	881,942	941,582	978,987	1,099,840	1,088,811	1,215,016	1,172,312	1,237,853	1,108,213	1,277,269
Investment earnings	846,138	755,355	1,530,732	3,326,046	6,294,463	3,114,332	566,378	166,106	18,480	141,141
Contributions	785,030	774,010	808,149	2,166,420	1,027,818	3,926,800	1,511,328	1,338,330	1,341,458	1,395,068
Miscellaneous	858,521	696,478	250,361	470,606	316,373	274,696	189,946	341,329	470,997	343,630
Total revenues	<u>72,620,072</u>	<u>67,460,195</u>	<u>66,779,058</u>	<u>80,442,765</u>	<u>94,993,247</u>	<u>101,039,626</u>	<u>89,692,787</u>	<u>89,442,972</u>	<u>91,345,322</u>	<u>91,828,537</u>
Expenditures										
General government	5,741,344	5,908,918	6,879,247	7,522,720	8,190,325	8,317,788	8,226,444	7,879,961	7,969,047	7,972,590
Public safety	21,064,548	22,076,641	24,139,684	26,003,929	28,062,350	26,885,795	30,697,704	30,032,414	31,659,461	31,596,228
Public works	5,874,858	4,550,486	4,600,934	5,433,522	5,202,463	5,820,879	5,254,628	5,870,159	6,450,755	5,734,913
Community services	6,105,744	6,550,085	6,463,376	7,194,025	6,387,764	5,586,246	9,338,549	7,987,136	7,144,380	7,236,525
Other	1,763,635	2,113,409	2,334,916	3,245,313	3,776,800	3,550,903	1,830,124	2,335,524	2,368,766	1,812,324
Capital outlay	23,747,366	21,153,521	14,068,089	23,933,708	32,939,098	29,323,932	31,766,713	34,187,241	31,670,727	30,928,218
Debt service										
Principal	7,785,000	6,540,000	-	-	14,355,000	17,110,000	17,785,000	16,805,000	17,495,000	1,940,000
Interest	519,078	128,042	-	671,893	3,757,618	3,141,156	2,917,861	3,040,386	2,367,651	2,688,400
Issuance costs	-	-	-	-	-	-	259,839	75,892	-	614,650
Total expenditures	<u>72,601,573</u>	<u>69,021,102</u>	<u>58,486,246</u>	<u>74,005,110</u>	<u>102,671,418</u>	<u>99,736,699</u>	<u>108,076,862</u>	<u>108,213,713</u>	<u>107,125,787</u>	<u>90,523,848</u>
Excess (deficiency) of revenues over (under) expenditures	<u>18,499</u>	<u>(1,560,907)</u>	<u>8,292,812</u>	<u>6,437,655</u>	<u>(7,678,171)</u>	<u>1,302,927</u>	<u>(18,384,075)</u>	<u>(18,770,741)</u>	<u>(15,780,465)</u>	<u>1,304,689</u>
Other financing sources and (uses)										
Transfers in	1,939,996	2,459,809	4,101,090	63,067,680	2,602,260	17,313,147	29,689,472	6,809,336	3,531,999	77,142,266
Transfers out	(2,519,196)	(2,798,714)	(4,307,000)	(88,464,556)	(10,300,153)	(39,169,188)	(64,000,227)	(6,269,982)	(3,077,367)	(76,972,738)
Insurance proceeds from hail storm	-	-	-	-	-	-	1,778,572	-	-	-
Premiums on bond issuance	-	-	-	-	-	-	236,307	16,217	-	6,269,913
Bond issuance	-	-	-	88,299,286	-	15,685,899	29,150,000	3,595,000	-	110,660,000
Escrow deposits	-	-	-	-	-	-	-	-	-	(53,700,952)
Capital leases	277,990	613,023	1,241,713	341,156	(58,278)	-	-	-	-	-
Total other financing sources (uses)	<u>(301,210)</u>	<u>274,118</u>	<u>1,035,803</u>	<u>63,243,566</u>	<u>(7,756,171)</u>	<u>(6,170,142)</u>	<u>(3,145,876)</u>	<u>4,150,571</u>	<u>454,632</u>	<u>63,398,489</u>
Net change in fund balances	<u>\$ (282,711)</u>	<u>\$ (1,286,789)</u>	<u>\$ 9,328,615</u>	<u>\$ 69,681,221</u>	<u>\$ (15,434,342)</u>	<u>\$ (4,867,215)</u>	<u>\$ (21,529,951)</u>	<u>\$ (14,620,170)</u>	<u>\$ (15,325,833)</u>	<u>\$ 64,703,178</u>
Debt service as a % of noncapital expenditures	14.0%	17.0%	13.9%	-	1.3%	35.1%	40.4%	32.6%	26.3%	8.8%

(1) See Table 6 for detail of tax revenues.

Table 4

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Reserved	\$ 1,297,557	\$ 2,850,478	\$ 3,152,121	\$ 4,706,017	\$ 2,191,724	\$ 3,654,013	\$ 2,772,912	\$ 2,169,623	\$ -	\$ -
Unreserved	5,260,425	5,911,270	7,423,514	7,607,076	6,257,328	7,052,220	5,772,601	6,272,987	-	-
Nonspendable	-	-	-	-	-	-	-	-	66,707	150,824
Restricted	-	-	-	-	-	-	-	-	283,616	-
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	2,837,610	4,145,117
Unassigned	-	-	-	-	-	-	-	-	4,552,468	4,383,876
Total general fund	<u>6,557,982</u>	<u>8,761,748</u>	<u>10,575,635</u>	<u>12,313,093</u>	<u>8,449,052</u>	<u>10,706,233</u>	<u>8,545,513</u>	<u>8,442,610</u>	<u>7,740,401</u>	<u>8,679,817</u>
All other governmental funds										
Reserved	29,997,170	27,560,991	34,639,037	101,879,344	93,901,326	86,760,617	68,080,708	54,877,969	-	-
Unreserved, reported in:										
Special revenue funds	16,934,572	16,062,417	1,648,864	13,477,723	13,646,710	13,603,715	12,771,282	11,607,880	-	-
Debt service fund	-	-	-	3,634,024	-	-	-	-	-	-
Capital projects funds	549,288	367,067	394,212	457,785	457,547	516,855	709,966	508,840	-	-
Nonspendable	-	-	-	-	-	-	-	-	526,015	673,709
Restricted	-	-	-	-	-	-	-	-	51,037,382	115,007,316
Committed	-	-	-	-	-	-	-	-	443,933	-
Assigned	-	-	-	-	-	-	-	-	363,735	453,802
Total all other governmental funds	<u>47,481,030</u>	<u>43,990,475</u>	<u>36,682,113</u>	<u>119,448,876</u>	<u>108,005,583</u>	<u>100,881,187</u>	<u>81,561,956</u>	<u>66,994,689</u>	<u>52,371,065</u>	<u>116,134,827</u>
Total governmental fund balances	<u>\$ 54,039,012</u>	<u>\$ 52,752,223</u>	<u>\$ 47,257,748</u>	<u>\$ 131,761,969</u>	<u>\$ 116,454,635</u>	<u>\$ 111,587,420</u>	<u>\$ 90,107,469</u>	<u>\$ 75,437,299</u>	<u>\$ 60,111,466</u>	<u>\$ 124,814,644</u>

Table 5

City of Fort Smith, Arkansas
General Fund Revenues, Expenditures, and Fund Balance
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Unaudited)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues	\$ 30,133,031	\$ 32,780,080	\$ 33,972,924	\$ 36,218,142	\$ 37,164,047	\$ 38,953,983	\$ 36,683,453	\$ 37,014,019	\$ 37,744,298	\$ 38,056,106
Expenditures	30,724,130	33,032,858	34,663,140	38,309,177	43,059,070	38,654,800	41,671,672	39,433,872	40,670,109	38,750,928
Excess (deficiency) of revenues over (under) expenditures	(591,099)	(252,778)	(690,216)	(2,091,035)	(5,895,023)	299,183	(4,988,219)	(2,419,853)	(2,925,811)	(694,822)
Other financing sources (uses)	1,616,793	2,456,544	2,507,103	3,825,493	2,030,982	1,957,998	2,777,499	2,366,950	2,223,602	1,634,238
Net change in fund balances	1,025,694	2,203,766	1,816,887	1,734,458	(3,864,041)	2,257,181	(2,210,720)	(52,903)	(702,209)	939,416
Fund balance, January 1	5,532,288	6,557,982	8,761,748	10,578,635	12,313,093	8,449,052	10,706,233	8,495,513	8,442,610	7,740,401
Fund balance, December 31	\$ 6,557,982	\$ 8,761,748	\$ 10,578,635	\$ 12,313,093	\$ 8,449,052	\$ 10,706,233	\$ 8,495,513	\$ 8,442,610	\$ 7,740,401	\$ 8,679,817

Table 6

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

Fiscal Year	Ad Valorem Taxes	Sales Taxes (1)	Utility Franchise Fees	Total
2003	\$ 7,909,748	\$ 35,748,841	\$ 5,530,957	\$ 49,189,546
2004	8,085,650	30,940,060	5,986,546	45,012,256
2005	8,624,431	31,236,465	6,833,462	46,694,358
2006	8,953,917	40,747,820	7,406,294	57,108,031
2007	8,736,124	53,014,309	6,760,463	68,510,896
2008	9,381,976	57,837,124	7,366,814	74,585,914
2009	10,884,313	52,601,763	5,990,452	69,476,528
2010	11,105,733	52,091,471	6,492,100	69,689,304
2011	11,458,396	53,838,552	6,571,993	71,868,941
2012	11,292,109	54,489,254	6,071,893	71,853,256

(1) The City began collecting a 1% sales tax for street projects in November 1985, a 1/2% sales tax for bond retirement in January 1998 through June 2004, and the City share of the county 1% sales tax in August 1994. In May 2006, the City began collecting a 1% sales tax for bond retirement. The sales taxes for bond retirement are now used to support the 2012 sales and use tax bonds. This 1% sales tax, reapproved in March 2012, is split 3/4% for bond retirement and 1/4% for General Fund programs. The 2012 sales and use tax bonds were issued for general government uses and business-type activities. The business-type activity improvements are recorded as contributions on the fund financial statements.

Table 7

City of Fort Smith, Arkansas
Local Sales and Use Tax Collections
And Direct and Overlapping Local Tax Rates
Continuing Disclosure Requirement
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	1% City Sales & Use Tax Allocated for Street (1)	City Share 1% County Sales & Use Tax (2)	1% or 3/4% City Sales & Use Tax Allocated for Bonds (3)	1/4% City Sales & Use Tax Allocated Fire & Parks (3)	Total	Direct City Tax Rate	Overlapping Sebastian County Tax Rate
2003	\$ 15,635,325	\$ 12,295,853	\$ 15,635,326	\$ -	\$ 43,566,504	2.00%	1.00%
2004	16,465,972	13,032,372	16,465,972	-	45,964,316	2.00%	1.00%
2005	17,372,140	13,864,325	17,372,140	-	48,608,605	2.00%	1.00%
2006	18,420,915	14,718,645	18,420,915	-	51,560,475	2.00%	1.00%
2007	18,929,527	15,155,255	18,929,527	-	53,014,309	2.00%	1.00%
2008	20,613,205	16,610,714	20,613,205	-	57,837,124	2.00%	1.00%
2009	18,777,493	15,046,777	18,777,493	-	52,601,763	2.00%	1.00%
2010	18,599,727	14,892,017	18,599,727	-	52,091,471	2.00%	1.00%
2011	19,341,760	15,155,032	19,341,760	-	53,838,552	2.00%	1.00%
2012	19,605,123	15,279,008	18,836,899	768,224	54,489,254	2.00%	1.00%
Total	<u>\$ 183,761,187</u>	<u>\$ 146,049,998</u>	<u>\$ 182,992,964</u>	<u>\$ 768,224</u>	<u>\$ 513,572,373</u>		

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

(2) Sebastian County began assessing a 1% Sales and Use Tax August 1, 1994. The City receives a share of the tax based upon its population within Sebastian County. The City allocates its share of the tax to its General Fund. The tax has been reauthorized through 2024.

(3) Prior to May 2006, the City assessed two 1/2 % City sales and use taxes to total 1% for bond redemption. The first 1/2% was allocated to redeem the City of Fort Smith Sales and Use Tax Bonds, Series 1997. The 1997 Bonds were issued to fund the construction for the convention center, public library facilities, and riverfront park projects. The tax became effective January 1, 1998. The second 1/2% was allocated to redeem the City of Fort Smith Sales and Use Tax Bonds, Series 2001. The 2001 Bonds were issued to fund a portion of the Lake Fort Smith water supply expansion project and to fund wastewater improvements. The tax for the 2001 Bonds became effective May 1, 2001. The 1997 Bonds were redeemed in June 2004 and now the entire 1% tax is allocated to the repayment of the 2001 Bonds. In May 2006, the 1% sales and use tax was approved to support the issuance of City of Fort Smith Sales and Use Tax Refunding and Construction Bonds, Series 2006. The 2006 Bonds were issued to refund the outstanding 2001 Bonds, acquire a public safety and utility radio communication system, and provide wastewater improvements in accordance with an EPA administrative order. In November 2008, additional sales and use tax bonds were issued to provide more funding for the radio project and the wastewater projects. In September 2009, additional sales and use tax bonds were issued for more wastewater projects. The 2009 Bonds will be paid with the sales and use tax once the 2006 and 2008 Bonds are redeemed. The 2009 Bonds interest payments are currently being supported by a temporary sewer rate that is in effect until the 2006 and 2008 Bonds are redeemed. In January 2010, the City issued additional sales and use tax bonds for even more wastewater projects. The 2006, 2008, and 2010 Bonds are supported by the 1% sales and use tax. Once these bonds are redeemed, the 1% sales and use tax will support the 2009 Bonds and the temporary sewer rate will be discontinued. The 2010 were redeemed in full during 2010. In May 2012, the city issued sales and use tax bonds to provide for water improvements, wastewater improvements, fire facilities and apparatus, and for an aquatics park in conjunction with Sebastian County. The outstanding 2006, 2008 and 2009 bonds were called by the 2012 bonds. The temporary sewer rate was removed in early July 2012. Beginning October 1, 2012, the 1% sales tax is split with 3/4% allocated to the redemption of the 2012 bonds and 1/4% allocated to operations in the fire and parks departments.

Table 8

City of Fort Smith, Arkansas
Property Tax Levies and Collections
Last Ten Fiscal Years
(Unaudited)

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
2003	\$ 7,668,913	\$ 6,593,969	85.98%	\$ 286,387	\$ 6,880,356	89.72%	\$ 298,067	3.89%
2004	7,805,688	6,839,388	87.62%	268,913	7,108,301	91.07%	306,752	3.93%
2005	7,544,588	7,016,787	93.00%	270,725	7,287,512	96.59%	420,214	5.57%
2006	7,735,932	7,277,449	94.07%	397,572	7,675,021	99.21%	309,621	4.00%
2007	8,221,008	7,744,922	94.21%	337,687	8,082,609	98.32%	138,399	1.68%
2008	8,629,508	8,154,385	94.49%	434,209	8,588,594	99.53%	280,412	3.25%
2009	8,328,466	7,702,929	92.49%	305,640	8,008,569	96.16%	402,909	4.84%
2010	9,518,247	9,035,518	94.93%	411,376	9,446,894	99.25%	527,023	5.54%
2011	9,730,326	9,299,637	95.57%	344,396	9,644,033	99.11%	453,411	4.66%
2012	10,048,916	9,514,504	94.68%	396,701	9,911,205	98.63%	705,667	7.02%

(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 and for the police and fire pension contributions in the LOPFI Fund, a special revenue fund. The city also receives one-half of the collections from the county levy in its Street Maintenance Fund, a special revenue fund.

Table 9

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

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	
2003	\$ 674,592,414	\$ 3,372,962,070	\$ 301,118,605	\$ 1,505,593,025	\$ 975,711,019	\$ 4,878,555,095	20.00%
2004	725,381,058	3,626,905,290	307,760,220	1,538,801,100	1,033,141,278	5,165,706,390	20.00%
2005	733,760,780	3,668,803,900	346,331,415	1,731,657,075	1,080,092,195	5,400,460,975	20.00%
2006	722,422,061	3,612,110,305	365,714,785	1,828,573,925	1,088,136,846	5,440,684,230	20.00%
2007	756,337,274	3,781,686,370	378,474,240	1,892,371,200	1,134,811,514	5,674,057,570	20.00%
2008	844,728,636	4,223,643,180	405,474,180	2,027,370,900	1,250,202,816	6,251,014,080	20.00%
2009	837,275,432	4,186,377,160	335,318,153	1,676,590,765	1,172,593,585	5,862,967,925	20.00%
2010	873,592,440	4,367,962,200	336,466,947	1,682,334,735	1,210,059,387	6,050,296,935	20.00%
2011	941,388,230	4,706,941,150	353,247,975	1,766,239,875	1,294,636,205	6,473,181,025	20.00%
2012	968,690,035	4,843,450,175	357,156,805	1,785,784,025	1,325,846,840	6,629,234,200	20.00%

(1) Fiscal year is year of valuation.

The assessed value of real and personal property within the city limits is used as the basis for applying the city's property tax rates shown.

Table 10

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

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

Fiscal Year (1)	City of Fort Smith		Sebastian County		Overlapping Rates				Total Direct & Overlapping Rates	
	Real	Personal	Real	Personal	FS School District		FS Public Library		Real	Personal
	Property	Property	Property	Property	Property	Property	Property	Property	Property	Property
2003	\$ 0.70	\$ 0.70	\$ 0.80	\$ 0.80	\$ 3.65	\$ 3.65	\$ 0.10	\$ 0.10	\$ 5.25	\$ 5.25
2004	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2005	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2006	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2007	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2008	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2009	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2010	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2011	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2012	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25

Tax levies (millages):

Fiscal Year (1)	City of Fort Smith		Sebastian County		Overlapping Rates				Total Direct & Overlapping Rates	
	Real	Personal	Real	Personal	FS School District		FS Public Library		Real	Personal
	Property	Property	Property	Property	Property	Property	Property	Property	Property	Property
2003	\$ 7.00	\$ 7.00	\$ 8.00	\$ 8.00	\$ 36.50	\$ 36.50	\$ 1.00	\$ 1.00	\$ 52.50	\$ 52.50
2004	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2005	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2006	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2007	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2008	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2009	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2010	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2011	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2012	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50

(1) Fiscal year is year of levy.

Table 11

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

Name of Taxpayer (1)	2012			2002		
	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation
Mortgage Clearing Corporation	\$ 124,340,255	1	9.60%			
Lereta LLC	116,199,525	2	8.98%			
Corelogic Tax Services LLC	55,451,864	3	4.28%			
Wells Fargo	54,563,335	4	4.21%			
BAC Tax Service Group	33,516,845	5	2.59%			
Oklahoma Gas & Electric	27,284,860	6	2.11%			
Fort Smith Health Management Assoc. LLC	20,886,775	7	1.61%			
Baldor Electric Company	18,484,435	8	1.43%			
Cellco Partnership	16,526,275	9	1.28%	\$ 6,824,790	2	0.73%
Wal-Mart/Sam's Club	16,126,795	10	1.25%	4,940,385	4	0.53%
Gerber Products Company				8,168,395	1	0.87%
Georgia Pacific Corporation				5,644,725	3	0.60%
Planters Peanuts				4,321,150	5	0.46%
Hiram Walker & Sons/Pernod Ricard USA				3,823,710	6	0.41%
GNB Technologies				3,165,000	7	0.34%
The Trane Company				2,591,835	8	0.28%
Saint-Gobain Corporation/Norton				2,326,410	9	0.25%
Graphic Packaging Corporation				2,202,950	10	0.23%
	<u>\$ 483,380,964</u>		39.95%	<u>\$ 44,009,350</u>		4.69%

(1) Sebastian County Assessor's Office.

(2) Property taxes collected in 2012 are based upon 2011 assessed valuation of \$1,294,636,205. Property taxes collected in 2003 were based upon the 2002 assessed valuation of \$939,232,967.

Table 12

City of Fort Smith, Arkansas
Computation of Direct and Estimated Overlapping Debt
December 31, 2012
(Unaudited)

Taxing Jurisdiction	Total Outstanding Bonded Debt (1)	Estimated Percent Applicable (2)	Direct and Estimated Overlapping Bonded Debt
Direct:			
City of Fort Smith	\$ 109,310,000	100%	\$ 109,310,000
Overlapping:			
Fort Smith Special School District	58,393,522	100%	58,393,522
Greenwood School District	-	5%	-
Sebastian County	-	76%	-
Total Overlapping	58,393,522		58,393,522
Total direct and estimated overlapping bonded debt	\$ 167,703,522		\$ 167,703,522
Ratio, direct and estimated overlapping debt to fiscal 2011 assessed valuation (3)			13.0%
Per capita direct and estimated overlapping bonded debt (4)			\$ 1,945

(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 9, \$1,294,636,205.

(4) Based on the estimated population for 2012 in Table 14.

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net assessed value (1)	\$ 975,711,019	\$ 1,033,141,278	\$ 1,080,092,195	\$ 1,088,136,846	\$ 1,134,811,514	\$ 1,250,202,816	\$ 1,172,593,585	\$ 1,210,059,387	\$ 1,294,636,205	\$ 1,325,846,840
Plus exempt property (2)	-	-	-	-	-	-	-	-	-	-
Total assessed value	<u>\$ 975,711,019</u>	<u>\$ 1,033,141,278</u>	<u>\$ 1,080,092,195</u>	<u>\$ 1,088,136,846</u>	<u>\$ 1,134,811,514</u>	<u>\$ 1,250,202,816</u>	<u>\$ 1,172,593,585</u>	<u>\$ 1,210,059,387</u>	<u>\$ 1,294,636,205</u>	<u>\$ 1,325,846,840</u>
Debt limit - 25% of total assessed value (3)	\$ 243,927,755	\$ 258,285,320	\$ 270,023,049	\$ 272,034,212	\$ 283,702,879	\$ 312,550,704	\$ 293,148,396	\$ 302,514,847	\$ 323,659,051	\$ 331,461,710
Amount of debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Debt Margin	<u>\$ 243,927,755</u>	<u>\$ 258,285,320</u>	<u>\$ 270,023,049</u>	<u>\$ 272,034,212</u>	<u>\$ 283,702,879</u>	<u>\$ 312,550,704</u>	<u>\$ 293,148,396</u>	<u>\$ 302,514,847</u>	<u>\$ 323,659,051</u>	<u>\$ 331,461,710</u>

(1) From Table 9.

(2) Not available

(3) Limitation is established by state statute.

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

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

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			
2003	\$ 6,540,000	\$ -	\$ 667,331	\$ 151,045,000	\$ 68,415,000	\$ 440,757	\$ 227,108,088	2.9%	2,829
2004	-	-	891,735	144,755,000	58,270,000	298,315	204,215,050	3.4%	2,544
2005	-	-	1,442,517	146,795,000	42,995,000	562,877	191,795,394	3.9%	2,389
2006	84,935,000	2,290,000	388,004	139,125,000	-	315,442	227,053,446	3.5%	2,722
2007	71,005,000	1,865,000	222,135	155,605,000	-	61,722	228,758,857	3.7%	2,742
2008	70,150,000	1,425,000	161,340	197,290,000	-	14,482	269,040,822	3.2%	3,189
2009	81,970,000	970,000	96,209	190,680,000	-	759,641	274,475,850	3.1%	3,253
2010	69,235,000	495,000	49,134	183,750,000	-	514,572	254,043,706	3.5%	2,947
2011	52,235,000	-	-	177,130,000	-	677,219	230,042,219	3.9%	2,668
2012	109,310,000	-	294,355	171,880,000	-	910,196	282,394,551	3.2%	3,276

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

(1) See Table 16 for the personal income and population data.

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

Fiscal Year	Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Services	Debt Service Requirements			Coverage
				Principal	Interest (3)	Total	
Water and Sewer System							
2003	\$ 30,461,180	\$ 15,104,962	\$ 15,356,218	\$ 2,370,000	\$ 3,990,161	\$ 6,360,161	241%
2004	30,676,280	16,339,330	14,336,950	5,070,000	2,931,611	8,001,611	179%
2005	32,668,644	17,116,764	15,551,880	5,700,000	3,016,704	8,716,704	178%
2006	35,439,335	21,269,130	14,170,205	6,820,000	2,776,864	9,596,864	148%
2007	35,181,555	19,365,972	15,815,583	7,115,000	6,245,962	13,360,962	118%
2008	38,608,012	20,463,804	18,144,208	8,350,000	6,411,852	14,761,852	123%
2009	37,118,841	21,489,095	15,629,746	5,665,000	9,335,000	15,000,000	104%
2010	38,661,437	20,872,208	17,789,229	5,910,000	9,089,126	14,999,126	119%
2011	40,820,838	20,759,793	20,061,045	6,170,000	8,828,313	14,998,313	134%
2012	41,080,985	22,019,792	19,061,193	4,045,000	7,968,048	12,013,048	159%
Solid Waste System							
2003	9,511,187	7,003,747	2,507,440	785,000	277,400	1,062,400	236%
2004	10,622,644	8,069,676	2,553,268	805,000	260,782	1,065,782	240%
2005	11,441,729	7,775,933	3,665,796	820,000	239,814	1,059,814	346%
2006	12,216,101	9,108,943	3,107,158	850,000	214,021	1,064,021	292%
2007	13,122,193	10,269,779	2,852,414	875,000	187,827	1,062,827	268%
2008	14,650,900	10,346,750	4,304,150	910,000	153,320	1,063,320	405%
2009	12,675,503	10,058,856	2,616,647	945,000	113,716	1,058,716	247%
2010	13,390,293	10,476,471	2,913,822	1,020,000	83,220	1,103,220	264%
2011	12,675,503	10,142,163	2,533,340	1,060,000	21,465	1,081,465	234%
2012 (4)							

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

(2) Excludes depreciation expense and amortization expense.

(3) Total interest paid for the fiscal year is presented in this schedule for revenue bonds only and it does not include capitalized interest or accrued interest.

2012 reconciliation of interest paid reported on this schedule to the statement of revenues, expenses, and changes in fund net assets for the proprietary funds:

	Water & Sewer
Interest paid - this schedule	\$ 7,968,048
Capitalized interest	-
Accrued interest - 12/31/11	(2,032,797)
Accrued interest - 12/31/12	1,974,004
	<u>7,909,255</u>
Interest expense - statement of revenues, expenses, and changes in fund net position	<u>\$ 7,909,255</u>

(4) The solid waste system revenue bonds were redeemed in full during 2011. There are no revenue bonds outstanding at December 31, 2012 for the solid waste system.

Table 16

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

Fiscal Year	City Population (1)	County Population (1)	Personal Income (2) (in thousands)	Per Capita Income (2)	Median Age (3)	Education Level in Years of Schooling (3)	School Enrollment (4)	Unemployment Rate (2)
2003	81,795	117,221	6,628,057	26,624	35.2	12	12,871	5.4%
2004	81,801	117,519	7,030,000	24,956	35.3	12	12,921	5.0%
2005	82,482	118,587	7,514,000	26,420	35.4	12	13,373	4.2%
2006	83,489	120,351	8,009,000	28,738	35.4	12	13,633	4.9%
2007	84,375	121,766	8,435,449	30,122	35.4	12	13,900	5.3%
2008	84,375	121,766	8,937,040	31,602	35.4	12	13,759	6.1%
2009	84,375	121,766	9,054,458	30,896	35.4	12	13,792	8.2%
2010	86,209	125,744	9,395,000	31,266	35.0	12	14,109	8.5%
2011	86,209	125,744	9,537,232	31,891 *	35.0	12	13,896	8.6%
2012	86,209	125,744	9,632,604 *	31,782 *	35.0	12	14,048	7.7%

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 17

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

Employer	2012			2003		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Sparks Health Systems	2,400	1	2.0%	2,352	3	1.9%
Baldor Electric Company	2,393	2	2.0%	1,780	6	1.5%
O. K. Industries	1,800	3	1.5%	4,224	2	3.5%
Fort Smith Public Schools	1,783	4	1.5%	1,636	7	1.3%
St. Edward Mercy Medical Center	1,487	5	1.2%	2,100	4	1.7%
University of Arkansas at Fort Smith	951	6	0.8%			
Arkansas Best Corp.	936	7	0.8%			
City of Fort Smith	922	8	0.8%	855	9	0.7%
Rheem-Ruud	900	9	0.7%	1,850	5	1.5%
Golden Living/Beverly Enterprises	800	10	0.7%	914	8	0.7%
Whirlpool Corporation	-			4,300	1	3.5%
Trane Company	-			850	10	0.7%
Total	14,372		11.9%	20,861		17.1%

Data Sources:

Chamber of Commerce

U.S. Department of Labor, employment totals:

2012 121,200

2003 121,914

Table 18

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

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government	122	123	124	124	128	125	125	127	127	127
Public safety:										
Police										
Officers	154	160	160	168	168	168	168	170	170	170
Civilians	46	47	47	46	46	46	52	59	59	59
Fire										
Firefighters and officers	125	125	126	126	129	129	129	129	129	138
Civilians	3	3	3	3	3	3	3	3	3	3
Public works:										
Operations	5	5	5	5	5	5	5	5	5	5
Streets	46	46	46	46	46	46	46	46	46	46
Traffic control	13	12	13	13	13	13	13	13	13	13
Parks and recreation	45	47	53	54	57	57	58	58	58	58
Transit	35	35	35	36	36	36	36	36	36	36
Water and sewer	182	183	185	191	191	191	191	192	189	189
Sanitation	79	75	76	77	78	78	78	78	78	78
Total	855	861	873	889	900	897	904	916	913	922

Table 19

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

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Sub-stations (2)	-	-	-	8	8	8	8	8	8	8
Patrol units	12	12	12	12	12	12	12	12	12	12
Fire:										
Stations	10	10	10	10	10	10	10	10	10	10
Apparatus	22	22	22	21	21	21	21	21	21	21
Streets										
Streets (miles)	582	590	558	562	566	578	590	590	590	590
Streetlights	5,589	5,285	5,957	5,971	5,971	6,029	6,029	6,029	6,053	6,053
Traffic signals	123	133	136	135	135	142	146	146	149	149
Parks and recreation										
Parks acreage (square feet)	295	315	260	273	273	273	273	273	273	273
Parks	20	26	26	26	26	25	25	25	25	25
Swimming pools	1	1	1	1	1	1	1	1	1	1
Water splashpad	-	1	1	1	1	1	1	1	1	1
Tennis courts	14	14	14	14	14	14	14	14	14	14
Skatepark	1	1	1	1	1	1	1	1	1	1
Community centers	4	4	4	5	5	5	6	6	6	6
Convention center -										
Theater -seats	1,331	1,331	1,331	1,331	1,331	1,331	1,331	1,331	1,331	1,331
Theater -area (square feet)	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200
Exhibit Hall -area (square feet)	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Transit buses	18	17	20	20	20	20	20	20	20	20
Water and sewer										
Water mains (miles)	584	584	584	560	560	627	626	626	626	626
Average daily production capacity (thousands of gallons)	55,000	55,000	55,000	54,100	54,100	55,000	59,000	41,999	63,400	63,400
Average daily consumption (thousands of gallons)	27,384	26,986	28,876	28,097	29,197	28,876	37,004	26,473	30,532	30,532
Sanitary sewers (miles)	488	503	503	505	505	505	516	516	500	500
Storm sewers	NA	7,900	7,900	7,900	7,900	7,900	7,900	7,900	7,900	7,900
Sanitation										
Collection trucks	52	52	52	52	52	52	52	53	53	53
Landfill capacity (in cubic yards) (1)	68,036,250	67,716,006	67,337,973	67,197,006	66,853,337	66,405,305	66,151,721	65,872,831	65,585,500	65,343,244

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 20

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

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police:										
Physical arrest	8,113	9,362	10,417	10,512	10,834	10,848	9,776	10,073	8,820	9,324
Parking violations	11,722	10,905	3,487	1,732	3,887	3,094	5,702	7,622	5,984	5,649
Traffic violations	18,466	19,287	19,289	20,442	21,129	24,191	19,593	16,296	14,841	14,841
Fire										
Number of calls answered	7,022	6,699	6,461	7,326	7,619	7,200	7,825	8,026	8,158	8,793
Transit										
Passenger trips	158,652	163,503	173,556	155,515	173,917	208,600	177,991	191,221	198,165	206,329
Water and sewer										
New connections	529	438	464	1,391	458	346	345	450	371	299
Average daily production (thousands of gallons)	27,384	26,986	28,876	28,097	29,197	23,567	23,934	26,473	30,532	28,554
Average daily sewage flow (thousands of gallons)	15,400	14,760	15,500	15,290	16,400	18,231	19,473	16,844	17,421	15,200
Sanitation										
Waste disposal (cubic yards/day)	2,401	3,011	3,475	3,848	3,657	3,620	3,710	3,929	3,634	4,685

Table 21

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

Fiscal Year	Annual # Sanitation System Customers	Cubic Yardage of Waste at Landfill	Useful Life of Landfill Remaining (1)	Remaining Storage Capacity at Landfill
2003	277,896	871,647	42 yrs	68,036,250 cubic yards
2004	299,412	1,092,855	41 yrs	67,716,006 cubic yards
2005	300,624	1,263,149	40.5 yrs	67,337,973 cubic yards
2006	304,620	1,404,524	40 yrs	67,197,006 cubic yards
2007	306,864	1,334,806	40 yrs	66,853,337 cubic yards
2008	310,224	1,129,422	40 yrs	66,405,305 cubic yards
2009	312,972	1,124,130	39 yrs	66,151,721 cubic yards
2010	317,124	1,229,905	39 yrs	65,872,831 cubic yards
2011	321,048	1,137,597	38 yrs	65,585,500 cubic yards
2012	323,988	1,466,643	37 yrs	65,343,244 cubic yards

(1) This is the remaining life of the current cell being filled at the landfill. The entire landfill has a remaining life of 269.7 years.

Table 22

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

Fiscal Year	Average Daily Water Use in Gallons	Maximum Daily Water Use in Gallons	Total Water Use for Year in Gallons	Average Daily Sewage Flow in Gallons
2008	23,567,000	37,004,000	8,625,607,000	18,231,000
2009	23,934,000	37,616,000	8,735,804,000	19,473,000
2010	26,473,000	41,999,000	8,340,570,000	16,844,000
2011	30,532,000	43,500,000	8,503,902,000	17,421,000
2012	28,554,000	41,594,000	10,450,796,000	15,200,000

Water Customers					
Fiscal Year	Residential	Commercial	Wholesale	Other	Total
2008	28,386	4,142	13	10	32,551
2009	28,431	4,261	13	10	32,715
2010	28,877	4,108	13	10	33,008
2011	28,955	4,174	13	10	33,152
2012	29,104	4,196	13	132	33,445

Sewer Customers				
Fiscal Year	Residential	Commercial	Government	Total
2008	26,076	3,662	10	29,748
2009	26,171	3,688	10	29,869
2010	26,699	3,618	10	30,327
2011	26,695	3,685	10	30,390
2012	26,833	3,691	83	30,607

Table 22 (Continued)

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

For 2011:

Entity	Water	Sewer	Total	% of Gross Revenues
City of Van Buren	\$ 4,049,362	\$ -	\$ 4,049,362	10.10%
OK Foods	2,108,032	71,825	2,179,857	5.44%
Gerber Products	1,211,974	-	1,211,974	3.02%
St. Edward Mercy Medical Center	422,286	323,773	746,059	1.86%
Gerdau Macsteel	438,485	231,732	670,217	1.67%
Sparks Medical Center	237,393	299,127	536,520	1.34%
Mars Petcare US	95,541	126,753	222,294	0.55%
Sebastian County Park/Jail	126,077	79,824	205,901	0.51%
The Links Fort Smith	84,682	106,160	190,842	0.48%
Whirlpool	90,594	88,914	179,508	0.45%
Henderson Properties	-	69,274	69,274	0.17%
James River Dixie	-	68,352	68,352	0.17%
Top Ten Users	\$ 8,864,426	\$ 1,465,734	\$ 10,330,160	25.78%

For 2012:

Entity	Water	Sewer	Total	% of Gross Revenues
City of Van Buren	\$ 3,935,017	\$ -	\$ 3,935,017	9.80%
OK Foods	2,185,710	-	2,185,710	5.44%
Gerber Products	1,227,164	-	1,227,164	3.06%
Gerdau Macsteel	471,856	212,528	684,384	1.70%
St. Edward Mercy Medical Center	444,270	125,494	569,764	1.42%
Sparks Medical Center	245,312	293,568	538,880	1.34%
Mars Petcare US	118,613	113,440	232,053	0.58%
Kraft Foods	85,749	102,684	188,433	0.47%
Hiram Walker	90,325	61,920	152,245	0.38%
Sebastian County Park/Jail	141,599	-	141,599	0.35%
The Links Fort Smith	-	105,478	105,478	0.26%
Fort Smith Pavilion	-	86,929	86,929	0.22%
Henderson Properties	-	66,491	66,491	0.17%
James River Dixie	-	60,909	60,909	0.15%
Top Ten Users	\$ 8,945,615	\$ 1,229,441	\$ 10,175,056	25.34%

Independent Auditor's 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, 2012:

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

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

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

In our opinion, the City of Fort Smith, Arkansas complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2012.

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

BKD, LLP

Fort Smith, Arkansas
June 17, 2013

(This Page Intentionally Left Blank)