

City of Fort Smith, Arkansas

Comprehensive Annual Financial Report

Year Ended December 31, 2009

Prepared By the

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

City Board of Directors

C. Ray Baker, Mayor

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

City Administrator
Dennis Kelly

Director of Finance
Kara Bushkuhl

City of Fort Smith, Arkansas
Year Ended December 31, 2009

Contents

Introductory Section

Letter of Transmittal.....	i
GFOA Certificate of Achievement for Excellence in Financial Reporting.....	vii
Organizational Structure.....	viii
List of Elected and Appointed Officials.....	ix

Financial Section

Independent Accountants' Report on Financial Statements and Supplementary Information.....	1
---	----------

Management's Discussion and Analysis.....	3
--	----------

Basic Financial Statements

Government-Wide Financial Statements:

Statement of Net Assets.....	14
Statement of Activities.....	16

Fund Financial Statements:

Governmental Funds:

Balance Sheet.....	18
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	19
Statement of Revenues, Expenditures and Changes in Fund Balances.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	22

Proprietary Funds:

Statement of Fund Net Assets.....	24
Statement of Revenues, Expenses and Changes in Fund Net Assets.....	26
Statement of Cash Flows.....	28

Fiduciary Funds:

Statement of Fiduciary Net Assets.....	30
Statement of Changes in Fiduciary Net Assets.....	31

Notes to Financial Statements.....	32
------------------------------------	----

City of Fort Smith, Arkansas

Year Ended December 31, 2009

Contents (Continued)

Required Supplementary Information (Unaudited)

Analysis of Funding Progress – Pension and OPEB Plans	89
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	90
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Street Maintenance Fund	91
Notes to Required Supplementary Information.....	92

Supplementary Information

Nonmajor Governmental Funds:

Combining Balance Sheet	94
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	95

Internal Service Funds:

Combining Statement of Net Assets.....	97
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	98
Combining Statement of Cash Flows	99

Discretely Presented Component Units:

Governmental:

Combining Statement of Net Assets	101
Combining Statement of Activities	102
Balance Sheet – Advertising and Promotion.....	103
Statement of Revenues, Expenditures and Changes in Fund Balance – Advertising and Promotion	104

Business Type:

Combining Statement of Net Assets	105
Combining Statement of Activities	106
Combining Statement of Cash Flows.....	108

City of Fort Smith, Arkansas

Year Ended December 31, 2009

Contents (Continued)

Statistical Section (Unaudited)

Net Assets by Component – Table 1	113
Changes in Net Assets – Table 2.....	114
General Governmental Taxes by Source – Table 3.....	116
Fund Balances of Governmental Funds – Table 4	117
Changes in Fund Balances of Governmental Funds – Table 5.....	118
Property Tax Levies and Collections – Table 6	119
Assessed and Estimated Actual Value of Taxable Property – Table 7	120
Property Tax Rates and Tax Levies – All Direct and Overlapping Governments – Table 8	121
Principal Taxpayers – Table 9.....	122
Computation of Direct and Estimated Overlapping Debt – Table 10	123
Computation of Legal Debt Margin – Table 11	124
Ratios of Outstanding Debt by Type – Table 12.....	125
Revenue Bonds Debt Service Coverage – Table 13.....	126
Demographic Statistics – Table 14.....	127
Principal Employers – Table 15	128
Full-time Equivalent City Government Employees by Function – Table 16.....	129
Capital Asset Statistics by Function – Table 17.....	130
Operating Indicators by Function – Table 18.....	131
Local Sales and Use Tax Collections – Table 19.....	132
Solid Waste System Statistics – Table 20	133
Water and Sewer Statistics – Table 21	134
General Fund Revenues, Expenditures and Fund Balance – Table 22.....	136

Other Required Reports

Independent Accountants' Report on Compliance With Certain State Acts.....	137
--	-----

City of Fort Smith, Arkansas
Year Ended December 31, 2009

Contents (Continued)

Single Audit Section

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	139
Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs	141
Schedule of Expenditures of Federal Awards	143
Schedule of Expenditures of State Awards	145
Notes to Schedule of Expenditures of Federal and State Awards	146
Schedule of Findings and Questioned Costs	148
Summary Schedule of Prior Audit Findings	155

**INTRODUCTORY
SECTION**



DEPARTMENT OF FINANCE

Kara Bushkuhl, CPFO

Director of Finance

June 28, 2010

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, 2009.

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, 2009 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. **BKD, LLP** concluded, based upon the audit, that there was a reasonable basis for rendering unqualified ("clean") opinions on the financial statements of the governmental activities, business-type activities, fiduciary fund, aggregate discretely presented component units, each major fund and aggregate remaining fund information that collectively comprise the City's

basic financial statements as of and for the fiscal year ended December 31, 2009. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

Profile of the City

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

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

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

The Board of Directors adopts an annual budget that serves as the City's financial planning document. Control over spending and allocation of resources are a main focus of the budget.

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

Factors Affecting Financial Condition

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

Local Economy. The City realized a slowdown in its economy during 2009. Sales tax revenues and franchise fees were significantly below the prior year. However, there have been some positive economic activities in our area.

Wal-Mart opened its third Supercenter in the City in January 2008. This store is the sixth Supercenter in the immediate area. An additional 300,000 square feet of retail space will be built adjacent to the new Wal-Mart Supercenter. Target opened its first store in the City in October 2008 as a part of a 300,000 square foot shopping center. Two manufacturers announced plans to build 400,000 square feet of manufacturing and warehousing space at Chaffee Crossing. PRADCO Outdoor Brands, a manufacturer of fishing lures, will relocate to Chaffee Crossing from another location in the City during 2010. PRADCO is expected to increase its employment in the City by 75 jobs as a result of the move. UmarexUSA, a manufacturer of and distributor of air weapons and small caliber rifles will build a distribution/manufacturing facility at Chaffee Crossing. The move will result in approximately 60 new jobs. QualServ, a manufacturer of retail counter areas and displays, has moved its corporate headquarters to the City and expanded its manufacturing operations. These changes have added approximately 65 jobs to QualServ's operations in the City. Mars Petcare has an \$80 million manufacturing facility recently completed at Chaffee Crossing. This manufacturer employs 50 persons with potential growth to 200 jobs. Two new hotels on the City's east side near Interstate 540 and the Fort Smith Airport recently opened. The 188th Fighter Wing of the Arkansas Air National Guard recently received a new flying mission through the Base Realignment and Closure Commission. The unit has replaced 14 obsolete F-16 fighter aircraft with 18 A-10 attack aircraft. This change preserves 1,000 full time and part-time jobs and adds 150 new positions. Sparks Regional Medical Center has completed a major expansion to its health care campus near downtown Fort Smith. Two large-scale residential subdivisions in and near the City are under development with lots being absorbed faster than expected. The recent acquisition by the City of the South Sebastian Water Users System is spurring further development in the City's southern edges.

During 2009, Whirlpool Corp. laid off 700 salaried and hourly employees. Such layoffs were the result of slowing demand for refrigerators due to economic conditions. Some of the laid off employees have been recalled since the beginning of 2010. Whirlpool plans even more recalls later in 2010 as demand increases for refrigerators.

Mitsubishi Power Systems Americas Inc. (Mitsubishi) has announced plans to build a wind turbine plant in the City. The plant will be approximately 200,000 square feet on approximately 90 acres at Chaffee Crossing and is expected to begin construction in early 2011. The turbine/nacelle component of windmills will be manufactured and then shipped to wind corridors in the western United States. Mitsubishi has estimated the investment in the plant and equipment will be \$100 million. The plant is expected to create 350 to 400 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. The current 2006 and 2008 Sales and Use Tax Bonds fund a new radio communication system for public safety and public service purposes as well as major wastewater improvements in accordance with an EPA administrative order. During 2009, the City issued additional sales and use tax bonds to fund more wastewater improvements. This has proven to be a very effective way to fund projects and the City saves on interest charges because Arkansas sales tax bond issues have mandatory redemption requirements. The 2006, 2008, and 2009 Bonds are expected to be redeemed prior to maturity. The City also issued additional sales and use tax bonds in early 2010 for more wastewater improvements. The 2009 Bonds will be redeemed following the redemption of the 2006, 2008, and 2010 bonds.

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

Other Information

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2008. The Certificate of Achievement is the highest form of recognition for excellence in local government financial reporting. This was the twenty-fourth 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.

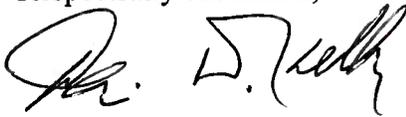
In addition, the City also received the GFOA Award for Distinguished Budget Presentation for its annual budget dated January 1, 2010. This was the twenty-second consecutive year that the City has received this award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial reporting, planning, and organization.

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

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

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

Respectfully submitted,



Dennis Kelly
City Administrator



Kara Bushkuhl
Director of Finance

(This Page Intentionally Left Blank)

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, 2008

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



President

Executive Director

City of Fort Smith, Arkansas
List of Elected and Appointed Officials
December 31, 2009

Elected Officials

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

Appointed Officials

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

(This Page Intentionally Left Blank)

FINANCIAL SECTION

Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fort Smith, Arkansas as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fort Smith Public Library, a discretely presented component unit of the City, which statements reflect total assets and revenues of \$2,212,133 and \$3,200,707 respectively, and represents 92% and 82% of the aggregate discretely presented component units' (governmental activities) total assets and revenues at December 31, 2009 and for the year then ended, respectively. Those statements were audited by other accountants whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for the Fort Smith Public Library, is based solely on the report of the other accountants.

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

In our opinion, based on our audit and the report of other accountants, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fort Smith, Arkansas as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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



June 28, 2010

City of Fort Smith, Arkansas

Management's Discussion and Analysis

December 31, 2009

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, 2009. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our letter of transmittal, which can be found on pages i-v of this report.

Financial Highlights

- Primary Government total assets exceeded total liabilities at the close of 2009 by \$672,309,391 (net assets). Of this amount, \$35,022,427 is considered unrestricted net assets and may be used to meet the City's ongoing obligations to its citizens and creditors in accordance with the City's fund designations and financial policies. The City's governmental activities have unrestricted net assets of \$38,763,651. The City's business-type activities have deficit unrestricted net assets of \$3,057,943.
- The City's total net assets increased by \$31,745,231 in 2009. Net assets of the governmental activities decreased by \$10,030,763 in 2009 compared to a net increase of \$14.7 million in 2008 ending net assets. Net assets of the business-type activities increased by \$41,775,994 in 2009 and that was a 65% increase over the 2008 change in assets.
- As of the close of 2009, the City's governmental funds reported combined ending fund balances of \$90,057,469; a decrease of \$21,529,951 from the prior year. The unreserved portion of the fund balances is \$27,222,034. That represents 30.2% of the total and is available for spending at the Board's discretion.
- At the end of 2009, the unreserved fund balance for the General Fund was \$5,722,601 or 13.7% of total General Fund expenditures. There was a decrease of \$2,210,720 in total General Fund balance between years.
- The City's total bonded indebtedness increased by \$5.21 million during the current year. The increase includes the issuance of \$29.15 million Sales and Use Tax Bonds, Series 2009. The issuance was offset by the call and maturity of outstanding Sales and Use Tax Bonds, Series 2006 and Series 2008, which totaled \$17.33 million, and the maturity of revenue bonds during the year of \$6.61 million.
- The City's governmental component units reported net assets of \$2,313,444 at December 31, 2009, a decrease of \$319,540 from 2008.
- The City's business-type component units reported net assets of \$37,363,713 at December 31, 2009, a \$1,267,695 increase over 2008.

Overview of the Financial Statements

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

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The fiduciary fund financial statements can be found on pages 30-31 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 32-88 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's General Fund budget, the City's Street Maintenance Fund budget and an analysis of funding progress for the City's fire and police pension plans. The City adopts an annual appropriation budget for its General Fund and its Street Maintenance Fund. Budgetary comparison schedules have been provided for the General Fund and the Street Maintenance Fund to demonstrate compliance with the annual budgets. *Required supplementary information* can be found on pages 89-92 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 93-109 of this report.

Government-Wide Financial Analysis

City of Fort Smith Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 116,813,036	\$ 138,912,401	\$ 91,005,495	\$ 103,439,233	\$ 207,818,531	\$ 242,351,634
Capital assets	342,781,141	321,283,418	431,345,484	381,908,751	774,126,625	703,192,169
Total assets	459,594,177	460,195,819	522,350,979	485,347,984	981,945,156	945,543,803
Long-term liabilities	77,143,058	65,423,738	192,918,584	198,528,206	270,061,642	263,951,944
Other liabilities	24,735,609	27,025,807	14,838,514	14,001,891	39,574,123	41,027,698
Total liabilities	101,878,667	92,449,545	207,757,098	212,530,097	309,635,765	304,979,642
Net Assets:						
Invested in capital assets, net of related debt	294,746,494	293,634,375	293,549,646	249,818,159	588,296,140	543,452,534
Restricted	24,205,366	46,981,658	24,102,177	27,385,513	48,307,543	74,367,171
Unrestricted (deficit)	38,763,651	27,130,241	(3,057,942)	(4,385,785)	35,705,709	22,744,456
Total Net assets	\$ 357,715,511	\$ 367,746,274	\$ 314,593,881	\$ 272,817,887	\$ 672,309,392	\$ 640,564,161

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$672,309,392 at the close of 2009.

The largest portion of the City's net assets (87.6%) reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, machinery and equipment, and infrastructure), plus unspent bond proceeds, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (7.2 %) represents resources that are subject to restrictions as to how they may be used. Of the total restricted net assets (\$48.3 million), \$25.8 million is restricted for bond retirement, \$18.4 million is restricted for construction projects, and \$4.1 million is restricted for landfill closure and postclosure care costs. The remaining balance of net assets is unrestricted.

At the end of the current fiscal year, the City is able to report positive balances in unrestricted net assets for the government as a whole and for its separate governmental activities as was the case in the prior year. The business-type activities reported negative balances in unrestricted net assets at the end of 2009 as well as the prior year.

There was a decrease of \$3,283,336 in restricted net assets reported in connection with the City's business-type activities. This was a result of redeeming the remaining 1999 and 2004 water and sewer revenue bonds and the 1998 solid waste bonds during 2009.

The City's net assets increased by \$31,745,231 during 2009. Total revenues decreased by 6.7% between years. Revenues generated by fees and charges decreased by 5.4% due primarily to lower water

consumption in 2009, a decrease in commercial sanitation customers, and a decline in construction activity between years. Sales tax revenue on a government-wide basis decreased by 9.1%.

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

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues						
Fees, fines, and charges for services	\$ 4,895,700	\$ 5,659,906	\$ 48,212,924	\$ 50,487,203	\$ 53,108,624	\$ 56,147,109
Operating grants and contributions	12,754,491	7,928,553	-	-	12,754,491	7,928,553
Capital grants and contributions	1,763,263	8,260,531	3,683,324	2,731,780	5,446,587	10,992,311
	<u>19,413,454</u>	<u>21,848,990</u>	<u>51,896,248</u>	<u>53,218,983</u>	<u>71,309,702</u>	<u>75,067,973</u>
General revenues						
Property taxes	12,267,731	9,360,659	-	-	12,267,731	9,360,659
Sales taxes	52,601,763	57,837,124	-	-	52,601,763	57,837,124
Utility franchise fees	5,990,452	7,366,814	-	-	5,990,452	7,366,814
Grants and contributions not restricted to specific programs	226,195	1,386,747	-	-	226,195	1,386,747
Unrestricted investment earnings	538,627	3,065,530	343,471	2,362,717	882,098	5,428,247
Insurance proceeds from hail storm	1,778,572	-				
Other	1,318,649	309,447	1,116,923	1,247,516	2,435,572	1,556,963
	<u>94,135,443</u>	<u>101,175,311</u>	<u>53,356,642</u>	<u>56,829,216</u>	<u>147,492,085</u>	<u>158,004,527</u>
Expenses						
General government	8,783,548	10,384,215	-	-	8,783,548	10,384,215
Public safety	31,836,140	28,634,055	-	-	31,836,140	28,634,055
Public works	12,169,873	12,091,319	-	-	12,169,873	12,091,319
Community services	13,438,158	9,637,947	-	-	13,438,158	9,637,947
Interest on long-term debt	3,917,534	4,109,187	-	-	3,917,534	4,109,187
Water and sewer	-	-	34,198,511	41,745,466	34,198,511	41,745,466
Sanitation	-	-	11,403,090	11,465,629	11,403,090	11,465,629
	<u>70,145,253</u>	<u>64,856,723</u>	<u>45,601,601</u>	<u>53,211,095</u>	<u>115,746,854</u>	<u>118,067,818</u>
Increase in net assets before transfers and capital contributions	23,990,190	36,318,588	7,755,041	3,618,121	31,745,231	39,936,709
Transfers	(34,020,953)	(21,629,789)	34,020,953	21,629,789	-	-
Increase (decrease) in net assets	(10,030,763)	14,688,799	41,775,994	25,247,910	31,745,231	39,936,709
Net assets - January 1	<u>367,746,274</u>	<u>353,057,475</u>	<u>272,817,887</u>	<u>247,569,977</u>	<u>640,564,161</u>	<u>600,627,452</u>
Net assets - December 31	<u>\$ 357,715,511</u>	<u>\$ 367,746,274</u>	<u>\$ 314,593,881</u>	<u>\$ 272,817,887</u>	<u>\$ 672,309,392</u>	<u>\$ 640,564,161</u>

Governmental Activities. Governmental activities decreased the City's net assets by \$10,030,763. Key elements of the net decrease are as follows:

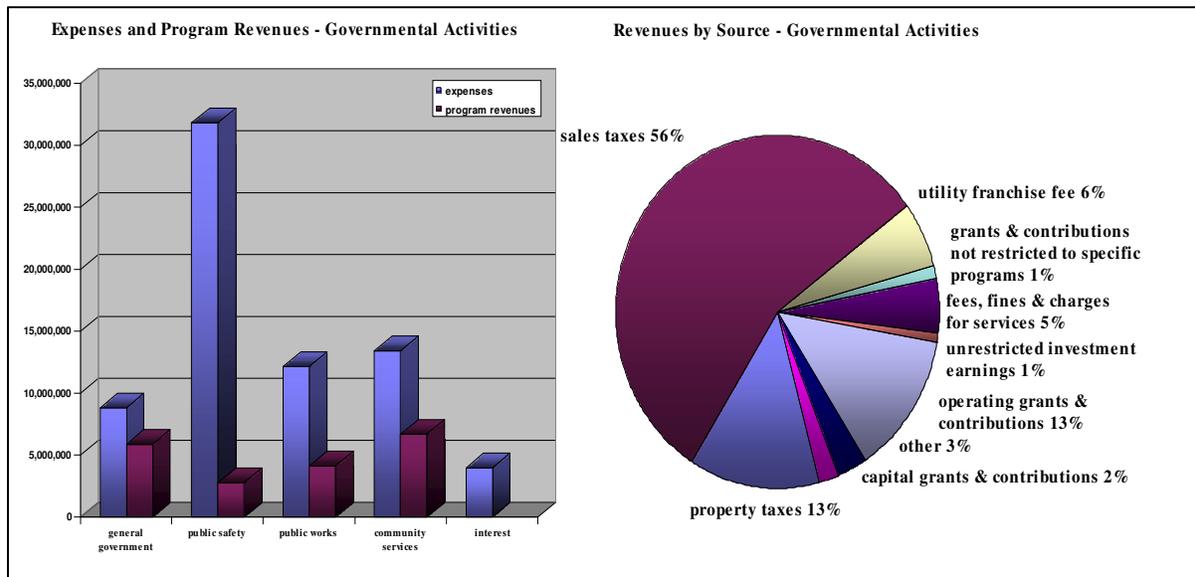
- A \$34,018,753 transfer to the Water and Sewer Fund for wastewater improvements provided by the Sales & Use Tax Construction Fund was the primary cause of the decrease.

- Net capital asset acquisition exceeded depreciation by \$21,529,576.
- Deferred revenue at the fund level recognized at the government-wide level increased net assets by \$11,179,442.
- Issuance of \$29.15 million in Sales & Use Tax Bonds, Series 2009.

Sales tax revenue allocated for governmental purposes reflects a 9.1% decrease between years. The City's share of the county sales tax, accounted for in the General Fund, decreased 9.4% in 2009 from 2008. The City's sales tax that is allocated for street projects and accounted for in the Sales Tax Fund decreased 8.9% between 2008 and 2009, as did the city sales tax allocated for redemption of the Sales and Use Tax Bonds, Series 2006, 2008, and 2009.

Utility franchise fees decreased by \$1,376,362 or 18.7% during 2009 primarily due to decreased electric and natural gas rates and usage during the year.

The reported 2009 expenses were \$5,288,530 more than in 2008. The increase is a result of reinstating performance and merit pay raises during 2009, increased contribution rates and benefits for police and fire retirement plans, and increased capital acquisitions during the year.



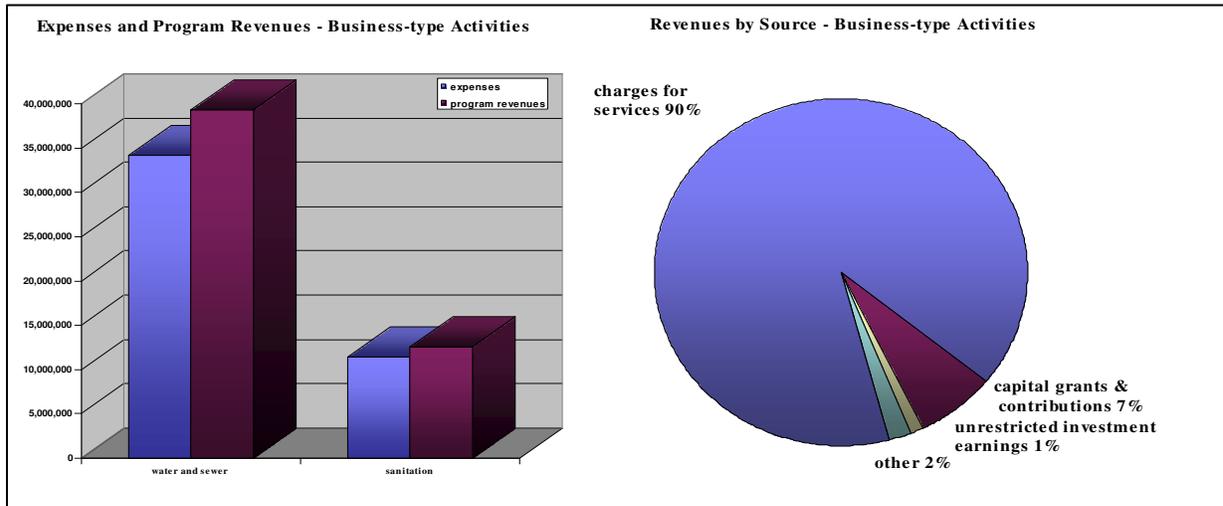
Business-Type Activities. Business-type activities increased the City's net assets by \$41,775,994. Key elements of the increase are as follows:

- The water and sewer system contributed \$39,747,563 to the increase in net assets. The most significant increase in net assets was the \$34,018,753 transfer in from the Sales & Use Tax Construction Fund, a capital projects fund in the governmental activities, for wastewater improvements during the year. The operating income for the system totaled \$5,827,831 in 2009.
- The solid waste system added \$1,733,532 to total net assets. The operating income for the system in 2009 totaled \$1,649,769.

Water and sewer system service charges contribute 66.8% of the revenue to business-type activities.

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

Current year expenses for the business-type activities were 85.5% of current revenues.



Financial Analysis of the Government's Funds

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

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

As of December 31, 2009, the City's governmental funds reported combined ending fund balances of \$90,057,469, a decrease of \$21,529,951 in comparison with the prior year. Of the ending fund balance amount, \$13,740,786 represents *unreserved fund balance*, which is available for spending at the government's discretion (undesignated). The remainder of fund balances is reserved to indicate that it is not available for new spending because it has already been committed for capital projects and other purposes.

The General Fund is the chief operating fund of the City. At December 31, 2009, unreserved fund balance of the General Fund was \$5,722,601, while the total fund balance was \$8,495,513. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balances and total fund balances to total fund expenditures, including transfers out. Unreserved fund balances represent 13.6% of total General Fund expenditures, including transfers out, while total fund balances represents 20.2% of that same amount. The fund balances of the City's General Fund decreased by \$2,210,720 during 2009.

Key factors in this decrease are as follows:

- Franchise fee revenue was \$1,376,362 less in 2009 compared to the 2008 revenue. The decrease was due to the decreased rates charged and less usage in electric and natural gas services.
- The City's share of the Sebastian County sales tax decreased \$1,563,937, or 9.4%, due to the decreased construction within the City since there was no hail storm damage as there was in 2008 and a slowdown in the economy.
- Total expenditures were \$3 million more in 2009 compared to 2008 due to the reinstatement of performance and merit pay increases, additional police personnel, and additional capital outlay for 2009.

The Street Maintenance Fund and the Sales Tax Fund, both special revenue funds, are presented as major funds and account for 25.4% of the total governmental fund balances. Revenues include a one-percent (1%) local sales tax dedicated to streets, bridges and associated drainage, as well as gasoline tax turnback from the state and federal transportation grants. The decrease in fund balances for these two funds was \$11,989,326 between years. The decrease was due to a significant increase in street projects during the year.

The Sales & Use Tax Construction Fund is also presented as a major fund and accounts for 35.4% of the total governmental fund balances. This fund accounts for the capital projects approved by voters that include the purchase of a new radio communication system for public safety and utility purposes and the wastewater projects for improvements to the sewer system in response to an EPA administrative order. Even though the fund received \$29.1 million in additional bond proceeds, the fund balance decreased by \$7.4 million from the prior year as there were more wastewater projects in progress during 2009.

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

Net assets at the end of the year amounted to \$289,194,361 and \$23,625,403 for the Water and Sewer Fund and the Sanitation Fund, respectively. The increase in net assets was \$39,747,563 for the Water and Sewer Fund and \$1,733,532 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 \$49,289,465 (total expenditures plus transfers out) compared to the original budget total of \$46,934,603. The increase in appropriations of \$2,354,862 is summarized briefly as follows:

- \$1,845,928 for transit capital improvements provided by the American Recovery and Rehabilitation Act (ARRA); ARRA funds were awarded in the fall of 2009.
- \$225,100 for equipment purchased with federally seized and forfeited funds for the police department; these funds are reserved for uses as outlined by federal guidelines.
- \$60,000 for additional funding for the parking facility repairs.
- \$126,444 for additional fire equipment repair, communications and office rent increases, special election costs, and asbestos removal for the port facilities.
- \$61,700 for a Riverfront opportunity analysis and \$35,690 to support the Fort Smith Golf Classic.

Revenue estimates for the General Fund were increased from an original budget of \$39,000,860 to the final estimate of \$39,086,130. The \$85,270 increase was due to the increase in intergovernmental revenue from the ARRA funds for the transit capital improvements adjusted for a decrease in transit operations reimbursement (\$1,453,246) and an anticipated increase in property tax revenue (\$512,779). These increases were offset by the expected decreases in the City's share of the county sales tax (\$643,052), the franchise fees (\$750,000), interest earnings (\$204,388), court fines (\$123,140), permit fees (\$78,263), and service charge fees (\$60,329).

Total actual revenue including, "other financing sources," for the General Fund was \$1,605,038 less than the final budget estimates. The decreased revenues were due to further decreases in county sales tax revenue of \$386,482 and franchise fees of \$825,448. Additionally, intergovernmental revenue was \$1,882,056 less than the final revenue estimate as the ARRA funds were only drawn at a total of \$225,000 during 2009. These decreases were offset by even more property tax revenue of \$457,399 as a result of significant growth in assessed value of property within the City, an increase in fine revenues of

\$192,414, and insurance proceeds from the April 2008 hailstorm of \$799,151. Total actual expenditures were \$4,483,546 less than the final appropriated budget of the General Fund. Actual expenditures were lower due to: police and fire expenditures being \$2.1 million less than budget; general government costs were \$927,191 less than budgeted; transit operations were \$340,221 less than anticipated; special projects were \$1.1 million less than allocated; and capital asset additions were \$432,740 less as expenditures were curtailed during the last half of 2009.

The budget and actual schedule for the General Fund may be found on page 90 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, 2009 amounts to \$774,126,625, 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 10.1%, a 6.7% increase for governmental activities and a 12.9% increase for business-type activities.

City of Fort Smith Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 25,949,786	\$ 23,845,702	\$ 11,964,252	\$ 11,533,921	\$ 37,914,038	\$ 35,379,623
Buildings	57,214,025	58,479,861	1,220,942	1,205,175	58,434,967	59,685,036
Water System	-	-	243,143,652	242,029,692	243,143,652	242,029,692
Sewer System	-	-	97,660,824	79,787,260	97,660,824	79,787,260
Improvement other than buildings	6,481,442	5,621,552	8,701,022	8,733,074	15,182,464	14,354,626
Leasehold improvements	-	-	7,967	23,804	7,967	23,804
Infrastructure	216,226,688	190,778,997	-	-	216,226,688	190,778,997
Machinery and equipment	8,614,754	8,787,846	8,853,385	8,539,167	17,468,139	17,327,013
Construction in progress	28,294,446	33,769,460	59,793,440	30,056,658	88,087,886	63,826,118
Total	\$ 342,781,141	\$ 321,283,418	\$ 431,345,484	\$ 381,908,751	\$ 774,126,625	\$ 703,192,169

Major capital asset events during 2009 included the following:

- Net additions to construction in progress totaled \$24.3 million. Of this amount, water and wastewater improvements accounted for an increase of \$29.7 million and the street projects had a \$5.5 million net decrease in construction in progress.
- Net additions to infrastructure totaled \$32 million due to the completion of several street projects during 2009.
- Net additions to the sewer system totaled \$20.2 million and to the water system totaled \$6.6 million in 2009.
- Depreciation expense totaled \$19,424,510.

Additional information on the City's capital assets can be found in Note 3 on pages 47-55 of this report.

Long-term debt. At December 31, 2009, the City had \$272,650,000 of long-term bonds outstanding, including \$190,680,000 of bonds secured solely by specified revenue sources, (i.e. revenue bonds).

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

	Governmental Activities		Business-Type Activities	
	2009	2008	2009	2008
Sales and Use Tax Bonds	\$ 81,970,000	\$ 70,150,000	\$ -	\$ -
Revenue Bonds	-	-	190,680,000	197,290,000
Total	<u>\$ 81,970,000</u>	<u>\$ 70,150,000</u>	<u>\$ 190,680,000</u>	<u>\$ 197,290,000</u>

The City's total bonded debt increased by \$5,210,000 or 1.9% during 2009. The key factors in this increase were the issuance of \$29.15 million in Sales & Use Tax Bonds, Series 2009. This was offset by the retirement of \$6.61 million in revenue bonds, and the call and maturity of \$17.33 million in sales and use tax bonds. The City maintains bond ratings as follows: "AA" rating from Standard & Poor's on its water and sewer revenue bonds series 2005; an "A" rating from Standard & Poor's on its water and sewer revenue bonds series 2007 and 2008 and an "AA" rating from Standard & Poor's on its sales and use tax bonds series 2006, 2008 and 2009. The solid waste revenue bonds are unrated.

State statutes limit the amount of general obligation bonds a government entity may issue to 25% of its total assessed valuation. The current debt limitation for the City is \$418,504,938. The City has no general obligation debt at December 31, 2009.

In August 2009, the City issued \$29,150,000 in Sales & Use Tax Bonds, Series 2009. These bonds were issued to provide additional funding for wastewater improvements that were begun with the 2006 series bonds.

Additional information regarding the City's long-term debt can be found in Note 4 on pages 55-70 of this report.

Economic Factors and the Next Year's Budget and Rates

The current economic environment presents local governments with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair market value of investments and other assets, declines in taxes and grant revenue, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the City.

The following factors were considered when the City prepared its 2010 Budget.

- The year end unemployment rate for the City was 8.2%, which is an increase from a rate of 6.1% a year ago. This is an indication of the effect of a slow economy in our area.
- The City expects a 1.4% increase in its tax revenue for the coming year.

One of the major goals of the Board of Directors is to maintain financial stability in the General Fund by adopting a budget with a minimum unreserved fund balance at 15% of operating expenditures. Due to the economic slowdown in its major revenue sources, the City's General Fund budget for 2010 was approved at \$42.5 million and includes an estimated year end fund balance approximating 7.1% as \$2.5 million of the 2009 balance was used to provide the funding gap between 2010 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 Assets
December 31, 2009

Assets

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Cash	\$ 4,492,701	\$ 1,965,399	\$ 6,458,100	\$ 704,664	\$ 1,007,547
Investments	50,919,670	11,678,207	62,597,877	500,364	331,783
Receivables, net of allowance for uncollectibles					
Taxes	12,500,623	-	12,500,623	140,859	-
Sales taxes	2,602,272	-	2,602,272	132,283	-
Accounts	506,802	5,291,449	5,798,251	169,818	199,720
Interest	16,857	213,259	230,116	10,083	807
Grants and other governments	646,651	-	646,651	-	297,717
Internal balances	(676)	676	-	-	-
Inventory	-	770,199	770,199	5,000	15,696
Prepays and deposits	432,819	2,110	434,929	37,620	60,760
Deferred charges	217,943	4,003,255	4,221,198	-	460,958
Restricted assets					
Cash	21,339	357,149	378,488	-	88,418
Investments	42,954,693	66,547,510	109,502,203	-	950,544
Accounts receivable, net of allowances for uncollectibles	-	89,508	89,508	-	51,632
Sales tax receivable	1,446,169	-	1,446,169	-	-
Interest receivable	55,174	1,292	56,466	-	198
Prepaid items and deposits	-	85,481	85,481	-	-
Capital assets					
Nondepreciable	54,244,232	71,757,692	126,001,924	429,295	10,003,796
Depreciable	288,536,909	359,587,792	648,124,701	267,886	28,545,232
Total Assets	\$ 459,594,178	\$ 522,350,979	\$ 981,945,157	\$ 2,397,872	\$ 42,014,808

City of Fort Smith, Arkansas
Statement of Net Assets (Continued)
December 31, 2009

Liabilities and Net Assets

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Liabilities					
Accounts payable and accrued expenses	\$ 9,425,437	\$ 4,435,041	\$ 13,860,478	\$ 84,428	\$ 436,610
Other current liabilities	-	9,803	9,803	-	-
Accrued interest	1,002,887	2,279,217	3,282,104	-	5,097
Current portion of long-term debt	11,435,000	6,930,000	18,365,000	-	225,000
Deposits	-	523,724	523,724	-	-
Unearned revenue	722,852	-	722,852	-	-
Noncurrent liabilities					
Due within one year	2,149,433	660,729	2,810,162	-	100
Due in more than one year	77,143,058	192,918,584	270,061,642	-	3,984,288
	<u>101,878,667</u>	<u>207,757,098</u>	<u>309,635,765</u>	<u>84,428</u>	<u>4,651,095</u>
Net Assets					
Invested in capital assets, net of related debt	294,746,494	293,549,646	588,296,140	697,181	34,339,640
Restricted for					
Construction projects	17,710,366	692,212	18,402,578	-	802,057
Debt service	6,495,000	19,284,461	25,779,461	-	564,193
Landfill closure and postclosure care	-	4,125,504	4,125,504	-	-
Unrestricted (deficit)	<u>38,763,651</u>	<u>(3,057,942)</u>	<u>35,705,709</u>	<u>1,616,263</u>	<u>1,657,823</u>
	<u>\$ 357,715,511</u>	<u>\$ 314,593,881</u>	<u>\$ 672,309,392</u>	<u>\$ 2,313,444</u>	<u>\$ 37,363,713</u>

City of Fort Smith, Arkansas
Statement of Activities
For the Year Ended December 31, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units	
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Governmental Activities	Business-Type Activities
					Governmental Activities	Business-Type Activities			
Primary Government:									
Governmental Activities									
General Government									
Administration	\$ 4,477,956	\$ 917,989	\$ 1,381,630	\$ 50,813	\$ (2,127,524)		\$ (2,127,524)		
Legal	1,818,337	2,038,652	819,373	-	1,039,688		1,039,688		
Finance	2,487,255	688,246	-	-	(1,799,009)		(1,799,009)		
Public safety									
Police	18,718,263	174,401	1,441,005	118,425	(16,984,432)		(16,984,432)		
Fire	13,117,877	71,462	955,799	2,614	(12,088,002)		(12,088,002)		
Public works									
Operations	425,724	-	-	-	(425,724)		(425,724)		
Streets	9,907,275	1,200	3,699,862	387,205	(5,819,008)		(5,819,008)		
Traffic Control	1,836,874	-	-	-	(1,836,874)		(1,836,874)		
Community services									
Health and Social Services	554,557	-	-	-	(554,557)		(554,557)		
Parks and Recreation	5,447,852	207,748	80,102	22,073	(5,137,929)		(5,137,929)		
Convention Center	3,405,255	615,029	1,798,370	-	(991,856)		(991,856)		
Transit	2,203,199	180,973	766,237	1,182,133	(73,856)		(73,856)		
Housing and Rehabilitation	1,827,295	-	1,812,113	-	(15,182)		(15,182)		
Debt service									
Interest	3,917,534	-	-	-	(3,917,534)		(3,917,534)		
Total Governmental Activities	<u>70,145,253</u>	<u>4,895,700</u>	<u>12,754,491</u>	<u>1,763,263</u>	<u>(50,731,799)</u>		<u>(50,731,799)</u>		
Business-Type Activities:									
Water and Sewer	34,198,511	35,652,828	-	3,683,324		5,137,641	5,137,641		
Sanitation	11,403,090	12,560,096	-	-		1,157,006	1,157,006		
Total Business-Type Activities	<u>45,601,601</u>	<u>48,212,924</u>	<u>-</u>	<u>3,683,324</u>		<u>6,294,647</u>	<u>6,294,647</u>		
Total Primary Government	<u>\$ 115,746,854</u>	<u>\$ 53,108,624</u>	<u>\$ 12,754,491</u>	<u>\$ 5,446,587</u>	<u>\$ (50,731,799)</u>	<u>\$ 6,294,647</u>	<u>\$ (44,437,152)</u>		
Component Units:									
Governmental									
Advertising & Promotion	\$ 920,876	\$ -	\$ 3,542	\$ -			\$ (917,334)		
Public Library	3,279,174	106,081	270,521	-			(2,902,572)		
Sub-total	<u>4,200,050</u>	<u>106,081</u>	<u>274,063</u>	<u>-</u>			<u>(3,819,906)</u>		
Business-Type									
Parking Authority	267,737	162,666	-	-				\$ (105,071)	
Airport	4,601,514	2,429,817	-	3,192,969				1,021,272	
Sub-total	<u>4,869,251</u>	<u>2,592,483</u>	<u>-</u>	<u>3,192,969</u>				<u>916,201</u>	
Total Component Units	<u>\$ 9,069,301</u>	<u>\$ 2,698,564</u>	<u>\$ 274,063</u>	<u>\$ 3,192,969</u>			<u>(3,819,906)</u>	<u>916,201</u>	

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Activities (Continued)
For the Year Ended December 31, 2009

	Net (Expense) Revenue and Changes in Net Assets				
	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
General revenues					
Property taxes	12,267,731		12,267,731	1,120,875	
Sales taxes	52,601,763		52,601,763	902,807	
Gross receipts utility franchise fees	5,990,452		5,990,452	673,278	
Grants and contributions not restricted to specific programs	226,195		226,195		
Unrestricted investment earnings	538,627	343,471	882,098	12,071	41,494
Payment from City of Fort Smith					310,000
Insurance proceeds from hail storm	1,778,572		1,778,572		
Other	1,318,649	1,116,923	2,435,572	791,335	-
Transfers	(34,020,953)	34,020,953	-		
Total general revenues and transfers	40,701,036	35,481,347	76,182,383	3,500,366	351,494
Change in net assets	(10,030,763)	41,775,994	31,745,231	(319,540)	1,267,695
Net assets, beginning	367,746,274	272,817,887	640,564,161	2,632,984	36,096,018
Net assets, end of year	<u>\$ 357,715,511</u>	<u>\$ 314,593,881</u>	<u>\$ 672,309,392</u>	<u>\$ 2,313,444</u>	<u>\$ 37,363,713</u>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Balance Sheet – Governmental Funds
December 31, 2009

Assets	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
Cash	\$ 1,455,216	\$ 680,998	\$ 760,538	\$ -	\$ -	\$ 803,546	\$ 3,700,298
Investments	4,845,673	2,437,358	19,669,222	-	3,937,244	15,800,005	46,689,502
Receivables, net of allowance for uncollectibles							
Taxes	7,958,748	1,894,318	-	-	-	2,647,557	12,500,623
Sales taxes	1,156,103	-	1,446,169	-	-	-	2,602,272
Accounts	428,992	7,158	-	-	-	400	436,550
Accrued interest	2,168	1,089	6,866	-	-	5,117	15,240
Due from other funds	30,042	89,169	-	-	-	-	119,211
Due from other governments	564,077	-	-	-	-	82,574	646,651
Restricted assets:							
Cash	-	-	-	21,339	-	-	21,339
Investments	319,883	-	-	36,139,810	6,495,000	-	42,954,693
Sales taxes receivable	-	-	-	-	1,446,169	-	1,446,169
Interest receivable	-	-	-	50,945	4,229	-	55,174
Deferred charges	4,048	-	-	-	-	-	4,048
Prepaid items	22,209	-	-	-	-	-	22,209
Deposits	34,144	-	32,695	330,611	-	-	397,450
Total Assets	\$ 16,821,303	\$ 5,110,090	\$ 21,915,490	\$ 36,542,705	\$ 11,882,642	\$ 19,339,199	\$ 111,611,429
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued liabilities	\$ 1,326,176	\$ 82,066	\$ 1,377,967	\$ 2,092,004	\$ -	1,023,440	\$ 5,901,653
Retainage payable	69,309	-	788,549	2,573,487	-	24,199	3,455,544
Interest payable	3,214	-	-	-	-	-	3,214
Due to other funds	89,169	-	-	-	-	30,718	119,887
Deferred revenue	6,668,877	1,894,318	-	-	-	3,339,099	11,902,294
Other	169,045	-	-	-	-	2,323	171,368
Total Liabilities	8,325,790	1,976,384	2,166,516	4,665,491	-	4,419,779	21,553,960
Fund Balances:							
Reserved for:							
Encumbrances	2,750,703	24,666	-	-	-	-	2,775,369
Prepaid items	22,209	-	-	-	-	-	22,209
Other purposes - construction projects	-	478,497	19,748,974	31,877,214	-	1,438,172	53,542,857
Other purposes - debt service	-	-	-	-	6,495,000	-	6,495,000
Unreserved:							
Designated for subsequent years' expenditures	1,550,390	2,630,543	-	-	5,387,642	-	9,568,575
Undesignated	4,172,211	-	-	-	-	-	4,172,211
Unreserved, reported in nonmajor:							
Special revenue funds	-	-	-	-	-	12,771,282	12,771,282
Capital projects funds	-	-	-	-	-	709,966	709,966
Total Fund Balances	8,495,513	3,133,706	19,748,974	31,877,214	11,882,642	14,919,420	90,057,469
Total Liabilities and Fund Balances	\$ 16,821,303	\$ 5,110,090	\$ 21,915,490	\$ 36,542,705	\$ 11,882,642	\$ 19,339,199	\$ 111,611,429

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
December 31, 2009

Total fund balances - governmental funds \$ 90,057,469

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	\$ 25,949,786	
Buildings	71,867,413	
Improvements other than buildings	12,741,621	
Machinery and equipment	25,856,159	
Infrastructure	274,604,521	
Accumulated depreciation	(96,532,805)	
	314,486,695	
Construction in progress	28,294,446	
	\$ 342,781,141	342,781,141
Total		

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. 11,179,442

Internal service funds are used by management to charge the costs of
certain activities, such as fuel and insurance, to individual funds. A portion
of the assets and liabilities are included in governmental activities in the
statement of net assets. 3,590,220

Some assets related to long-term debt are deferred and, therefore, are not
reported in the funds. 213,895

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	\$ 2,127,069	
Claims payable	82,500	
Notes payable	970,000	
Sales tax bonds payable, net	83,108,248	
Interest payable	999,673	
Capital leases payable	96,209	
OPEB liabilities	2,320,310	
Arbitrage payable	402,647	
	\$ 90,106,656	(90,106,656)

Net assets of governmental activities \$ 357,715,511

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended December 31, 2009

	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
Revenues							
Taxes	\$ 6,479,078	\$ 1,887,958	\$ -	\$ -	\$ -	\$ 2,517,277	\$ 10,884,313
Sales taxes	15,046,777	-	18,777,493	-	18,777,493	-	52,601,763
Licenses and permits	1,377,110	-	-	-	-	182,840	1,559,950
Utility franchise fees	5,990,452	-	-	-	-	-	5,990,452
Intergovernmental	4,432,477	3,789,031	39,226	-	-	4,856,710	13,117,444
Fines and forfeitures	1,969,274	-	-	-	-	129,627	2,098,901
Fees for services	1,172,312	-	-	-	-	-	1,172,312
Interest	65,698	34,746	290,385	373,381	11,736	161,293	937,239
Increase (decrease) in fair value of investments	-	-	-	(371,410)	549	-	(370,861)
Contributions	-	-	347,979	-	-	1,163,349	1,511,328
Miscellaneous	150,275	10,719	9,145	-	-	19,807	189,946
Total Revenues	36,683,453	5,722,454	19,464,228	1,971	18,789,778	9,030,903	89,692,787
Expenditures							
Current:							
General government							
Administration	3,857,928	219,859	-	-	-	-	4,077,787
Legal	1,757,267	47,810	-	-	-	-	1,805,077
Finance	2,016,746	326,834	-	-	-	-	2,343,580
Public safety							
Police	15,016,388	-	-	-	-	3,025,028	18,041,416
Fire	9,931,182	-	-	-	-	2,725,106	12,656,288
Public works							
Operations	-	418,810	-	-	-	-	418,810
Streets	-	2,488,950	390,112	-	-	151,437	3,030,499
Traffic Control	-	1,805,319	-	-	-	-	1,805,319
Community services							
Health and Social Services	108,992	-	-	-	-	-	108,992
Parks and Recreation	2,495,526	259,046	-	-	-	70,578	2,825,150
Convention Center	-	-	-	-	-	2,562,089	2,562,089
Transit	2,031,373	-	-	-	-	-	2,031,373
Housing and Rehabilitation	-	-	-	-	-	1,810,945	1,810,945
Other	1,662,366	45,781	-	-	17,150	104,827	1,830,124
Capital Outlay	2,292,948	377,803	28,388,203	513,513	-	194,246	31,766,713
Debt Service:							
Principal	455,000	-	-	-	17,330,000	-	17,785,000
Interest	45,956	-	-	-	2,871,905	-	2,917,861
Issuance costs	-	-	-	-	259,839	-	259,839
Total Expenditures	41,671,672	5,990,212	28,778,315	513,513	20,478,894	10,644,256	108,076,862
Deficiency of revenues under expenditures	(4,988,219)	(267,758)	(9,314,087)	(511,542)	(1,689,116)	(1,613,353)	(18,384,075)

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Continued)
For the Year Ended December 31, 2009

	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)							
Transfers in	2,407,848	-		27,144,493	-	137,131	29,689,472
Transfers out	(429,500)	(106,350)	(2,301,131)	(34,018,753)	(27,144,493)	-	(64,000,227)
Insurance proceeds from hail storm	799,151	-	-	-	-	979,421	1,778,572
Premium on bond issuance	-	-	-	-	236,307	-	236,307
Bond issuance	-	-	-	-	29,150,000	-	29,150,000
	<u>2,777,499</u>	<u>(106,350)</u>	<u>(2,301,131)</u>	<u>(6,874,260)</u>	<u>2,241,814</u>	<u>1,116,552</u>	<u>(3,145,876)</u>
Total Other Financing Sources and Uses							
Net Change in Fund Balances	(2,210,720)	(374,108)	(11,615,218)	(7,385,802)	552,698	(496,801)	(21,529,951)
Fund Balances, January 1	<u>10,706,233</u>	<u>3,507,814</u>	<u>31,364,192</u>	<u>39,263,016</u>	<u>11,329,944</u>	<u>15,416,221</u>	<u>111,587,420</u>
Fund Balances, December 31	<u>\$ 8,495,513</u>	<u>\$ 3,133,706</u>	<u>\$ 19,748,974</u>	<u>\$ 31,877,214</u>	<u>\$ 11,882,642</u>	<u>\$ 14,919,420</u>	<u>\$ 90,057,469</u>

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, 2009

Net change in fund balances - total governmental funds \$ (21,529,951)

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

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 31,766,713

The net effect of various transactions, i.e. sales, contributions, capital leases, is to increase net assets. 2,150,655

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. (10,237,137)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources of governmental funds. This transaction does not have any effect on net assets. Also, governmental funds report the effect of issuance costs and other similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long term debt and related items. (11,320,247)

Some property taxes will not be collected for several months after the City's fiscal year end and they are not considered "available" revenues in the governmental funds. 1,383,418

Some expenses, i.e. the increase in compensated absences liability and OPEB liabilities, reported in the statement of activities and changes in net assets do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental funds. (780,969)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and fuel, to individual funds. The net gain of the internal service funds is reported with governmental activities [net of the amount allocated to business-type activities of \$(207,098) and the external activities adjustment of \$218,956]. (1,463,245)

Change in net assets of governmental activities \$ (10,030,763)

(This Page Intentionally Left Blank)

City of Fort Smith, Arkansas
Statement of Fund Net Assets –
Proprietary Funds
December 31, 2009

Assets

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Current Assets				
Cash	\$ 675,461	\$ 989,630	\$ 1,665,091	\$ 1,092,711
Investments	2,751,996	7,094,713	9,846,709	6,061,666
Receivables, net of allowance for uncollectibles				
Accounts	4,217,788	1,042,586	5,260,374	101,327
Accrued interest	208,605	3,939	212,544	2,332
Restricted				
Cash	-	357,149	357,149	-
Investments	61,684,745	737,261	62,422,006	-
Accounts receivable, net of allowances for uncollectibles	-	89,508	89,508	-
Interest receivable	75	1,217	1,292	-
Inventory	743,940	-	743,940	26,259
Prepaid items	-	1,270	1,270	14,000
Due from other funds	-	-	-	676
	<u>70,282,610</u>	<u>10,317,273</u>	<u>80,599,883</u>	<u>7,298,971</u>
Total Current Assets				
Noncurrent Assets				
Restricted				
Investments	-	4,125,504	4,125,504	-
Prepaid items and deposits	85,481	-	85,481	-
Deferred charges	3,990,524	12,731	4,003,255	-
Capital assets				
Land	11,590,480	373,772	11,964,252	-
Buildings	-	1,919,359	1,919,359	-
Improvements other than buildings	-	18,659,052	18,659,052	-
Leasehold improvements	-	709,952	709,952	-
Machinery and equipment	8,748,030	16,837,011	25,585,041	-
Water system	312,690,097	-	312,690,097	-
Sewer system	152,328,566	-	152,328,566	-
Construction in progress	59,634,514	158,926	59,793,440	-
Less accumulated depreciation	(130,675,463)	(21,628,812)	(152,304,275)	-
	<u>418,392,229</u>	<u>21,167,495</u>	<u>439,559,724</u>	<u>-</u>
Total Noncurrent Assets				
Total Assets	<u>\$ 488,674,839</u>	<u>\$ 31,484,768</u>	<u>\$ 520,159,607</u>	<u>\$ 7,298,971</u>

City of Fort Smith, Arkansas
Statement of Fund Net Assets –
Proprietary Funds (Continued)
December 31, 2009

Liabilities and Net Assets

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Current liabilities				
Accounts payable and accrued liabilities	\$ 2,828,252	\$ 563,926	\$ 3,392,178	\$ 101,548
Retainage payable	1,009,555	-	1,009,555	-
Accrued vacation and sick leave	9,747	7,483	17,230	-
Accrued interest	2,272,282	6,935	2,279,217	-
Claims and judgments	-	-	-	1,833,087
Revenue bonds payable	5,910,000	1,020,000	6,930,000	-
Capital leases payable	76,360	183,192	259,552	-
Deposits	523,724	-	523,724	-
Other	9,803	-	9,803	-
Total Current Liabilities	12,639,723	1,781,536	14,421,259	1,934,635
Noncurrent liabilities				
Accrued vacation and sick leave	964,957	241,957	1,206,914	-
Landfill closure and postclosure care	-	4,125,504	4,125,504	-
Revenue bonds, net	184,968,943	984,602	185,953,545	-
Capital leases payable	126,513	373,576	500,089	-
OPEB liabilities	780,342	352,190	1,132,532	-
Total Noncurrent Liabilities	186,840,755	6,077,829	192,918,584	-
Total Liabilities	199,480,478	7,859,365	207,339,843	1,934,635
Net Assets				
Invested in capital assets, net of related debt	279,081,756	14,467,890	293,549,646	-
Restricted for bond retirement	18,732,851	551,610	19,284,461	-
Restricted for landfill closure and postclosure care	-	4,125,504	4,125,504	-
Restricted for asset replacement	500,000	125,471	625,471	-
Restricted for capital projects	-	66,741	66,741	-
Unrestricted (deficit)	(9,120,246)	4,288,187	(4,832,059)	5,364,336
Total Net Assets	\$ 289,194,361	\$ 23,625,403	\$ 312,819,764	\$ 5,364,336

Reconciliation to government - wide statement of net assets:

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

1,774,117

Net assets of business type activities

\$ 314,593,881

City of Fort Smith, Arkansas
Statement of Revenues, Expenses and Changes in
Fund Net Assets – Proprietary Funds
For the Year Ended December 31, 2009

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Operating Revenues				
Water service	\$ 23,421,729	\$ -	\$ 23,421,729	\$ -
Sewer service	11,577,444	-	11,577,444	-
Charges for services	620,553	12,560,096	13,180,649	9,368,108
Other	33,102	-	33,102	-
Total Operating Revenues	35,652,828	12,560,096	48,212,924	9,368,108
Operating Expenses				
Personnel services	11,882,090	5,753,167	17,635,257	-
Contractual services	3,264,173	1,273,714	4,537,887	702,493
Materials and supplies	5,008,488	2,959,588	7,968,076	589,805
Heat, light, and power	1,334,344	72,387	1,406,731	-
Depreciation	8,335,902	851,471	9,187,373	-
Insurance claims and expenses	-	-	-	7,544,934
Total Operating Expenses	29,824,997	10,910,327	40,735,324	8,837,232
Operating Income (Loss)	5,827,831	1,649,769	7,477,600	530,876
Nonoperating Revenues (Expenses)				
Interest revenue	823,283	115,796	939,079	70,378
Decrease in fair value of investments	(595,219)	(389)	(595,608)	-
Interest expense and fiscal charges	(4,173,517)	(110,540)	(4,284,057)	-
Other nonoperating revenues, net	355,358	163,446	518,804	-
Total Nonoperating Revenues (Expenses)	(3,590,095)	168,313	(3,421,782)	70,378
Income Before Contributions and Transfers	2,237,736	1,818,082	4,055,818	601,254
Capital contributions	37,702,077	-	37,702,077	-
Transfers in	-	90,000	90,000	279,000
Transfers out	(192,250)	(174,550)	(366,800)	-
Change in Net Assets	39,747,563	1,733,532	41,481,095	880,254
Total net assets, beginning of year	249,446,798	21,891,871		4,484,082
Total net assets, ending	\$ 289,194,361	\$ 23,625,403		\$ 5,364,336

Reconciliation to government - wide statement of activities:

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

294,899

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

\$ 41,775,994

(This Page Intentionally Left Blank)

City of Fort Smith, Arkansas
Statement of Cash Flows – Proprietary Funds
For the Year Ended December 31, 2009

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Operating Activities				
Cash received from customers	\$ 35,308,426	\$ 12,608,918	\$ 47,917,344	\$ -
Cash received from service users	-	-	-	995,246
Cash received from city and employee contributions	-	-	-	8,347,563
Cash payments for goods and services	(10,201,318)	(4,001,202)	(14,202,520)	(593,278)
Cash paid to employees	(11,939,620)	(5,735,407)	(17,675,027)	-
Cash payments for premiums and other operating expenses	-	-	-	(7,517,330)
Cash payments for claims paid	-	-	-	(909,956)
Cash received from other operating revenues	1,589,618	145,914	1,735,532	-
Net cash provided by operating activities	<u>14,757,106</u>	<u>3,018,223</u>	<u>17,775,329</u>	<u>322,245</u>
Noncapital Financing Activities				
Transfers in from other funds	-	90,000	90,000	369,000
Transfers out to other funds	(192,250)	(174,550)	(366,800)	(90,000)
Net cash provided by (used for) noncapital financing activities	<u>(192,250)</u>	<u>(84,550)</u>	<u>(276,800)</u>	<u>279,000</u>
Capital and Related Financing Activities				
Proceeds from sale of capital assets	19,468	47,757	67,225	-
Acquisition and construction of capital assets	(17,620,780)	(518,068)	(18,138,848)	-
Principal paid on bonds	(5,665,000)	(945,000)	(6,610,000)	-
Interest paid on bonds	(4,048,106)	(103,839)	(4,151,945)	-
Net cash used for capital and related financing activities	<u>(27,314,418)</u>	<u>(1,519,150)</u>	<u>(28,833,568)</u>	<u>-</u>
Investing Activities				
Proceeds from sales and maturities of investment securities	161,878,632	6,203,913	168,082,545	1,944,106
Outlays for purchases of investment securities	(149,943,988)	(7,109,899)	(157,053,887)	(1,843,100)
Interest on investments	499,549	127,980	627,529	76,925
Net cash provided by (used for) investing activities	<u>12,434,193</u>	<u>(778,006)</u>	<u>11,656,187</u>	<u>177,931</u>
Net increase (decrease) in cash and restricted cash	(315,369)	636,517	321,148	779,176
Cash and restricted cash, January 1	<u>990,830</u>	<u>710,262</u>	<u>1,701,092</u>	<u>313,535</u>
Cash and restricted cash, December 31	<u>\$ 675,461</u>	<u>\$ 1,346,779</u>	<u>\$ 2,022,240</u>	<u>\$ 1,092,711</u>
Reconciliation of Cash and Restricted Cash at December 31 to Statement of Net Assets				
Cash	\$ 675,461	\$ 989,630	\$ 1,665,091	\$ 1,092,711
Restricted cash	-	357,149	357,149	-
Total	<u>\$ 675,461</u>	<u>\$ 1,346,779</u>	<u>\$ 2,022,240</u>	<u>\$ 1,092,711</u>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Cash Flows – Proprietary Funds (Continued)
For the Year Ended December 31, 2009

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 5,827,831	\$ 1,649,769	\$ 7,477,600	\$ 530,876
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	8,335,902	851,471	9,187,373	-
Miscellaneous revenue	1,492,655	182,058	1,674,713	-
Change in assets and liabilities				
Accounts receivable	(295,748)	48,822	(246,926)	(24,944)
Due from other funds	-	-	-	(355)
Inventory	(308)	-	(308)	6,244
Prepaid items	343,099	422,384	765,483	124,321
Accounts payable and accrued liabilities	(1,195,474)	(290,806)	(1,486,280)	(174,865)
Deposits	(15,552)	-	(15,552)	-
Accrued vacation and sick leave	8,875	34,039	42,914	-
Liability for claims and judgments	-	-	-	(139,032)
OPEB liabilities	257,287	120,486	377,773	-
Other liabilities	(1,461)	-	(1,461)	-
Total adjustments	8,929,275	1,368,454	10,297,729	(208,631)
Net cash provided by operating activities	<u>\$ 14,757,106</u>	<u>\$ 3,018,223</u>	<u>\$ 17,775,329</u>	<u>\$ 322,245</u>

Noncash investing, capital and financing activities:

Enterprise funds:

The Water and Sewer Fund received contributions of capital assets of \$37,702,077 for 2009 and recognized a \$595,219 decrease in fair value of investments in 2009. The 2002 advance refunding, the 2004 current refunding, and the 2005 advance refunding of water and sewer revenue bonds resulted in cash flow savings of \$35,925, \$96,637, and \$135,098, respectively, for 2009.

The Sanitation Fund recognized a decrease in fair value of investments of \$389 for 2009. During 2009, the 1998 and 2002 advance refundings for solid waste revenue bonds resulted in cash flow savings of \$34,958 and \$101,215, respectively.

City of Fort Smith, Arkansas
Statement of Fiduciary Net Assets
OPEB Trust Fund
December 31, 2009

Assets

Current Assets

Investments	\$ 720,000
Total Current Assets	<u>720,000</u>

Total Assets	<u><u>\$ 720,000</u></u>
--------------	--------------------------

Net Assets

Held in trust for OPEB	<u>\$ 720,000</u>
------------------------	-------------------

Total Net Assets	<u><u>\$ 720,000</u></u>
------------------	--------------------------

City of Fort Smith, Arkansas
Statement of Changes in Fiduciary Net Assets
OPEB Trust Fund
For the Year Ended December 31, 2009

Additions:

Employer contributions	<u>\$ 720,000</u>
Change in Net Assets	720,000
Total net assets, beginning	<u>-</u>
Total net assets, ending	<u><u>\$ 720,000</u></u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

Nature of Operations

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

Reporting Entity

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

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

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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 14* on pages 87-88 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 14* on pages 87-88 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 14* on pages 87-88 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 14* on pages 87-88 of these notes for condensed financial statements.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2009

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

Adoption of Accounting Principles

Effective January 1, 2009, the City implemented the following financial accounting and reporting standard issued by GASB:

- Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

Statement No. 43 establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. This standard applies to OBEP trust funds that are included in the financial reports of plan sponsor or employers. The financial impact of the implementation on the City during the year is further discussed in *Note 8* on pages 78-81. With the adoption of GASB 43 the City reports a pension trust fund that had total net assets held in trust for OPEB and a net increase in plan net assets of \$720,000 for the year ended December 31, 2009. These changes had no effect on previously issued 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 are offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Expenses that cannot be specifically identified to a particular function are charged to functions based on time spent for that function and are included in the functional categories. Program revenues include (a) charges to customers or applicants who

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

purchase, use, or directly benefit from goods, services or privileges provided by a given function or identifiable activity and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity. All other revenues are reported as general revenues.

Fund Financial Statements

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

The City reports the following major governmental funds:

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

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

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

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

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

The City reports the following major enterprise funds:

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

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

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:

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

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

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

Measurement Focus and Basis of Accounting

Government-Wide and Proprietary Funds

The government-wide, 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.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Governmental Fund Financial Statements

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

Cash and Investments

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

Inventories

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

Capital Assets

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

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

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

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

Interest is capitalized on enterprise fund capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Interest capitalized in 2009 totaled \$5,018,559.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2009

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

Property Tax Revenue

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

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

The City is permitted by Arkansas State Law to levy taxes up to \$0.50 per \$100 of assessed valuation on real and personal property for general governmental services, \$0.50 per \$100 of assessed valuation on real and personal property for the payment of principal and interest on long-term debt, \$0.10 per \$100 of assessed valuation on real and personal property for the police pension funds and \$0.10 per \$100 of assessed valuation on real and personal property for the fire pension funds. The combined tax rate levied by the City in 2009 to finance the above operations was \$0.70 per \$100 of assessed valuation on real and personal property, leaving a tax margin of \$0.50 per \$100 of assessed valuation on real and personal property. Approximately \$8,367,596 of additional taxes could be raised per year based on the current year's assessed value of \$1,209,164,189 for real property and \$464,355,080 for personal property before the limit is reached.

Compensated Absences

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

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

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2009

Risk Management

The City maintains a medical self-insurance plan funded by the City and administered by a third party. The plan provides certain healthcare benefits to active and retired City employees. Substantially all regular, full-time City employees are eligible for these benefits. The City's costs of providing these benefits, including premiums, totaled \$7,533,771 in 2009, and are included in operating expenses in the Employee Insurance Fund. The City contributes fully for each employee and shares in the contribution for any dependants. Retired employees may continue coverage under the City's policy, but must bear the entire cost of these contributions. See *Note 8* on pages 78-81.

The City also makes contributions to fund a self-insured workers' compensation program. The City contributed \$350,020 in 2009 to fund this program. There have been no significant reductions in insurance coverage from the prior year and there were no settlements that exceeded insurance coverage in the past three fiscal years.

Sales Taxes

In November 1985, the City began assessing a 1% sales and use tax on retail sales in the City. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes for this purpose totaled \$18,777,493 for fiscal year 2009, and are included in the Sales Tax Fund's sales tax revenues in the accompanying financial statements. Sales tax revenues are restricted for repair, maintenance, and improvement of City streets, bridges, and associated drainage. The City refers the tax to the voters every ten years for reapproval. The tax is currently extended through 2015.

In August 1994, Sebastian County began assessing a 1% sales and use tax on retail sales in the county. Each city within Sebastian County receives a portion of the tax based upon population of the city. Currently, the City receives approximately 70% of the county tax. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes totaled \$15,046,777 for fiscal year 2009. These taxes are included in the General Fund's sales tax revenues. The City refers the tax to the voters every ten years for reapproval. The tax is currently in place through August 2014 as the tax was reapproved during 2003 for the period August 2004 through August 2014.

In May 2006, the citizens approved a referendum to continue the 1% sales and use tax on retail sales in the City to refund the Sales and Use Tax Construction Bonds, Series 2001, to fund a new radio communications system for public safety and utility purposes, and to fund the wastewater improvements. Sales tax revenues are restricted for the repayment of the Sales and Use Tax Refunding and Construction Bonds, Series 2006 and Series 2008. These taxes are collected by the state and remitted to the City net of a collection fee. The taxes for this purpose totaled \$18,777,493 for fiscal year 2009. City management expects the Series 2006, 2008, and 2009 Bonds to be retired by 2012.

Statement of Cash Flows

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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 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	\$	21,339
Investments		42,954,693
Interest receivable		55,174
Sales taxes receivable		<u>1,446,169</u>
Total restricted assets - general government		<u><u>\$ 44,477,375</u></u>

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

Current Assets:	
Cash - solid waste bond account	\$ 357,149
Investments - solid waste bond account	737,261
Investments - water and sewer bond account	5,036,152
Investments - water and sewer bond construction account	56,648,593
Accounts receivable - solid waste cleanup program account	89,508
Interest receivable - solid waste bond account	1,217
Interest receivable - water and sewer bond account	<u>75</u>
Total current assets - restricted	<u>62,869,955</u>
Noncurrent assets:	
Investments - solid waste landfill closure and postclosure care account	4,125,504
Prepaid items and deposits - water and sewer operating account	981
Prepaid items and deposits - water and sewer bond construction account	<u>84,500</u>
Total noncurrent assets	<u>4,210,985</u>
Total restricted assets - enterprise funds	<u><u>\$ 67,080,940</u></u>

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from these estimates.

Note 2: Cash and Investments

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

The City follows GASB Statement 3, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement 40, *Deposit and Investment Risk Disclosure*. The investments and deposits of the primary government are stated at quoted fair values. As a result, a net unrealized loss of \$966,469 is recorded as a decrease in fair value of

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

investments for the primary government in 2009, with a \$595,608 decrease related to the City's enterprise funds and a \$370,861 decrease related to the City's governmental funds.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Arkansas. At December 31, 2009, all the City's deposits were fully collateralized and, therefore, were not exposed to custodial credit risk. The bank balances and carrying amount of the City's deposits held as of December 31, 2009 were as follows:

Pooled and Nonpooled Funds

Description	Bank Balance	Carrying Amount
Demand deposits	\$ 42,105,676	\$ 41,494,742
Certificates of deposit	67,448,664	67,448,664
	<u>\$ 109,554,340</u>	<u>\$ 108,943,406</u>

Component Units

At year-end, the carrying amount and the bank balance of the Advertising and Promotion Commission deposits was \$135,318. At December 31, 2009, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Public Library's deposits was \$778,984 and the bank balance was \$819,467. At December 31, 2009, 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 \$191,087. At December 31, 2009, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Airport Commission's deposits was \$1,601,792 and the bank balance was \$2,227,423. At December 31, 2009, none of the balances were exposed to custodial credit risk.

Investments

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

The City's investments, including accrued interest, held as of December 31, 2009 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	\$ 4,504,927	\$ 4,504,927	\$ -
U.S. Treasury Notes	65,774,917	65,774,917	-
	<u>\$ 70,279,844</u>	<u>\$ 70,279,844</u>	<u>\$ -</u>

Component Units

At year-end, the Public Library held \$300,809 in mutual funds. The Public Library reports investments at fair value.

At year-end, the Parking Authority fund held \$68,971 in U.S. Treasury Bills and \$23,191 in governmental money market accounts. The Parking Authority reports investments at fair value and the maturity of the bills is June 3, 2010.

At year-end, the Airport Commission held \$405,838 in U.S. Treasury obligations and \$88,418 in money market mutual funds. The Airport Commission reports investments at fair value.

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

Credit Risk. The City's investments at December 31, 2009 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 are held by the City or by an agent of the City in the City's name.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

Primary Government:

Carrying value of deposits -	
Pooled and nonpooled funds	\$ 108,943,406
Deposits classified as investments	<u>(102,106,818)</u>
	<u>\$ 6,836,588</u>
Cash as reported on the government-wide statement of net assets	\$ 6,458,100
Restricted cash as reported on the government-wide statement of net assets	<u>378,488</u>
	<u>\$ 6,836,588</u>
Carrying value of investments -	
Pooled and nonpooled funds	\$ 70,279,844
Deposits classified as investments	<u>102,106,818</u>
	<u>\$ 172,386,662</u>
As reported on the government-wide statement of net assets:	
Investments	\$ 62,597,877
Interest receivable	230,116
Restricted investments	109,502,203
Restricted interest receivable	<u>56,466</u>
	<u>\$ 172,386,662</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Component Units:

Governmental type-

Carrying value of deposits -		
Advertising and Promotion		
Commission	\$	135,318
Public Library		778,984
Carrying value of investments -		
Public Library		<u>300,809</u>
		<u><u>\$ 1,215,111</u></u>

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

Cash	\$	704,664
Investments		500,364
Interest receivable		<u>10,083</u>
		<u><u>\$ 1,215,111</u></u>

Business type-

Carrying value of deposits -		
Parking Authority	\$	191,087
Airport Commission		1,601,792
Carrying value of investments -		
Parking Authority		92,162
Airport Commission		<u>494,256</u>
		<u><u>\$ 2,379,297</u></u>

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

Cash	\$	1,007,547
Investments		331,783
Interest receivable		807
Restricted cash		88,418
Restricted investments		950,544
Restricted interest receivable		<u>198</u>
		<u><u>\$ 2,379,297</u></u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Note 3: Capital Assets

Capital assets activity for the year ended December 31, 2009 was as follows:

Primary Government:

	December 31, 2008	Additions	Deletions/ Transfers	December 31, 2009
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 23,845,702	\$ 2,104,084	\$ -	\$ 25,949,786
Construction in progress	33,769,460	26,408,567	(31,883,581)	28,294,446
Total capital assets not being depreciated	<u>57,615,162</u>	<u>28,512,651</u>	<u>(31,883,581)</u>	<u>54,244,232</u>
Capital assets being depreciated				
Buildings	71,631,445	235,968	-	71,867,413
Improvements other than buildings	11,448,080	322,928	970,613	12,741,621
Infrastructure	242,557,339	1,134,214	30,912,968	274,604,521
Machinery and equipment	25,093,249	1,560,952	(798,042)	25,856,159
Total depreciable capital assets at historical cost	<u>350,730,113</u>	<u>3,254,062</u>	<u>31,085,539</u>	<u>385,069,714</u>
Less accumulated depreciation for				
Buildings	13,151,584	1,501,804	-	14,653,388
Improvements other than buildings	5,826,528	433,651	-	6,260,179
Infrastructure	51,778,342	6,599,491	-	58,377,833
Machinery and equipment	16,305,403	1,702,191	(766,189)	17,241,405
Total accumulated depreciation	<u>87,061,857</u>	<u>10,237,137</u>	<u>(766,189)</u>	<u>96,532,805</u>
Capital assets being depreciated, net	<u>263,668,256</u>	<u>(6,983,075)</u>	<u>31,851,728</u>	<u>288,536,909</u>
Governmental activities capital assets, net	<u>\$ 321,283,418</u>	<u>\$ 21,529,576</u>	<u>\$ (31,853)</u>	<u>\$ 342,781,141</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Primary Government:

	<u>December 31, 2008</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2009</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 11,533,921	\$ 430,331	\$ -	\$ 11,964,252
Construction in progress	<u>30,056,658</u>	<u>46,551,455</u>	<u>(16,814,673)</u>	<u>59,793,440</u>
Total capital assets not being depreciated	<u>41,590,579</u>	<u>46,981,786</u>	<u>(16,814,673)</u>	<u>71,757,692</u>
Capital assets being depreciated:				
Water system	306,048,837	4,347,315	2,293,945	312,690,097
Sewer system	132,084,610	5,723,228	14,520,728	152,328,566
Buildings	1,842,011	77,348	-	1,919,359
Improvements other than buildings	18,659,052	-	-	18,659,052
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	<u>24,766,432</u>	<u>1,809,141</u>	<u>(990,532)</u>	<u>25,585,041</u>
Total depreciable capital assets at historical cost	<u>484,110,894</u>	<u>11,957,032</u>	<u>15,824,141</u>	<u>511,892,067</u>
Less accumulated depreciation for:				
Water system	64,019,145	5,527,300	-	69,546,445
Sewer system	52,297,350	2,370,392	-	54,667,742
Buildings	636,836	61,581	-	698,417
Improvements other than buildings	9,925,978	32,052	-	9,958,030
Leasehold improvements	686,148	15,837	-	701,985
Machinery and equipment	<u>16,227,265</u>	<u>1,180,211</u>	<u>(675,820)</u>	<u>16,731,656</u>
Total accumulated depreciation	<u>143,792,722</u>	<u>9,187,373</u>	<u>(675,820)</u>	<u>152,304,275</u>
Capital assets being depreciated, net	<u>340,318,172</u>	<u>2,769,659</u>	<u>16,499,961</u>	<u>359,587,792</u>
Business-type activities capital assets, net	<u>\$ 381,908,751</u>	<u>\$ 49,751,445</u>	<u>\$ (314,712)</u>	<u>\$ 431,345,484</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

Governmental activities:

General government -

Administration	\$ 38,384
Legal	1,270
Finance	181,086

Public safety -

Police	521,624
Fire	345,468

Public works -

Operations	5,909
Streets	6,809,203
Traffic Control	21,425

Community services -

Health and social services	2,762
Parks and recreation	1,301,373
Convention center	833,084
Transit	162,457
Housing and rehabilitation	13,092

Total governmental activities depreciation expense 10,237,137

Business type activities:

Water and Sewer	8,335,902
Sanitation	851,471

Total business-type activities depreciation expense 9,187,373

Total depreciation expense \$ 19,424,510

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

Capital asset activity (on page 47):

Additions for capital assets not being depreciated	\$ 28,512,651
Additions for capital assets being depreciated	<u>3,254,062</u>
	<u><u>\$ 31,766,713</u></u>

Capital outlay reported on the statement of revenues, expenditures and changes in fund balances - governmental funds \$ 31,766,713

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Capital asset activity for the year ended December 31, 2009 for the major enterprise funds was as follows:

Primary Government:

	December 31, 2008	Additions	Deletions/ Transfers	December 31, 2009
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 11,160,149	\$ 430,331	\$ -	\$ 11,590,480
Construction in progress	29,937,171	46,512,016	(16,814,673)	59,634,514
Total capital assets not being depreciated:	<u>41,097,320</u>	<u>46,942,347</u>	<u>(16,814,673)</u>	<u>71,224,994</u>
Capital assets being depreciated:				
Water system	306,048,837	4,347,315	2,293,945	312,690,097
Sewer system	132,084,610	5,723,228	14,520,728	152,328,566
Machinery and equipment	8,644,686	294,982	(191,638)	8,748,030
Total depreciable capital assets at historical cost	<u>446,778,133</u>	<u>10,365,525</u>	<u>16,623,035</u>	<u>473,766,693</u>
Less accumulated depreciation for:				
Water system	64,019,145	5,527,300	-	69,546,445
Sewer system	52,297,350	2,370,392	-	54,667,742
Machinery and equipment	6,214,707	438,210	(191,641)	6,461,276
Total accumulated depreciation	<u>122,531,202</u>	<u>8,335,902</u>	<u>(191,641)</u>	<u>130,675,463</u>
Capital assets being depreciated, net	<u>324,246,931</u>	<u>2,029,623</u>	<u>16,814,676</u>	<u>343,091,230</u>
Total water and sewer fund capital assets, net	<u>\$ 365,344,251</u>	<u>\$ 48,971,970</u>	<u>\$ 3</u>	<u>\$414,316,224</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

	December 31, 2008	Additions	Deletions/ Transfers	December 31, 2009
Sanitation Fund:				
Capital assets not being depreciated:				
Land	\$ 373,772	\$ -	\$ -	\$ 373,772
Construction in progress	119,487	39,439	-	158,926
Total capital assets not being depreciated:	493,259	39,439	-	532,698
Capital assets being depreciated:				
Buildings	1,842,011	77,348	-	1,919,359
Improvements other than buildings	18,659,052	-	-	18,659,052
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	16,121,746	1,514,159	(798,894)	16,837,011
Total depreciable capital assets at historical cost	37,332,761	1,591,507	(798,894)	38,125,374
Less accumulated depreciation for:				
Buildings	636,836	61,581	-	698,417
Improvements other than buildings	9,925,978	32,052	-	9,958,030
Leasehold improvements	686,148	15,837	-	701,985
Machinery and equipment	10,012,558	742,001	(484,179)	10,270,380
Total accumulated depreciation	21,261,520	851,471	(484,179)	21,628,812
Capital assets being depreciated, net	16,071,241	740,036	(314,715)	16,496,562
Total sanitation fund capital assets, net	\$ 16,564,500	\$ 779,475	\$ (314,715)	\$ 17,029,260

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Component Units-

	December 31, 2008	Additions	Deletions/ Transfers	December 31, 2009
Governmental Activities:				
Public Library				
Capital assets not being depreciated:				
Land	\$ 422,132	\$ -	\$ -	\$ 422,132
Construction in progress	-	7,163	-	7,163
Capital assets not being depreciated	<u>422,132</u>	<u>7,163</u>	<u>-</u>	<u>429,295</u>
Capital assets being depreciated:				
Equipment	692,365	117,082	-	809,447
Transportation equipment	<u>139,952</u>	<u>-</u>	<u>-</u>	<u>139,952</u>
Total depreciable capital assets at historical cost	832,317	117,082	-	949,399
Less accumulated depreciation	<u>637,735</u>	<u>43,778</u>	<u>-</u>	<u>681,513</u>
Capital assets being depreciated, net	<u>194,582</u>	<u>73,304</u>	<u>-</u>	<u>267,886</u>
Governmental activities capital assets, net				
Public Library	<u>\$ 616,714</u>	<u>\$ 80,467</u>	<u>\$ -</u>	<u>\$ 697,181</u>
	December 31, 2008	Additions	Deletions/ Transfers	December 31, 2009
Business-type activities:				
Parking Authority				
Capital assets not being depreciated:				
Land	\$ 1,359,161	\$ -	\$ -	\$ 1,359,161
Capital assets being depreciated:				
Buildings	2,176,610	140,721	-	2,317,331
Machinery and equipment	<u>73,525</u>	<u>-</u>	<u>-</u>	<u>73,525</u>
Total depreciable capital assets at historical cost	<u>2,250,135</u>	<u>140,721</u>	<u>-</u>	<u>2,390,856</u>
Less accumulated depreciation for:				
Buildings	1,269,242	55,192	-	1,324,434
Machinery and equipment	<u>66,485</u>	<u>-</u>	<u>-</u>	<u>66,485</u>
Total accumulated depreciation	<u>1,335,727</u>	<u>55,192</u>	<u>-</u>	<u>1,390,919</u>
Capital assets being depreciated, net	<u>914,408</u>	<u>85,529</u>	<u>-</u>	<u>999,937</u>
Business-type activities capital assets, net				
Parking Authority	<u>\$ 2,273,569</u>	<u>\$ 85,529</u>	<u>\$ -</u>	<u>\$ 2,359,098</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

	December 31, 2008	Additions	Deletions/ Transfers	December 31, 2009
Airport Commission:				
Capital assets				
not being depreciated:				
Land	\$ 6,058,806	\$ -	\$ -	\$ 6,058,806
Construction in progress	4,697,138	2,827,973	(4,939,281)	2,585,830
Total capital assets not being depreciated	<u>10,755,944</u>	<u>2,827,973</u>	<u>(4,939,281)</u>	<u>8,644,636</u>
Capital assets being depreciated:				
Buildings	18,869,462	1,422,322	-	20,291,784
Runways & other airport infrastructure	34,575,680	3,615,050	-	38,190,730
Equipment, furniture & fixtures, and other	<u>9,172,057</u>	<u>2,600</u>	<u>-</u>	<u>9,174,657</u>
Total depreciable capital assets at historical cost	<u>62,617,199</u>	<u>5,039,972</u>	<u>-</u>	<u>67,657,171</u>
Less accumulated depreciation for:				
Buildings	7,430,127	707,639	-	8,137,766
Runways & other airport infrastructure	25,525,451	1,105,135	-	26,630,586
Equipment, furniture & fixtures, and other	<u>4,783,065</u>	<u>560,460</u>	<u>-</u>	<u>5,343,525</u>
Total accumulated depreciation	<u>37,738,643</u>	<u>2,373,234</u>	<u>-</u>	<u>40,111,877</u>
Capital assets being depreciated, net	<u>24,878,556</u>	<u>2,666,738</u>	<u>-</u>	<u>27,545,294</u>
Business-type activities capital assets, net				
Airport Commission	<u>\$ 35,634,500</u>	<u>\$ 5,494,711</u>	<u>\$ (4,939,281)</u>	<u>\$ 36,189,930</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Construction-in-progress is composed of the following:

	Primary Appropriation	Expended to December 31, 2009	Committed
Primary government:			
Governmental activities	\$ 50,946,304	\$ 28,294,446	\$ 22,651,858
Business-type activities			
Sanitation capital improvements	4,112,000	158,926	3,953,074
Water and sewer capital improvements	<u>158,512,177</u>	<u>59,634,514</u>	<u>98,877,663</u>
Total	<u>\$213,570,481</u>	<u>\$ 88,087,886</u>	<u>\$ 125,482,595</u>

The City's governmental construction projects include major street and drainage improvements. The governmental projects also include the radio communication system purchase project authorized by the Sales and Use Tax Refunding and Construction Bonds, Series 2006 and 2008. Funding is in place for these projects. The water and sewer capital improvement projects include the wastewater projects that are being funded by the Sales and Use Tax Refunding and Construction Bonds, Series 2006, 2008, and 2009. These assets are being transferred to the Water and Sewer Fund as contributed capital from the general government fund. Funds are available for these projects. The water and sewer capital improvement projects also include the waterline improvements in the southern areas of the City, wet weather wastewater improvements, and plant designs that are funded by the 2007 and 2008 water and sewer system revenue bonds. The City will need to finance additional water and sewer improvements in the future including more wastewater improvements required by the EPA administrative order as well as rehabilitation and expansion of the Mountainburg water treatment plant and distribution lines. The City has issued additional sales and use tax bonds, Series 2010, to fund additional wastewater improvements. The City plans to issue additional debt in future years for the remainder of the projects. The sanitation project currently includes engineering work and design for the next phase of the landfill expansion. The City will be able to fund the next landfill phase with current revenues during 2010.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

	Business-Type			Total
	Governmental	Water and Sewer	Sanitation	
Primary Government:				
Net book value	\$ 342,781,141	\$ 414,316,224	\$ 17,029,260	\$ 431,345,484
Current and noncurrent debt	(84,174,457)	(191,081,816)	(2,561,370)	(193,643,186)
Restricted assets - unspent bond/note proceeds	<u>36,139,810</u>	<u>55,847,348</u>	<u>-</u>	<u>55,847,348</u>
Invested in capital assets, net of related debt	<u><u>\$ 294,746,494</u></u>	<u><u>\$ 279,081,756</u></u>	<u><u>\$ 14,467,890</u></u>	<u><u>\$ 293,549,646</u></u>
 Component Units:				
Net book value	\$ 697,181	38,549,028		
Current and noncurrent debt	<u>-</u>	<u>(4,209,388)</u>		
Invested in capital assets, net of related debt	<u><u>\$ 697,181</u></u>	<u><u>\$ 34,339,640</u></u>		

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Note 4: Long-Term Liabilities

Changes in long-term liabilities for the year ended December 31, 2009 were as follows:

Primary Government-

	Balance December 31, 2008	Increases	Decreases	Balance December 31, 2009	Amount Due in One Year
Governmental Activities:					
Bonds Payable -					
Sales tax bonds	\$ 70,150,000	\$ 29,150,000	\$ 17,330,000	\$ 81,970,000	\$ 11,435,000
Add issuance premium	1,141,296	236,307	239,355	1,138,248	-
Less deferral on refunded issue	(88,278)	-	(88,278)	-	-
Sales tax bonds payable, net	<u>71,203,018</u>	<u>29,386,307</u>	<u>17,481,077</u>	<u>83,108,248</u>	<u>11,435,000</u>
Notes payable	1,425,000	-	455,000	970,000	475,000
Capital leases payable	161,340	-	65,131	96,209	47,075
Compensated absences	1,986,917	260,787	120,635	2,127,069	95,718
Claims Payable - General Fund					
Legal	82,500	-	-	82,500	82,500
Employee insurance/workers' compensation	1,456,779	-	7,639	1,449,140	1,449,140
OPEB liabilities	1,539,341	780,969	-	2,320,310	-
Other	762,664	-	188,649	574,015	-
Total governmental activities long-term liabilities	<u>\$ 78,617,559</u>	<u>\$ 30,428,063</u>	<u>\$ 18,318,131</u>	<u>\$ 90,727,491</u>	<u>\$ 13,584,433</u>
Business-Type Activities					
Bonds Payable -					
Revenue bonds	\$ 197,290,000	\$ -	\$ 6,610,000	\$ 190,680,000	\$ 6,930,000
Less issuance discounts	(47,438)	-	(10,588)	(36,850)	-
Add issuance premium	2,891,325	-	197,729	2,693,596	-
Less deferral on refunded issue	(840,875)	-	(387,674)	(453,201)	-
Revenue bonds payable, net	<u>199,293,012</u>	<u>-</u>	<u>6,409,467</u>	<u>192,883,545</u>	<u>6,930,000</u>
Capital leases payable	14,482	745,159	-	759,641	259,552
Compensated absences	1,184,306	91,197	51,359	1,224,144	17,230
Claims Payable-Employee insurance and worker's compensation					
	342,600	41,347	-	383,947	383,947
OPEB liabilities	754,759	377,773	-	1,132,532	-
Other	49,621	-	49,621	-	-
Closure/postclosure landfill costs	3,875,504	250,000	-	4,125,504	-
Total other long-term liabilities	<u>6,221,272</u>	<u>1,505,476</u>	<u>100,980</u>	<u>7,625,768</u>	<u>660,729</u>
Total business-type activities long-term liabilities	<u>\$ 205,514,284</u>	<u>\$ 1,505,476</u>	<u>\$ 6,510,447</u>	<u>\$ 200,509,313</u>	<u>\$ 7,590,729</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

Changes in long-term liabilities for the year ended December 31, 2009 for the major enterprise funds were as follows:

	Balance December 31, 2008	Increases	Decreases	Balance December 31, 2009	Amount Due in One Year
Water and Sewer Fund:					
Bonds Payable -					
Revenue bonds	\$ 194,265,000	\$ -	\$ 5,665,000	\$ 188,600,000	\$ 5,910,000
Less issuance discounts	(44,041)	-	(7,191)	(36,850)	-
Add issuance premium	2,891,325	-	197,729	2,693,596	-
Less deferral on refunded issue	(702,505)	-	(324,702)	(377,803)	-
Revenue bonds payable, net	<u>196,409,779</u>	<u>-</u>	<u>5,530,836</u>	<u>190,878,943</u>	<u>5,910,000</u>
Capital leases payable	14,482	188,391	-	202,873	76,360
Compensated absences	968,905	50,244	44,445	974,704	9,747
OPEB liabilities	523,055	257,287	-	780,342	-
Other	49,621	-	49,621	-	-
Other long-term liabilities	<u>1,556,063</u>	<u>495,922</u>	<u>94,066</u>	<u>1,957,919</u>	<u>86,107</u>
Total water and sewer fund	<u>\$ 197,965,842</u>	<u>\$ 495,922</u>	<u>\$ 5,624,902</u>	<u>\$ 192,836,862</u>	<u>\$ 5,996,107</u>
Sanitation Fund:					
Bonds Payable -					
Revenue bonds	\$ 3,025,000	\$ -	\$ 945,000	\$ 2,080,000	\$ 1,020,000
Less issuance discounts	(3,397)	-	(3,397)	-	-
Less deferral on refunded issue	(138,370)	-	(62,972)	(75,398)	-
Revenue bonds payable, net	<u>2,883,233</u>	<u>-</u>	<u>878,631</u>	<u>2,004,602</u>	<u>1,020,000</u>
Capital leases payable	-	556,768	-	556,768	183,192
Compensated absences	215,401	40,953	6,914	249,440	7,483
OPEB liabilities	231,704	120,486	-	352,190	-
Closure/postclosure landfill costs	<u>3,875,504</u>	<u>250,000</u>	<u>-</u>	<u>4,125,504</u>	<u>-</u>
Other long-term liabilities	<u>4,322,609</u>	<u>968,207</u>	<u>6,914</u>	<u>5,283,902</u>	<u>190,675</u>
Total sanitation fund	<u>\$ 7,205,842</u>	<u>\$ 968,207</u>	<u>\$ 885,545</u>	<u>\$ 7,288,504</u>	<u>\$ 1,210,675</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>
Current Liabilities		
Revenue bonds payable	\$ 5,910,000	\$ 1,020,000
Capital leases payable	76,360	183,192
Accrued vacation and sick leave	9,747	7,483
Noncurrent Liabilities:		
Landfill closure and postclosure care	-	4,125,504
Revenue bonds, net	184,968,943	984,602
Capital leases payable	126,513	373,576
Accrued vacation and sick leave	964,957	241,957
OPEB liabilities	780,342	352,190
Total long-term liabilities for major enterprise funds	<u><u>\$ 192,836,862</u></u>	<u><u>\$ 7,288,504</u></u>

Changes in long-term liabilities for the year ended December 31, 2009, for the component units were as follows:

	<u>Balance December 31, 2008</u>			<u>Balance December 31, 2009</u>		<u>Amount Due in One Year</u>
	<u>Increases</u>	<u>Decreases</u>				
Component Units:						
Business-type activities-						
Parking Authority:						
Bonds Payable -						
Revenue bonds payable, net	\$ 910,000	\$ -	\$ 95,000	\$ 815,000	\$ 100,000	\$ 100,000
Less issuance discounts	(16,988)	-	(1,888)	(15,100)	-	-
Bonds payable, net	<u>893,012</u>	<u>-</u>	<u>93,112</u>	<u>799,900</u>	<u>100,000</u>	<u>100,000</u>
Compensated Absences	1,205	1,023	-	2,228	100	100
Total	<u>894,217</u>	<u>1,023</u>	<u>93,112</u>	<u>802,128</u>	<u>100,100</u>	<u>100,100</u>
Airport Commission:						
Bonds payable -						
Revenue Bonds	3,555,000	-	115,000	3,440,000	125,000	125,000
Less issuance discounts	(34,396)	-	(1,656)	(32,740)	-	-
Bonds payable, net	<u>3,520,604</u>	<u>-</u>	<u>113,344</u>	<u>3,407,260</u>	<u>125,000</u>	<u>125,000</u>
Total	<u>3,520,604</u>	<u>-</u>	<u>113,344</u>	<u>3,407,260</u>	<u>125,000</u>	<u>125,000</u>
Total Component Units	<u><u>\$ 4,414,821</u></u>	<u><u>\$ 1,023</u></u>	<u><u>\$ 206,456</u></u>	<u><u>\$ 4,209,388</u></u>	<u><u>\$ 225,100</u></u>	<u><u>\$ 225,100</u></u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Operating Leases

The City leases office space under a noncancelable-operating lease. Total costs for the lease to the General Fund were \$212,000 for the year ended December 31, 2009. The future minimum lease payments for the lease are as follows:

2010	\$ 216,000
2011	<u>38,000</u>
Total	<u>\$ 259,000</u>

Capital Leases

The City and the Parking Authority, a component unit, have entered into lease agreements for the acquisition of capital assets in 2002 through 2009. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date in the statement of net assets.

The assets acquired through capital lease are as follows:

	<u>Primary Government</u>	
	<u>Governmental Activities</u>	<u>Business - Type Activities - W/S</u>
Buildings	\$ 303,585	\$ -
Machinery and Equipment	60,440	913,015
Less accumulated depreciation	<u>(117,451)</u>	<u>(116,184)</u>
Total	<u>\$ 246,574</u>	<u>\$ 796,831</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2009 were as follows:

	<u>Governmental Activities</u>	<u>Business - Type Activities - W/S</u>
2010	\$ 51,284	\$ 275,070
2011	51,284	259,284
2012	-	259,285
2013	-	18,839
2014	<u>-</u>	<u>-</u>
Total future minimum lease payments	102,568	812,478
Less interest	<u>(6,359)</u>	<u>(52,837)</u>
Net present value of future minimum lease payments	<u>\$ 96,209</u>	<u>\$ 759,641</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Notes Payable

In June 2006, the City issued \$2,290,000 in promissory notes to provide funding for a phone system, the Martin Luther King Park community center, and downtown improvements. The notes payable are due in annual installments at varying amounts through June 1, 2011 with interest ranging from 3.75% to 4% payable semiannually. The total costs of issuance of \$20,238 is being amortized over the life of the notes. The deferred charges at December 31, 2009 were \$4,048.

The maturity schedule for the notes payable is:

	Principal	Interest
2010	\$ 475,000	\$ 29,181
2011	495,000	9,900
Total	\$ 970,000	\$ 39,081

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's governmental activities. The total short-term financing as of December 31, 2009 was \$1,066,209. The limit as of December 31, 2009 was \$83.7 million; therefore management believes the City is in compliance with state statutes for short-term financing at December 31, 2009.

Sales and Use Tax Bonds- Governmental Activities

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

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

The 2006 Bonds are subject to extraordinary redemption from surplus tax receipts and proceeds of the Bonds not needed for purposes intended at a purchase price equal to the principal amount being redeemed plus accrued interest to the redemption date. A total of \$5,345,000 bonds were called during 2009.

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

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

The 2008 Bonds are subject to extraordinary redemption from surplus tax receipts and proceeds of the Bonds not needed for purposes intended at a purchase price equal to the principal amount being redeemed plus accrued interest to the redemption date. A total of \$940,000 bonds were called during 2009.

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 2.25%. The bonds are payable solely from the same sales tax that supports the 2006 and 2008 sales tax bonds. However, the 2009 Bonds will be redeemed after all outstanding 2006 and 2008 bonds are retired. The bonds were issued for additional wastewater improvements.

The 2009 Bonds are subject to extraordinary redemption from surplus tax receipts and proceeds of the Bonds not needed for purposes intended at a purchase price equal to the principal amount being redeemed plus accrued interest to the redemption date.

Bond Retirement- The City is required to maintain a debt service reserve equal to \$4,246,750 during the life of the 2006 Bonds. The City held a surety bond equal to this amount at December 31, 2009. The City is required to maintain a debt service reserve equal to \$790,750 during the life of the 2008 Bonds and \$1,457,500 during the life of the 2009 Bonds. The City held investments equal to these amounts at December 31, 2009.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Maturity Schedule – The debt service requirements for the Sales Tax Bonds at December 31, 2009 is as follows:

Sales Tax Bonds Maturity Schedule

	Principal	Interest
2010	\$ 11,435,000	\$ 2,999,018
2011	11,950,000	2,486,232
2012	12,490,000	1,952,251
2013	27,490,000	1,373,102
2014	18,605,000	493,875
	81,970,000	\$ 9,304,478
Total	81,970,000	\$ 9,304,478
Add unamortized bond premium	1,138,248	
Net bonds outstanding at December 31, 2009	\$ 83,108,248	

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Revenue Bonds - Business-Type Activities

Revenue bonds outstanding at December 31, 2009, are comprised of the following individual issues:

Water and Sewer:

\$7,835,000 of Series 2002B Water and Sewer Refunding and Construction Revenue Bonds; due in annual installments at varying amounts through October 1, 2012 with interest ranging from 5% to 5.25% payable semiannually	\$ 6,550,000
\$21,330,000 of Series 2002C Water and Sewer Refunding Revenue Bonds; due in annual installments at varying amounts through October 1, 2023 with interest ranging from 4% to 5.25% payable semiannually	17,915,000
\$17,605,000 of Series 2005A Water and Sewer Refunding Revenue Bonds; due in annual installments at varying amounts through October 1, 2019 with interest ranging from 4% to 4.25% payable semiannually	17,405,000
\$7,330,000 of Series 2005B Water and Sewer Revenue Bonds; due in annual installments of varying amounts through October 1, 2025 with interest ranging from 4% to 4.375% payable semiannually	7,330,000
\$24,470,000 of Series 2007 Water and Sewer Revenue Bonds; due in annual installments of varying amounts through October 1, 2027 with interest ranging from 4% to 5% payable semiannually	22,745,000
\$117,420,000 of Series 2008 Water and Sewer Refunding and Construction Revenue Bonds; due in varying amounts through October 1, 2033 with interest ranging from 4% to 5.25% payable semiannually	116,655,000

Sanitation:

\$6,305,000 of Series 2002 Solid Waste Revenue Refunding Bonds; due in annual installments at varying amounts through December 1, 2011, with interest ranging 3.95% to 4.05% payable semiannually	<u>2,080,000</u>
Bonds outstanding, December 31, 2009	190,680,000
Unamortized bond discount	(36,850)
Unamortized bond premium	2,693,596
Deferred amount on refunding	<u>(453,201)</u>
Net bonds outstanding, December 31, 2009	<u>\$ 192,883,545</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Water and Sewer-

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

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

On February 5, 2002 and October 15, 2002, the City issued \$111,755,000 Water and Sewer Refunding and Construction Revenue Bonds. The bonds were issued in three series. The 2002A Bonds were issued in the amount of \$82,590,000 for the purpose of financing a portion of the costs of the acquisition, construction, and equipping of extensions, betterments, and improvements to the City's water system with \$74.4 million of the issue allocated to finance a portion of the Lake Fort Smith water supply expansion project. The 2002B Bonds were issued in the amount of \$7,835,000 to advance refund \$1.1 million in principal amount of the 1994 Bonds to be refunded maturing October 1, 2009 and \$6.54 million in principal amount of the 1994 Bonds to be refunded maturing October 1, 2012. The refunded debt has been defeased and the related liabilities have been removed from the Water and Sewer Fund statement of net assets. The reacquisition price exceeded the carrying amount of the old debt by \$589,000. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method. The deferred amount on refunding was fully amortized during 2008. The City completed the advance refunding to reduce its total debt service payments over the next ten and one-half (10 ½) years by \$378,570 and to obtain an economic gain of \$298,355. The 2002C Bonds were issued in the amount of \$21,330,000 to provide financing for a portion of the Lake Fort Smith water supply expansion project.

On January 8, 2004, the City issued \$8,700,000 Water and Sewer Revenue Refunding Bonds, Series 2004. The 2004 Bonds were issued to refund the remaining Series 1994 Water and Sewer Refunding and Construction Revenue Bonds which were redeemed at 101% on April 1, 2004. The reacquisition prices exceeded the carrying amounts of the old debt by \$828,717. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The deferred amount on refunding was amortized as of December 31, 2009. The City completed the refunding to reduce its total debt service payments over the next six (6) years by \$585,727 and to obtain an economic gain of \$529,462. The remaining bonds were redeemed on October 1, 2009.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

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

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

On August 6, 2008, the City issued \$117,420,000 Water and Sewer Refunding and Construction Revenue Bonds, Series 2008. The 2008 Bonds were issued to advance refund the 2002A Bonds and to provide funding for improvements to the water and sewer facilities. The sewer improvements include extensions in growth areas of the City and the water improvements include the Mountainburg water treatment plant rehabilitation and expansion, the replacement of neighborhood water lines, and the Howard Hill elevated water storage tank. The 2008 Bonds advance refunded \$66.475 million of the outstanding Series 2002A Bonds. The carrying amount of the old debt exceeded the reacquisition price by \$440,770. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The remaining unamortized deferred amount on refunding was \$377,802 as of December 31, 2009. The 2008 Bonds were issued as additional bonds on a parity of security with the 1999, 2002, 2004, 2005A, 2005B, and 2007 bonds. The amount of funds in the 2002A escrow account was \$65.23 million at December 31, 2009.

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

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2009

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, 2009, the City is in compliance with all applicable requirements except for the maintenance of debt service coverage of a minimum of 110%. The City's debt service coverage for 2009 is 104%. Failure to comply with the covenant does not result in the acceleration of bond payments. The City is currently having an independent rate study performed and the board of directors will consider rate increases as required by the bond covenants. The City continues to make its required principal and interest payments. Bondholders could obtain a court order to force the Board of Directors to raise rates. However, management does not think this is likely.

Restricted accounts required by the bond ordinances are as follows:

Bond Retirement- The City is required to restrict funds for the payment of principal, interest, and trustee and paying agents' fees up to a maximum of \$2,641,524 related to the Series 2002 Bonds, \$1,760,000 related to the 2005A Bonds, \$727,354 related to the 2005B Bonds, \$1,891,369 related to the 2007 Bonds, and \$11,712,104 related to the 2008 Bonds. The City held surety bonds valued at \$2,641,524, \$1,760,000, \$727,354, \$1,891,369 and \$11,712,104 at December 31, 2009 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, 2009.

Sanitation- In November 1994, the City issued \$4,560,000 in Solid Waste Refunding Revenue Bonds for the purpose of providing a portion of the funds to construct the second phase of the City's landfill. In June 1995, the City issued \$9,185,000 of Solid Waste Refunding and Construction Bonds to redeem the previously outstanding 1993 Temporary Solid Waste Revenue Bonds and to provide financing for future expansion of the Municipal Solid Waste Landfill. In April 1998, the City issued \$3,055,000 of Solid Waste Refunding Revenue Bonds to advance refund the outstanding Series 1994 Solid Waste Revenue Bonds. The net proceeds provided by the refunding debt were issued to purchase securities that were placed in an irrevocable trust, which were used to redeem the debt on December 1, 2001, at 101%. The refunded debt is defeased and the related liabilities have been removed from the Sanitation Fund statement of net assets. The

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

unamortized amount was netted against the new debt and was being amortized over the refunded debt's life using the straight-line method, which approximated the effective interest method. The deferred amount on refunding was amortized as of December 31, 2009. The remaining bonds were called and redeemed June 1, 2009.

On September 3, 2002, the City issued \$6,305,000 Solid Waste Refunding Revenue Bonds. The Series 2002 Bonds were issued to refund the outstanding Series 1995 Bonds. The 1995 Bonds were redeemed at 101% on December 1, 2002. The refunded debt is considered defeased and the related liabilities have been removed from the Sanitation Fund statement of net assets. The reacquisition price exceeded the carrying amount of the old debt by \$376,991. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method. The remaining unamortized deferred amount on refunding was \$75,399 as of December 31, 2009. The City completed the current refunding to reduce its total debt service payments over the next ten (10) years by \$1,020,312 and to obtain an economic gain of \$467,675.

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

The ordinances also contain provisions that, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2009, the City is in compliance with all applicable requirements. Restricted accounts required by the bond ordinance are as follows:

Bond Retirement- The City is required to restrict funds for the payment of principal, interest and trustee and paying agents' fees of \$551,610 as of December 31, 2009. The City held investments equal to this amount in the Sanitation Fund at December 31, 2009.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Maturity Schedule

Aggregate debt service requirements at December 31, 2009 for business-type activity related bonds were as follows:

	<u>Water and Sewer</u>		<u>Sanitation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 5,910,000	\$ 9,089,124	\$ 1,020,000	\$ 83,220
2011	6,170,000	8,828,312	1,060,000	42,930
2012	6,450,000	8,551,126	-	-
2013	5,350,000	8,254,399	-	-
2014	5,570,000	8,035,101	-	-
2015-2019	31,695,000	36,338,418	-	-
2020-2024	39,675,000	28,362,582	-	-
2025-2029	50,725,000	17,311,126	-	-
2030-2032	37,055,000	3,765,750	-	-
Total	<u>\$ 188,600,000</u>	<u>\$ 128,535,938</u>	<u>\$ 2,080,000</u>	<u>\$ 126,150</u>

	<u>Total Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 6,930,000	\$ 9,172,344
2010	7,230,000	8,871,242
2011	6,450,000	8,551,126
2012	5,350,000	8,254,399
2013	5,570,000	8,035,101
2014-2018	31,695,000	36,338,418
2019-2023	39,675,000	28,362,582
2024-2027	50,725,000	17,311,126
2028-2032	37,055,000	3,765,750
Total	<u>\$ 190,680,000</u>	<u>\$ 128,662,088</u>

Component Units Revenue Bonds-Business-Type Activities

Airport Commission-

On September 9, 1999, the Airport Commission issued \$5,290,000 of City of Fort Smith, Arkansas Airport Refunding and Improvement Revenue Bonds, Series 1999, dated October 1, 1999. At December 31, 2009, bonds payable were \$3,440,000. The bonds are due in annual installments at varying amounts through October 1, 2026, with interest ranging from 4.90% to 6.25%, payable semiannually. The bonds outstanding net of amortized discount at December 31, 2009, were \$3,407,260.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

	Principal	Interest
2010	\$ 125,000	\$ 211,090
2011	130,000	204,028
2012	140,000	196,618
2013	145,000	188,497
2014	155,000	180,015
2015-2019	930,000	745,850
2020-2024	1,250,000	419,967
2025-2026	565,000	51,875
 Total Payments	 3,440,000	 \$ 2,197,940
 Less unamortized bond discount	 (32,740)	
 Net bond outstanding, December 31, 2009	 \$ 3,407,260	

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

Bond Retirement- The Airport Commission is required to maintain funds for the payment of principal, interest and trustee and paying agents' fees of \$492,948, which are classified as restricted assets on the balance sheet, as of December 31, 2009. The Airport Commission held investments equal to this amount at December 31, 2009.

Parking Authority-

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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, 2009, the Parking Authority held investments equal to this amount.

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

At December 31, 2009, Parking Authority Revenue Bonds payable was \$815,000. The bonds are due in annual installments at varying amounts through December 1, 2017, with interest ranging from 4.40% to 4.75%, payable semiannually. The bonds outstanding net of unamortized discount at December 31, 2009, was \$799,900.

Debt service requirements for the bonds at December 31, 2009 were as follows:

	<u>Principal</u>	<u>Interest</u>
2010	\$ 100,000	\$ 37,413
2011	105,000	33,012
2012	110,000	28,340
2013	115,000	23,390
2014	120,000	18,043
2015-2017	<u>265,000</u>	<u>19,587</u>
 Total Payments	 815,000	 <u>\$ 159,785</u>
 Less unamortized bond discount	 <u>(15,100)</u>	
 Net bond outstanding, December 31, 2009	 <u>\$ 799,900</u>	

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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, 2009, the City has recorded \$402,647 as arbitrage payable. This liability is included as other long-term liabilities in the General Fund (\$5,886), and in the Sales and Use Tax Construction Fund (\$396,761).

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, 2009, there were four series of Industrial Development Revenue Bonds outstanding with an aggregate principal amount payable of \$182,000,000, two series of Fair and Exhibition Facilities Bonds outstanding with an aggregate principal amount payable of \$5,865,000, and two series of Residential Housing Facilities Board Multi-Family Housing Revenue Bonds outstanding with an aggregate principal payable of \$6,375,000.

Note 5: Risk Management

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

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Smith Public Library participate in the City's health plans by making contributions as required by the City. At December 31, 2009 the net assets were \$5,321,370 and \$15,169 in the Employee Insurance and Workers' Compensation Funds, respectively. The claims liability balances of \$1,022,247 and \$810,840 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 2009 are detailed below:

	<u>Employee Insurance</u>	<u>Workers' Compensation</u>
Self-insurance liability, December 31, 2007	\$ 912,908	\$ 664,576
Current year claims and changes in estimate	7,120,295	328,836
Claim payments	<u>(6,934,307)</u>	<u>(371,146)</u>
Self-insurance liability, December 31, 2008	1,098,896	622,266
Current year claims and changes in estimate	6,934,364	722,495
Claim payments	<u>(7,011,013)</u>	<u>(533,921)</u>
Self-insurance liability, December 31, 2009	<u>\$ 1,022,247</u>	<u>\$ 810,840</u>

Note 6: Deferred Compensation Plan

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

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Note 7: Pension Plans

(a) Public Employees Retirement System

Plan Description

Effective April 1, 1997, the Public Employees' Retirement System (PERS) was converted to a money purchase retirement plan, a defined contribution plan, that is qualified under Section 401(a) of the Internal Revenue Code (the 401(a) Plan). ICMARC serves as administrator of the 401(a) Plan. All full-time, non-uniformed employees with the exception of the three district judges and the District Court Clerk are covered by the 401(a) Plan. Each participant has a plan account to which the contributions are made and each participant manages their account by selecting various investments options offered by ICMARC. Plan benefits are based upon the total amount of money in an individual's account at retirement. Plan provisions and contribution rates are established by the 401(a) Plan agreement between the Board and ICMARC. Approval from both the Board and ICMARC is required for 401(a) Plan amendments. Employees make no contributions to the 401(a) Plan; however, the City makes contributions equal to 10% of each covered employees' earnings. Employer contributions to the PERS plan totaled \$2,423,737 for 2009.

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 2009 were made by the State.

On January 1, 2005, the district court clerk became a member of the Arkansas Public Employees' Retirement System (APERS). APERS is administered by the state as a defined benefit plan. The employer contribution rate was 12.54% of covered payroll and the Clerk's contribution rate was 5% for 2009.

Covered payroll for the clerk was \$81,209 for the fiscal year ended December 31, 2009. 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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

Members and participants of the old plans at December 31, 2009 are:

	Fire	Police
Active Members:		
Vested	9	4
Retirees and beneficiaries	122	98
Total	131	102

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

Funding Policy and Funded Status

Arkansas state statutes require yearly contributions at a level percentage of covered payroll sufficient to cover the costs of benefit commitments made to participants for their service rendered in that year and, over a reasonable period of time, to fully cover the unfunded costs of benefit commitments for services previously rendered. The City is required to contribute the actuarially required normal costs and amortized costs of the unfunded actuarial accrued liability. In addition, active employees are required to make contributions equal to 6% of their gross salary to the Old Plans. The contributions for the 2009 plan year were based upon the December 31, 2008, actuarial report.

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

The actuarially required contributions rate as of December 31, 2009, 2008, and 2007, and amounts required by the City and active participants of the Old Plans for 2009, 2008, and 2007 were as follows:

	<u>Fire Plan</u>			<u>Police Plan</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Employer actuarially required contribution rates	34.30%	33.24%	32.93%	24.05%	23.79%	22.47%
Employer contributions as a percentage of annual covered payroll	34.30%	33.24%	32.93%	24.05%	23.79%	22.47%
Employer contributions to LOPFI	\$ 226,519	\$ 223,824	\$ 235,050	\$ 85,670	\$ 89,004	\$ 82,196
Annual Pension Cost (APC)	\$ 226,519	\$ 223,824	\$ 235,050	\$ 85,670	\$ 89,004	\$ 82,196
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	-	-	-	-	-	-

The Fire portion of the Old Plan, as of December 31, 2008, the most recent actuarial valuation date, was 4% funded. The actuarial accrued liability for benefits was \$25,238,443, and the actuarial value of assets was \$1,046,343, resulting in an unfunded actuarial accrued liability (UAAL) of \$24,192,100. The covered payroll (annual payroll of active employees covered by the plan) was \$7,000,612 and the ratio of the UAAL to the covered payroll was 346%.

The Police portion of the Old Plan, as of December 31, 2008, the most recent actuarial valuation date, was 23% funded. The actuarial accrued liability for benefits was \$27,638,811, and the actuarial value of assets was \$6,207,679, resulting in an unfunded actuarial accrued liability (UAAL) of \$21,431,132. The covered payroll (annual payroll of active employees covered by the plan) was \$8,226,122 and the ratio of the UAAL to the covered payroll was 261%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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, 2009

Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to compute the contribution rates for the year ended December 31, 2009, for the Old Plans:

	Old Fire and Police Plans
Valuation date	December 31, 2008
Cost method	Entry age
Asset valuation method	Smooth market over a period of 5 years
Amortization method	Level percentage
Amortization period	29 years open
 Assumptions:	
Inflation rate	4.0%
Investment rate of return	8.0%
Projected salary increases	0.0% - 5.1%
Post-retirement benefit increases	3.0%

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

Plan Description

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

Members and participants of the new plans at December 31, 2009 are:

	Fire	Police
Active Members:		
Vested	121	165
 Retirees and beneficiaries	5	18
Total	126	183

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

Funding Policy and Funded Status

State statutes require active participants of the New Plans to make contributions equivalent to 6% of their gross salary and their contributions are 100% vested. On July 1, 2009, the employee contribution was increased to 8.5%. The City is also required by state statute to contribute the remaining amounts necessary to pay benefits when due, as determined by the New Plans' administrator, as well as fund the Old Plans' unfunded actuarial accrued liability over a 30-year open amortization period.

The actuarially computed contribution rates as of December 31, 2009, 2008, and 2007, and amounts required by the City and active participants of the New Plans for 2009, 2008, and 2007 were as shown on the following page:

	<u>Fire Plan</u>			<u>Police Plan</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Employer actuarially required contribution rates	34.30%	33.24%	32.93%	24.05%	23.79%	22.47%
Employer contributions as a percentage of annual covered payroll	34.30%	33.24%	32.93%	24.05%	23.79%	22.47%
Employer contributions to LOPFI	\$ 2,174,691	\$ 1,855,784	\$ 1,788,281	\$ 1,892,713	\$ 1,616,132	\$ 1,547,612
Annual Pension Cost (APC)	\$ 2,174,691	\$ 1,855,784	\$ 1,788,281	\$ 1,892,713	\$ 1,616,132	\$ 1,547,612
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	-	-	-	-	-	-

The Fire portion of the New Plan, as of December 31, 2008, the most recent actuarial valuation date, was 89% funded. The actuarial accrued liability for benefits was \$25,238,443 and the actuarial value of assets was \$22,453,784 resulting in an unfunded actuarial accrued liability (UAAL) of \$2,784,659. The covered payroll (annual payroll of active employees covered by the plan) was \$6,340,207 and the ratio of the UAAL to the covered payroll was 44%.

The Police portion of the New Plan, as of December 31, 2008, the most recent actuarial valuation date, was 101% funded. The actuarial accrued liability for benefits was \$27,638,811, and the actuarial value of assets was \$28,028,232, resulting in an actuarial accrued asset (AAA) of \$389,421. The covered payroll (annual payroll of active employees covered by the plan) was \$7,869,907 and the ratio of the AAA to the covered payroll was 5%.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

Actuarial Methods and Assumptions

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

	New Fire and Police Plans
Valuation date	December 31, 2008
Cost method	Entry age
Asset valuation method	Smooth market over a period of 5 years
Amortization method	Level percentage
Amortization period	29 years open
 Assumptions:	
Inflation rate	4.0%
Investment rate of return	8.0%
Projected salary increases	0.0% - 5.1%
Post-retirement benefit increases	3.0% every other year

Note 8: Other Postemployment Benefits (OPEB)

Plan Description

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

Contributions: The contribution requirements of plan members are established by 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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

contributions to the plan on behalf of the retirees. The plan has 904 active participants and 42 retirees and beneficiaries receiving benefits who pay monthly premiums between \$435 for single coverage and \$1,200 for family coverage. Administrative costs of the plan are financed through investment earnings and employer contributions.

Summary of Significant Accounting Policies

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

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

Funded Status and Funding Progress

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

Annual required contribution (ARC)	\$ 2,294,100
30 - year amortization of net OPEB obligation	(278,252)
Interest on net OPEB obligation	<u>241,699</u>
Annual OPEB cost	2,257,547
Total annual employer contribution	<u>1,098,805</u>
Increase in net OPEB obligation	1,158,742
Net OPEB obligation - beginning of year	<u>2,294,100</u>
Net OPEB obligation - end of year	<u><u>\$ 3,452,842</u></u>

The net OPEB obligation is recorded in the government-wide statement of net assets as non-current liabilities due in more than one year for governmental activities at \$2,320,310 and for business-type activities at \$1,132,532. Furthermore, the obligation for business-type activities is reflected

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

on the statement of fund net assets for proprietary funds as non-current liabilities for the Water and Sewer Fund (\$780,342) and for the Sanitation Fund (\$352,190).

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

Normal cost	\$	976,417
Amortization of transition obligation		1,317,683
Annual required contribution	\$	2,294,100

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2009	\$2,257,547	31.89%	\$3,452,842
12/31/2008	2,294,100	0.0%	2,294,100

Funded Status and Funding Progress: As of January 1, 2008, the most recent actuarial valuation date, the plan was partially funded. The actuarial accrued liability for benefits was \$23,918,052, and the actuarial value of assets was \$720,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$23,198,052. The covered payroll (annual payroll of active employees covered by the plan) was \$39,464,105, and the ratio of the UAAL to the covered payroll was 58.8%.

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.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

In the January 1, 2008, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7% investment rate of return based upon funding the plan in the future, and an annual healthcare cost trend rate of 10% for 2008 and then reduced by decrements of 0.5% to 1.0% annually to an ultimate rate of 5.5% after seven years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2009, was thirty years.

Note 9: Commitments and Contingencies

Litigation

In the course of business, a number of claims and lawsuits arise from individuals seeking compensation for personal injury and/or property damage resulting from accidents occurring in the City. In addition, the City has been named as a defendant in a number of lawsuits relating to personnel and contractual matters. Management does not believe that the outcome of these claims will have a material adverse effect on the City's financial position. The City appropriates funds necessary to meet settlements and awards. The City accrues a liability when it is incurred and when the contingency is probable and reasonably estimable. At December 31, 2009 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 required by the EPA. The City plans to issue an additional \$60 million in revenue bonds for wastewater improvements in the near future. City management believes this matter will be resolved without litigation and penalty assessment.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Note 10: Individual Fund Disclosures

Interfund receivables and payables as of December 31, 2009 are as follows:

Fund	Receivables	Payables
Governmental Funds:		
General Fund	\$ 30,042	\$ 89,169
Street Maintenance Fund	89,169	-
CDBG Fund	-	21,678
HOME Fund	-	9,040
Internal Service Funds	<u>676</u>	<u>-</u>
Total	<u>\$ 119,887</u>	<u>\$ 119,887</u>

The \$30,042 receivable in the General Fund represents amounts paid for expenditures incurred by the Community Development Block Grant Fund (\$21,002) and the HOME Investment Partnership Act Fund (\$9,040). The \$676 receivable in the Working Capital Fund, an internal service fund, represents charges to the Community Development Block Grant Fund for fuel and supplies. The \$89,169 receivable in the Street Maintenance Fund is revenue due from the General Fund at yearend.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Interfund transfers in (out) for the year ended December 31, 2009, are as follows:

Fund	Transfers	
	In	Out
Primary Government -		
Governmental Funds:		
Major funds:		
General Fund	\$ 2,407,848	\$ 429,500
Special revenue -		
Street Maintenance Fund	-	106,350
Sales Tax Fund		2,301,131
Debt service fund -		
Sales & Use Tax Bond Fund	-	27,144,493
Capital project fund -		
Sales & Use Tax Construction Fund	27,144,493	34,018,753
Nonmajor fund:		
Capital project fund -		
Sidewalk Construction Fund	137,131	-
Total governmental funds	<u>29,689,472</u>	<u>64,000,227</u>
Proprietary Funds:		
Water and Sewer Fund	34,018,753	192,250
Sanitation Fund	90,000	174,550
Working Capital Fund	59,000	-
Workers' Compensation Fund	220,000	-
Total proprietary funds	<u>34,387,753</u>	<u>366,800</u>
Component Units -		
Advertising & Promotion Fund	-	20,198
Parking Authority Fund	310,000	-
Total component units	<u>310,000</u>	<u>20,198</u>
Total	<u>\$ 64,387,225</u>	<u>\$ 64,387,225</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

The transfer out of \$2,301,131 from the Sales Tax Fund includes \$2,164,000 to the General Fund and represents an allocation of overhead costs provided by General Fund programs during 2009 and \$137,131 to the Sidewalk Construction Fund for street related sidewalk projects. The Sales & Use Tax Bond Fund transfer out of \$27,144,493 is the bond proceeds transferred to the construction fund. The Sales & Use Tax Construction Fund transfer out of \$34,018,753 to the Water and Sewer Fund represents the transfer of capital assets that is recognized as capital contributions in the fund financial statements.

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 2045 rather than 2013. The landfill was opened on October 9, 1993. The City's reported landfill closure and postclosure care liability at December 31, 2009, is \$3,554,057. The remaining estimated closure and postclosure care costs of approximately \$32 million will be recognized as the remaining capacity is filled. The percentage of landfill capacity used to date was approximately 8.9% at December 31, 2009. 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, 2009. 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, 2009, is \$6,555,673. In order to comply with this requirement, the City held an irrevocable standby letter of credit with BancorpSouth that is pledged to the Arkansas Department of Environmental Quality in the amount of \$6,417,000 at December 31, 2009. The City will increase the value of the letter of credit to meet the required level of financial assurance during 2010.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Note 12: New Applicable GASB Standards

GASB Statement No. 51 Accounting and Financial Reporting for Intangible Assets

This statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

GASB Statement No. 53 Accounting and Financial Reporting for Derivative Instruments

This Statement establishes accounting and financial reporting requirements for derivative instruments entered into by state and local governments. The requirements of this Statement are effective for financial statements beginning after June 15, 2009. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

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

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

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

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

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

This Statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

Note 13: Subsequent Event

On January 7, 2010, the City issued an additional \$3.595 million in Sales and Use Tax Bonds, Series 2010. The 2010 Bonds were issued to provide more funding for wastewater improvements in accordance with the EPA guidelines and directives. The 2010 Bonds were issued on parity with the 2006 and 2008 Sales and Use Tax Bonds and the 1% local sales and use tax pledged for the 2006 and 2008 Bonds is also pledged for the 2010 Bonds. The 2010 Bonds carry interest rates of 1.3% and 2%, payable semiannually, and mature September 1, 2011. The 2010 Bonds are subject to extraordinary redemption from surplus tax receipts and proceeds of the Bonds not needed for purposes intended at a purchase price equal to the principal amount being redeemed plus accrued interest to the redemption date.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Note 14: Condensed Financial Statements-Discretely Presented Component Units

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

Statement of Net Assets
December 31, 2009

	<u>Governmental</u>			<u>Business-Type</u>		
	<u>Advertising and Promotion</u>	<u>Public Library</u>	<u>Total</u>	<u>Parking Authority</u>	<u>Airport Commission</u>	<u>Total</u>
Assets						
Current assets	\$ 185,739	\$ 1,372,633	\$ 1,558,372	\$ 287,180	\$ 2,312,002	\$ 2,599,182
Sales taxes receivable from the City	-	142,319	142,319	-	-	-
Capital Assets, net of accumulated depreciation, as applicable	-	697,181	697,181	2,359,098	36,189,930	38,549,028
Noncurrent assets	-	-	-	14,499	852,099	866,598
Total Assets	<u>185,739</u>	<u>2,212,133</u>	<u>2,397,872</u>	<u>2,660,777</u>	<u>39,354,031</u>	<u>42,014,808</u>
Liabilities						
Current liabilities	8,310	76,118	84,428	107,809	558,898	666,707
Noncurrent liabilities	-	-	-	702,128	3,282,260	3,984,388
Total liabilities	<u>8,310</u>	<u>76,118</u>	<u>84,428</u>	<u>809,937</u>	<u>3,841,158</u>	<u>4,651,095</u>
Net Assets						
Investment in capital assets, net of related debt	-	697,181	697,181	1,556,970	32,782,670	34,339,640
Restricted	-	-	-	69,620	1,296,630	1,366,250
Unrestricted	177,429	1,438,834	1,616,263	224,250	1,433,573	1,657,823
Total net assets	<u>\$ 177,429</u>	<u>\$ 2,136,015</u>	<u>\$ 2,313,444</u>	<u>\$ 1,850,840</u>	<u>\$ 35,512,873</u>	<u>\$ 37,363,713</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2009

Statement of Activities
For the Year Ended December 31, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities		
				Advertising and Promotion	Public Library	Total
Advertising/Promotion	\$ 920,876	\$ -	\$ 3,542	\$ (917,334)	\$ -	\$ (917,334)
Public Library	3,279,174	106,081	270,521	-	(2,902,572)	(2,902,572)
Total	<u>\$ 4,200,050</u>	<u>\$ 106,081</u>	<u>\$ 274,063</u>	<u>(917,334)</u>	<u>(2,902,572)</u>	<u>(3,819,906)</u>

General revenues

Property taxes	-	1,120,875	1,120,875
Sales taxes	-	902,807	902,807
Hospitality hotel/motel taxes	673,278	-	673,278
Unrestricted investments earnings	2,983	9,088	12,071
Other	-	791,335	791,335

Total general revenues

676,261 2,824,105 3,500,366

Change in net assets

(241,073) (78,467) (319,540)

Net assets, beginning

418,502 2,214,482 2,632,984

Net assets, ending

\$ 177,429 \$ 2,136,015 \$ 2,313,444

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines, and Charges for Services	Capital Grants and Contributions	Business-Type Activities		
				Parking Authority	Airport Commission	Total
Parking Authority	\$ 267,737	\$ 162,666	\$ -	\$ (105,071)	\$ -	\$ (105,071)
Airport Commission	4,601,514	2,429,817	3,192,969	-	1,021,272	1,021,272
Total	<u>\$ 4,869,251</u>	<u>\$ 2,592,483</u>	<u>\$ 3,192,969</u>	<u>(105,071)</u>	<u>1,021,272</u>	<u>916,201</u>

General revenues

Unrestricted investment earnings	1,642	39,852	41,494
Payment from City of Fort Smith	310,000	-	310,000
Other	-	-	-

Total general revenues

311,642 39,852 351,494

Change in net assets

206,571 1,061,124 1,267,695

Net assets, beginning

1,644,269 34,451,749 36,096,018

Net assets, ending

\$ 1,850,840 \$ 35,512,873 \$ 37,363,713

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

(1)	(2)	(3)	(4)	(5)	(6)	
Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funded Ratio (1)/(2)	Total Funded Excess (Unfunded) Actuarial Liability* (1) - (2)	Annual Covered Payroll	Ratio of Funded Excess (Unfunded) Actuarial Liability to Annual Covered Payroll (4)/(5)
Fire Relief and Pension Plan and Police Relief and Pension Plan (the Old Plans)						
Fire Plan:						
2008	\$ 1,046,343	\$ 25,238,443	4.1%	\$ (24,192,100)	\$ 7,000,612	-345.6%
2007	2,657,357	21,410,722	12.4%	(18,753,365)	6,111,117	-306.9%
2006	936,574	18,647,516	5.0%	(17,710,942)	6,031,834	-293.6%
Police Plan:						
2008	\$ 6,207,679	\$ 27,638,811	22.5%	\$ (21,431,132)	\$ 8,226,122	-260.5%
2007	9,992,121	23,123,175	43.2%	(13,131,054)	7,040,679	-186.5%
2006	8,342,056	21,290,432	39.2%	(12,948,376)	7,018,643	-184.5%
Arkansas Local Police and Fire Retirement System (the New Plans)						
Fire Plan:						
2008	\$ 22,453,784	\$ 25,238,443	89.0%	\$ (2,784,659)	\$ 6,340,207	-43.9%
2007	21,930,847	21,410,722	102.4%	520,125	5,501,795	9.5%
2006	18,990,176	18,647,516	101.8%	342,660	5,199,899	6.6%
Police Plan:						
2008	\$ 28,028,232	\$ 27,638,811	101.4%	\$ 389,421	\$ 7,869,907	4.9%
2007	26,892,624	23,123,175	116.3%	3,769,449	6,685,543	56.4%
2006	24,201,634	21,290,432	113.7%	2,911,202	6,616,368	44.0%
Other Post Employment Benefit Plan (OPEB)						
2009	\$ 720,000	\$ 23,918,052	3.0%	\$ (23,198,052)	\$ 39,464,105	-58.8%
2008	-	16,351,176	0.0%	(16,351,176)	35,747,692	-45.7%

(OPEB) Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
2009	\$ 2,294,100	31.4%
2008	2,294,100	0.0%

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, 2009

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
Revenues						
Taxes	\$ 5,508,900	\$ 6,021,679	\$ 6,479,078	\$ -	\$ 6,479,078	\$ 457,399
Sales taxes	16,076,311	15,433,259	15,046,777	-	15,046,777	(386,482)
Licenses and permits	1,389,000	1,310,737	1,377,110	-	1,377,110	66,373
Utility franchise fees	7,565,900	6,815,900	5,990,452	-	5,990,452	(825,448)
Intergovernmental	4,861,287	6,314,533	4,432,477	-	4,432,477	(1,882,056)
Fines and forfeitures	1,900,000	1,776,860	1,969,274	-	1,969,274	192,414
Fees for services	1,239,462	1,179,133	1,172,312	-	1,172,312	(6,821)
Interest	280,000	75,612	65,698	-	65,698	(9,914)
Miscellaneous	180,000	158,417	150,275	-	150,275	(8,142)
Total revenues	39,000,860	39,086,130	36,683,453	-	36,683,453	(2,402,677)
Expenditures						
Current:						
General government						
Administration	4,314,582	4,336,493	3,857,928	24,138	3,882,066	454,427
Legal	2,023,310	2,023,310	1,757,267	8,900	1,766,167	257,143
Finance	2,281,896	2,236,038	2,016,746	3,671	2,020,417	215,621
Public safety						
Police	16,903,751	16,786,251	15,016,388	29,909	15,046,297	1,739,954
Fire	10,193,457	10,479,917	9,931,182	161,290	10,092,472	387,445
Community services						
Health and social services	123,370	131,370	108,992	-	108,992	22,378
Parks and recreation	2,811,822	2,526,546	2,495,526	32,182	2,527,708	(1,162)
Transit	2,422,669	2,372,400	2,031,373	806	2,032,179	340,221
Other	3,504,836	3,182,429	1,662,366	430,284	2,092,650	1,089,779
Capital outlay	2,014,910	4,785,211	2,292,948	2,059,523	4,352,471	432,740
Debt service:						
Principal	-	-	455,000	-	455,000	(455,000)
Interest	-	-	45,956	-	45,956	(45,956)
Total expenditures	46,594,603	48,859,965	41,671,672	2,750,703	44,422,375	4,437,590
Excess (deficiency) of revenues over (under) expenditures	(7,593,743)	(9,773,835)	(4,988,219)	(2,750,703)	(7,738,922)	2,034,913
Other Financing Sources (Uses):						
Transfers in	2,409,650	2,409,360	2,407,848	-	2,407,848	(1,512)
Transfers out	(340,000)	(429,500)	(429,500)	-	(429,500)	-
Insurance proceeds from hail storm	-	-	799,151	-	799,151	799,151
Total other financing sources and uses	2,069,650	1,979,860	2,777,499	-	2,777,499	797,639
Net change in fund balances	(5,524,093)	(7,793,975)	(2,210,720)	(2,750,703)	(4,961,423)	2,832,552
Fund Balances, January 1	10,706,233	10,706,233	10,706,233	-	10,706,233	-
Fund Balances, December 31	<u>\$ 5,182,140</u>	<u>\$ 2,912,258</u>	<u>\$ 8,495,513</u>	<u>\$ (2,750,703)</u>	<u>\$ 5,744,810</u>	<u>\$ 2,832,552</u>

City of Fort Smith, Arkansas
Required Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – Street Maintenance Fund
For the Year Ended December 31, 2009

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
Revenues						
Taxes	\$ 1,637,700	\$ 1,735,220	\$ 1,887,958	\$ -	\$ 1,887,958	\$ 152,738
Intergovernmental	3,772,596	3,772,596	3,789,031	-	3,789,031	16,435
Interest	145,000	46,104	34,746	-	34,746	(11,358)
Miscellaneous	5,000	3,200	10,719	-	10,719	7,519
Total revenues	5,560,296	5,557,120	5,722,454	-	5,722,454	165,334
Expenditures						
Current:						
General government						
Administration	238,846	240,987	219,859	524	220,383	20,604
Legal	73,200	73,200	47,810	-	47,810	25,390
Finance	365,623	372,733	326,834	8,939	335,773	36,960
Public works						
Operations	478,776	481,106	418,810	-	418,810	62,296
Streets	3,140,000	3,064,060	2,488,950	1,921	2,490,871	573,189
Traffic control	2,012,570	2,038,000	1,805,319	7,106	1,812,425	225,575
Community services						
Parks and recreation	335,440	335,440	259,046	6,176	265,222	70,218
Other	86,855	61,380	45,781	-	45,781	15,599
Capital Outlay	291,085	331,990	377,803	-	377,803	(45,813)
Total expenditures	7,022,395	6,998,896	5,990,212	24,666	6,014,878	984,018
Excess (deficiency) of revenues over (under) expenditures	(1,462,099)	(1,441,776)	(267,758)	(24,666)	(292,424)	1,149,352
Other Financing Uses:						
Transfers out	(74,550)	(106,350)	(106,350)	-	(106,350)	-
Other Financing Uses	(74,550)	(106,350)	(106,350)	-	(106,350)	-
Change in Fund Balances	(1,536,649)	(1,548,126)	(374,108)	(24,666)	(398,774)	1,149,352
Fund Balances, January 1	3,507,814	3,507,814	3,507,814	-	3,507,814	-
Fund Balances, December 31	\$ 1,971,165	\$ 1,959,688	\$ 3,133,706	\$ (24,666)	\$ 3,109,040	\$ 1,149,352

City of Fort Smith, Arkansas
Notes to Required Supplementary Information
December 31, 2009

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 2009, supplemental appropriations (expenditures and transfers out) were adopted by the Board for the General Fund totaling \$2,354,862 to allocate the ARRA funds for transit capital improvements (\$1,845,928) and to provide additional funding for the purchase of equipment for the Police Department with federally seized forfeiture funds (\$225,100); for additional parking facility repairs (\$60,000); additional fire equipment repairs (\$50,000); communications and office lease increases (\$34,400); special election costs (\$10,237); asbestos abatement at the port facilities (\$31,807); a Riverfront development opportunity analysis (\$61,700); and for the Fort Smith Golf Classic (\$35,690). During 2009, the Board adopted supplemental appropriations for the Street Maintenance Fund totaling \$8,301 for communications and office lease increases (\$6,400) and for the special election (\$1,901). For budgetary purposes, unencumbered appropriations lapse at year-end.

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

**SUPPLEMENTARY INFORMATION
SECTION**

City of Fort Smith, Arkansas
Non-major Governmental Funds
For the Fiscal Year Ended December 31, 2009

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 sub recipients 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, FEMA grants for the 2008 storm damage and sheltering, ARRA Energy grant, Arkansas historic preservation grants, and a local grant from Sebastian County for drug law enforcement projects. These funds are restricted to expenditures for approved projects of the various agencies.

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

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

Capital Projects Fund:

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

City of Fort Smith, Arkansas
Combining Balance Sheet – Non-major Governmental Funds
December 31, 2009

	Special Revenue					Capital Projects		Total Nonmajor Governmental Funds
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Convention Center	Sidewalk Construction	
Assets								
Cash	\$ 48,754	\$ -	\$ 223,243	\$ 19,414	\$ 387,191	\$ 78,658	\$ 46,286	\$ 803,546
Investments	71,900	8,618	-	638,755	12,948,917	1,384,357	747,458	15,800,005
Receivables, net of allowance for uncollectibles								
Taxes	-	-	-	-	2,647,557	-	-	2,647,557
Accounts	-	400	-	-	-	-	-	400
Accrued interest	29	3	-	219	4,103	502	261	5,117
Due from other governments	11,602	-	15,247	55,725	-	-	-	82,574
Total assets	\$ 132,285	\$ 9,021	\$ 238,490	\$ 714,113	\$ 15,987,768	\$ 1,463,517	\$ 794,005	\$ 19,339,199
Liabilities and Fund Balances								
Liabilities:								
Accounts payable and accrued liabilities	\$ 56,720	\$ -	\$ 15,247	\$ 153,731	\$ 693,162	\$ 35,168	\$ 69,412	\$ 1,023,440
Retainage payable	9,572	-	-	-	-	-	14,627	24,199
Due to other funds	21,678	-	9,040	-	-	-	-	30,718
Deferred revenues	41,190	-	214,203	436,149	2,647,557	-	-	3,339,099
Other	2,323	-	-	-	-	-	-	2,323
Total liabilities	131,483	-	238,490	589,880	3,340,719	35,168	84,039	4,419,779
Fund Balances:								
Reserved for:								
Other purposes	802	9,021	-	-	-	1,428,349	-	1,438,172
Unreserved, reported in nonmajor:								
Special revenue funds	-	-	-	124,233	12,647,049	-	-	12,771,282
Capital projects funds	-	-	-	-	-	-	709,966	709,966
Total Fund Balances	802	9,021	-	124,233	12,647,049	1,428,349	709,966	14,919,420
Total liabilities and fund balances	\$ 132,285	\$ 9,021	\$ 238,490	\$ 714,113	\$ 15,987,768	\$ 1,463,517	\$ 794,005	\$ 19,339,199

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balance –
Non-major Governmental Funds
For the Year Ended December 31, 2009

	Special Revenue					Capital Projects	Total Nonmajor Governmental Funds	
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Convention Center		Sidewalk Construction
Revenues								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,517,277	\$ -	\$ -	\$ 2,517,277
Licenses and permits	-	-	-	-	-	-	182,840	182,840
Intergovernmental	1,176,618	-	634,327	463,074	796,055	1,786,636	-	4,856,710
Fines and forfeitures	-	-	-	-	129,627	-	-	129,627
Interest	-	87	-	1,012	142,383	11,734	6,077	161,293
Contributions	-	800	-	-	1,162,549	-	-	1,163,349
Miscellaneous	-	-	-	-	1,307	-	18,500	19,807
Total revenues	1,176,618	887	634,327	464,086	4,749,198	1,798,370	207,417	9,030,903
Expenditures								
Current:								
Public safety								
Police	-	-	-	170,176	2,854,852	-	-	3,025,028
Fire	-	-	-	-	2,725,106	-	-	2,725,106
Public works								
Streets	-	-	-	-	-	-	151,437	151,437
Community services								
Parks and Recreation	-	-	-	70,578	-	-	-	70,578
Convention Center	-	-	-	-	-	2,562,089	-	2,562,089
Housing and Rehabilitation	1,176,618	-	634,327	-	-	-	-	1,810,945
Other	-	-	-	104,827	-	-	-	104,827
Capital Outlay	-	-	-	121,675	-	72,571	-	194,246
Total expenditures	1,176,618	-	634,327	467,256	5,579,958	2,634,660	151,437	10,644,256
Excess (deficiency) of revenues over (under) expenditures	-	887	-	(3,170)	(830,760)	(836,290)	55,980	(1,613,353)
Other Financing Sources (Uses)								
Transfers in	-	-	-	-	-	-	137,131	137,131
Insurance proceeds from hail storm	-	-	-	-	-	979,421	-	979,421
Total Other Financing Sources and Uses	-	-	-	-	-	979,421	137,131	1,116,552
Net Change in Fund Balances	-	887	-	(3,170)	(830,760)	143,131	193,111	(496,801)
Fund Balances, January 1	802	8,134	-	127,403	13,477,809	1,285,218	516,855	15,416,221
Fund Balances, December 31	<u>\$ 802</u>	<u>\$ 9,021</u>	<u>\$ -</u>	<u>\$ 124,233</u>	<u>\$ 12,647,049</u>	<u>\$ 1,428,349</u>	<u>\$ 709,966</u>	<u>\$ 14,919,420</u>

City of Fort Smith, Arkansas
Internal Service Funds
For the Fiscal Year Ended December 31, 2009

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

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

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

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Internal Service Funds
December 31, 2009

	Working Capital	Employee Insurance	Workers' Compensation	Total
Assets				
Current Assets				
Cash	\$ 862	\$ 872,891	\$ 218,958	\$ 1,092,711
Investments	-	5,476,860	584,806	6,061,666
Receivables, net of allowance for uncollectibles				
Accounts	-	93,267	8,060	101,327
Accrued interest	-	2,147	185	2,332
Inventory	26,259	-	-	26,259
Prepaid items & deposits	-	-	14,000	14,000
Due from other funds	676	-	-	676
Total Current Assets	27,797	6,445,165	826,009	7,298,971
Total Assets	27,797	6,445,165	826,009	7,298,971
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	-	101,548	-	101,548
Claims and judgments	-	1,022,247	810,840	1,833,087
Total Current Liabilities	-	1,123,795	810,840	1,934,635
Total Liabilities	-	1,123,795	810,840	1,934,635
Net Assets				
Unrestricted	27,797	5,321,370	15,169	5,364,336
Total Net Assets	\$ 27,797	\$ 5,321,370	\$ 15,169	\$ 5,364,336

City of Fort Smith, Arkansas
Combining Statement of Revenues, Expenses and
Changes in Fund Net Assets
Internal Service Funds
For the Year Ended December 31, 2009

	Working Capital	Employee Insurance	Workers' Compensation	Total
Operating Revenues				
Charges for services - internal	\$ 534,514	\$ 7,997,899	\$ 350,020	\$ 8,882,433
Charges for services - external	-	485,675	-	485,675
Total Operating Revenues	<u>534,514</u>	<u>8,483,574</u>	<u>350,020</u>	<u>9,368,108</u>
Operating Expenses				
Contractual services	-	522,758	179,735	702,493
Materials and supplies	589,805	-	-	589,805
Insurance claims and expenses	-	7,011,013	533,921	7,544,934
Total Operating Expenses	<u>589,805</u>	<u>7,533,771</u>	<u>713,656</u>	<u>8,837,232</u>
Operating Income (Loss)	<u>(55,291)</u>	<u>949,803</u>	<u>(363,636)</u>	<u>530,876</u>
Nonoperating Revenues				
Investment earnings	-	62,308	8,070	70,378
Total Nonoperating Revenues	<u>-</u>	<u>62,308</u>	<u>8,070</u>	<u>70,378</u>
Income (Loss) Before Transfers	(55,291)	1,012,111	(355,566)	601,254
Transfers In	59,000	-	220,000	279,000
Transfers In Intrafund	-	-	90,000	90,000
Transfers Out Intrafund	<u>-</u>	<u>(90,000)</u>	<u>-</u>	<u>(90,000)</u>
Change in Net Assets	3,709	922,111	(45,566)	880,254
Total net assets, beginning	<u>24,088</u>	<u>4,399,259</u>	<u>60,735</u>	<u>4,484,082</u>
Total net assets, ending	<u>\$ 27,797</u>	<u>\$ 5,321,370</u>	<u>\$ 15,169</u>	<u>\$ 5,364,336</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows
Internal Service Funds
For the Year December 31, 2009

	Working Capital	Employee Insurance	Workers' Compensation	Total
Cash Flows from Operating Activities:				
Cash received from service users	\$ 534,159	\$ 461,087	\$ -	995,246
Cash received from city and employee contributions	-	7,997,899	349,664	8,347,563
Cash payments for goods and services	(593,278)	-	-	(593,278)
Cash payments for premiums and other operating expenses	-	(7,378,731)	(138,599)	(7,517,330)
Cash payments for claims paid	-	(522,758)	(387,198)	(909,956)
	<u>(59,119)</u>	<u>557,497</u>	<u>(176,133)</u>	<u>322,245</u>
Net cash provided by (used for) operating activities				
Cash Flows from Noncapital Financing Activities				
Transfers in from other funds	59,000	-	310,000	369,000
Transfers out to other funds	-	(90,000)	-	(90,000)
	<u>59,000</u>	<u>(90,000)</u>	<u>310,000</u>	<u>279,000</u>
Net cash provided by (used for) noncapital financing activities				
Cash Flows from Investing Activities				
Proceeds from sales and maturities of investment securities	-	1,493,551	450,555	1,944,106
Outlays for purchases of investment securities	-	(1,401,163)	(441,937)	(1,843,100)
Interest on investments	-	68,019	8,906	76,925
	<u>-</u>	<u>160,407</u>	<u>17,524</u>	<u>177,931</u>
Net cash provided by investing activities				
Net Increase (Decrease) in Cash	(119)	627,904	151,391	779,176
Cash, January 1	981	244,987	67,567	313,535
	<u>981</u>	<u>244,987</u>	<u>67,567</u>	<u>313,535</u>
Cash, December 31	<u>\$ 862</u>	<u>\$ 872,891</u>	<u>\$ 218,958</u>	<u>\$ 1,092,711</u>
Reconciliation of Operating Income (Loss) to Net Cash				
Provided by (Used for) Operating Activities				
Operating income (loss)	\$ (55,291)	\$ 949,803	\$ (363,636)	\$ 530,876
Change in assets and liabilities				
Accounts receivable	-	(24,588)	(356)	(24,944)
Due from other funds	(355)	-	-	(355)
Inventory	6,244	-	-	6,244
Prepaid items	-	83,185	41,136	124,321
Accounts payable and accrued liabilities	(9,717)	(165,148)	-	(174,865)
Liability for claims and judgments	-	(285,755)	146,723	(139,032)
	<u>(3,828)</u>	<u>(392,306)</u>	<u>187,503</u>	<u>(208,631)</u>
Total adjustments				
Net cash provided by (used for) operating activities	<u>\$ (59,119)</u>	<u>\$ 557,497</u>	<u>\$ (176,133)</u>	<u>\$ 322,245</u>

City of Fort Smith, Arkansas
Discretely Presented Component Units
For the Fiscal Year Ended December 31, 2009

Governmental Fund Types – Special Revenue Funds

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

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

Proprietary Fund Types – Enterprise Funds

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

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

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Governmental Component Units
December 31, 2009

	<u>Advertising and Promotion</u>	<u>Public Library</u>	<u>Total</u>
Assets			
Cash	\$ 35,716	\$ 668,948	\$ 704,664
Investments	99,555	400,809	500,364
Receivables, net of allowance for uncollectibles			
Taxes	46,896	93,963	140,859
Sales taxes	-	132,283	132,283
Accounts	-	169,818	169,818
Accrued interest	47	10,036	10,083
Prepaid items	3,525	34,095	37,620
Inventory, at cost	-	5,000	5,000
Capital assets			
Nondepreciable	-	429,295	429,295
Depreciable	-	267,886	267,886
	<u>185,739</u>	<u>2,212,133</u>	<u>2,397,872</u>
Total Assets			
Liabilities			
Accounts payable and accrued liabilities	<u>8,310</u>	<u>76,118</u>	<u>84,428</u>
	<u>8,310</u>	<u>76,118</u>	<u>84,428</u>
Total Liabilities			
Net Assets			
Invested in capital assets	-	697,181	697,181
Unrestricted	<u>177,429</u>	<u>1,438,834</u>	<u>1,616,263</u>
	<u>\$ 177,429</u>	<u>\$ 2,136,015</u>	<u>\$ 2,313,444</u>
Total Net Assets			

City of Fort Smith, Arkansas
Combining Statement of Activities – Governmental Component Units
For the Year Ended December 31, 2009

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Advertising & Promotion	Public Library	Total
Advertising & Promotion	\$ 920,876	\$ -	\$ 3,542	\$ (917,334)	\$ -	\$ (917,334)
Public Library	3,279,174	106,081	270,521	-	(2,902,572)	(2,902,572)
Total	<u>\$ 4,200,050</u>	<u>\$ 106,081</u>	<u>\$ 274,063</u>	<u>(917,334)</u>	<u>(2,902,572)</u>	<u>(3,819,906)</u>
General revenues						
Property taxes				-	1,120,875	1,120,875
Sales taxes				-	902,807	902,807
Hospitality taxes				673,278	-	673,278
Unrestricted investment earnings				2,983	9,088	12,071
Other				-	791,335	791,335
Total general revenues				<u>676,261</u>	<u>2,824,105</u>	<u>3,500,366</u>
Change in net assets				(241,073)	(78,467)	(319,540)
Net assets, beginning				<u>418,502</u>	<u>2,214,482</u>	<u>2,632,984</u>
Net assets, ending				<u>\$ 177,429</u>	<u>\$ 2,136,015</u>	<u>\$ 2,313,444</u>

City of Fort Smith, Arkansas
Balance Sheet – Advertising and Promotion
Governmental Component Unit
December 31, 2009

Assets:

Cash	\$ 35,716
Investments	99,555
Receivables, net of allowance for uncollectibles	
Taxes	46,896
Accrued interest	47
Prepaid items	<u>3,525</u>
 Total Assets	 <u><u>\$ 185,739</u></u>

Liabilities and Fund Balance:

Current:

Accounts payable and accrued liabilities	<u>\$ 8,310</u>
 Total Liabilities	 8,310

Fund Balance:

Reserved	
Encumbrances	-
Prepays	3,525
Unreserved	<u>173,904</u>
 Total Liabilities and Fund Balance	 <u><u>\$ 185,739</u></u>

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balance
Advertising and Promotion - Governmental Component Unit
For the Year Ended December 31, 2009

Revenues	
Taxes	\$ 673,278
Interest	2,983
Contributions	3,542
	<u> </u>
Total revenues	<u>679,803</u>
Expenditures	
Other	900,678
Capital outlay	-
	<u> </u>
Total Expenditures	<u>900,678</u>
Excess of revenues over expenditures	<u>(220,875)</u>
Other Financing Uses:	
Transfers out to primary government	<u>(20,198)</u>
Total other financing uses	<u>(20,198)</u>
Net change in fund balance	(241,073)
Fund Balance, January 1	<u>418,502</u>
Fund Balance, December 31	<u><u>\$ 177,429</u></u>

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Business-Type Component Units
December 31, 2009

	<u>Parking Authority</u>	<u>Airport</u>	<u>Total</u>
Assets			
Current Assets			
Cash	\$ 109,197	\$ 898,350	\$ 1,007,547
Investments	81,783	250,000	331,783
Receivables, net of allowance for uncollectibles			
Accounts	1,351	198,369	199,720
Accrued interest	107	700	807
Restricted			
Cash	-	88,418	88,418
Investments	92,162	452,742	544,904
Accounts receivable, net of allowances for uncollectibles	-	51,632	51,632
Interest receivable	-	198	198
Grants and other governments	-	297,717	297,717
Prepaid items and deposits	2,580	58,180	60,760
Inventory	-	15,696	15,696
	<u>287,180</u>	<u>2,312,002</u>	<u>2,599,182</u>
Total Current Assets			
Noncurrent Assets			
Restricted			
Investments	-	405,640	405,640
Deferred charges	14,499	446,459	460,958
Capital assets			
Nondepreciable	1,359,160	8,644,636	10,003,796
Depreciable	999,938	27,545,294	28,545,232
	<u>2,373,597</u>	<u>37,042,029</u>	<u>39,415,626</u>
Total Noncurrent Assets			
Total Assets	<u>2,660,777</u>	<u>39,354,031</u>	<u>42,014,808</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	2,712	433,898	436,610
Payable from restricted assets:			
Accrued interest	5,097	-	5,097
Revenue bonds payable, current	100,000	125,000	225,000
	<u>107,809</u>	<u>558,898</u>	<u>666,707</u>
Total Current Liabilities			
Noncurrent liabilities			
Due within one year	100	-	100
Due in more than one year	702,028	3,282,260	3,984,288
	<u>702,128</u>	<u>3,282,260</u>	<u>3,984,388</u>
Total Noncurrent Liabilities			
Total Liabilities	<u>809,937</u>	<u>3,841,158</u>	<u>4,651,095</u>
Net Assets			
Invested in capital assets, net of related debt	1,556,970	32,782,670	34,339,640
Restricted for bond retirement	69,620	494,573	564,193
Restricted for capital projects	-	802,057	802,057
Unrestricted	224,250	1,433,573	1,657,823
	<u>\$ 1,850,840</u>	<u>\$ 35,512,873</u>	<u>\$ 37,363,713</u>
Total Net Assets			

City of Fort Smith, Arkansas
Combining Statement of Activities – Business-Type Component Units
For the Year Ended December 31, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines, and Charges for Services	Capital Grants and Contributions	Business-Type Activities		
					Parking Authority	Airport Commission
Parking Authority	\$ 267,737	\$ 162,666	\$ -	\$ (105,071)	\$ -	\$ (105,071)
Airport	4,601,514	2,429,817	3,192,969	-	1,021,272	1,021,272
Total	<u>\$ 4,869,251</u>	<u>\$ 2,592,483</u>	<u>\$ 3,192,969</u>	<u>(105,071)</u>	<u>1,021,272</u>	<u>916,201</u>
General revenues						
Unrestricted investment earnings				1,642	39,852	41,494
Payment from City of Fort Smith				310,000	-	310,000
Total general revenues				<u>311,642</u>	<u>39,852</u>	<u>351,494</u>
Change in net assets				<u>206,571</u>	<u>1,061,124</u>	<u>1,267,695</u>
Net assets, beginning				<u>1,644,269</u>	<u>34,451,749</u>	<u>36,096,018</u>
Net assets, ending				<u>\$ 1,850,840</u>	<u>\$ 35,512,873</u>	<u>\$ 37,363,713</u>

(This Page Intentionally Left Blank)

City of Fort Smith, Arkansas
Combining Statement of Cash Flows – Business-Type Component Units
For the Year Ended December 31, 2009

	<u>Parking Authority</u>	<u>Airport</u>	<u>Total</u>
Operating Activities			
Cash received from customers	\$ 158,476	\$ 2,443,638	\$ 2,602,114
Cash payments for goods and services	(51,336)	(1,441,132)	(1,492,468)
Cash paid to employees	(116,084)	(724,645)	(840,729)
Net cash provided by (used for) operating activities	<u>(8,944)</u>	<u>277,861</u>	<u>268,917</u>
Noncapital Financing Activities			
Operating transfers in from primary government	<u>310,000</u>	<u>-</u>	<u>310,000</u>
Net cash provided by noncapital financing activities	<u>310,000</u>	<u>-</u>	<u>310,000</u>
Capital and Related Financing Activities			
Proceeds from capital grants	-	2,747,981	2,747,981
Passenger facility charges received	-	309,792	309,792
Acquisition and construction of capital assets	(140,721)	(2,928,664)	(3,069,385)
Principal paid on bonds	(91,300)	(115,000)	(206,300)
Interest paid on bonds	(41,545)	(215,921)	(257,466)
Net cash used for capital and related financing activities	<u>(273,566)</u>	<u>(201,812)</u>	<u>(475,378)</u>
Investing Activities			
Proceeds from sales and maturities of investment securities	702,127	759,989	1,462,116
Outlays for purchases of investment securities	(669,714)	(250,000)	(919,714)
Interest on investments	2,009	46,264	48,273
Net cash provided by investing activities	<u>34,422</u>	<u>556,253</u>	<u>590,675</u>
Net Increase in Cash and Restricted Cash	61,912	632,302	694,214
Cash and Restricted Cash, January 1	<u>47,285</u>	<u>354,466</u>	<u>401,751</u>
Cash and Restricted Cash, December 31	<u>\$ 109,197</u>	<u>\$ 986,768</u>	<u>\$ 1,095,965</u>
Reconciliation of Cash and Restricted Cash at December 31 to Statement of Net Assets			
Cash	\$ 109,197	\$ 898,350	\$ 1,007,547
Restricted cash	-	88,418	88,418
Total	<u>\$ 109,197</u>	<u>\$ 986,768</u>	<u>\$ 1,095,965</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows – Business-Type Component Units
(Continued)
For the Year Ended December 31, 2009

	Parking Authority	Airport	Total
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities			
Operating loss	\$ (58,191)	\$(1,954,120)	\$ (2,012,311)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities			
Depreciation	55,192	2,519,314	2,574,506
Other non-operating expense	(3,700)	-	(3,700)
Change in assets and liabilities			
Accounts receivable	(490)	13,821	13,331
Inventory	-	(12,182)	(12,182)
Prepaid items	2,675	(6,216)	(3,541)
Accounts payable and accrued liabilities	(5,454)	(282,756)	(288,210)
Liabilities for accrued vacation and sick leave	1,024	-	1,024
 Total adjustments	 49,247	 2,231,981	 2,281,228
 Net cash provided by (used for) operating activities	 \$ (8,944)	 \$ 277,861	 \$ 268,917

(This Page Intentionally Left Blank)

STATISTICAL SECTION

City of Fort Smith, Arkansas

Statistical Section

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

Contents	Page
Financial Trends (Tables 1-5)	
These schedules contain trend information to assist the reader in understanding how the City’s financial performance and well-being have changed over time	113
Revenue Capacity (Tables 6-9)	
These schedules contain information to help the reader assess the City’s most significant revenue sources, local sales taxes and property taxes	119
Debt Capacity (Tables 10-13)	
These schedules present information to help the reader assess the affordability of the City’s current levels of outstanding debt and the City’s ability to issue additional debt in the future	123
Demographic and Economic Information (Tables 14-15)	
These schedules offer demographic and economic indicators to assist the reader in understanding the environment within which the City’s financial activities take place	127
Operating Information (Tables 16-18)	
These schedules contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to services the City provides and the activities it performs	129
Continuing Disclosure Requirement Information (Tables 19-22)	
These schedules provide information required to be disseminated for investors of City debt. By including this data, the CAFR may be used as the document that provides all debt covenant required reports and information	132

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 Assets by Component
Last Five Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year						
	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008	2009
Governmental activities							
Invested in capital assets, net of related deb	\$ 233,152,845	\$ 254,719,750	\$ 260,483,758	\$ 250,104,666	\$ 275,722,692	\$ 293,634,375	\$ 294,746,494
Restricted	6,135,903	4,470,232	3,988,372	44,488,640	47,754,213	46,981,658	24,205,366
Unrestricted (deficit)	55,062,995	55,390,169	66,055,588	33,741,938	29,580,570	27,130,241	38,763,651
Total governmental activities net assets	<u>\$ 294,351,743</u>	<u>\$ 314,580,151</u>	<u>\$ 330,527,718</u>	<u>\$ 328,335,244</u>	<u>\$ 353,057,475</u>	<u>\$ 367,746,274</u>	<u>\$ 357,715,511</u>
Business-Type activities							
Invested in capital assets, net of related deb	\$ 135,630,581	\$ 152,618,444	\$ 181,439,396	\$ 229,748,148	\$ 225,664,963	\$ 249,818,159	\$ 293,549,646
Restricted	25,199,051	24,005,631	26,844,476	23,486,930	20,514,957	27,385,513	24,102,177
Unrestricted (deficit)	(9,043,315)	(5,371,394)	(12,506,307)	(15,666,417)	1,390,057	(4,385,785)	(3,057,942)
Total business-type activities	<u>\$ 151,786,317</u>	<u>\$ 171,252,681</u>	<u>\$ 195,777,565</u>	<u>\$ 237,568,661</u>	<u>\$ 247,569,977</u>	<u>\$ 272,817,887</u>	<u>\$ 314,593,881</u>
Primary government							
Invested in capital assets, net of related deb	\$ 368,783,426	\$ 407,338,194	\$ 441,923,154	\$ 479,852,814	\$ 501,387,655	\$ 543,452,534	\$ 588,296,140
Restricted	31,334,954	28,475,863	30,832,848	67,975,570	68,269,170	74,367,171	48,307,543
Unrestricted (deficit)	46,019,680	50,018,775	53,549,281	18,075,521	30,970,627	22,744,456	35,705,709
Total business-type activities	<u>\$ 446,138,060</u>	<u>\$ 485,832,832</u>	<u>\$ 526,305,283</u>	<u>\$ 565,903,905</u>	<u>\$ 600,627,452</u>	<u>\$ 640,564,161</u>	<u>\$ 672,309,392</u>

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

Table 2

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

	Fiscal Year						
	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008	2009
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
Public safety	22,479,701	22,814,182	25,007,200	28,283,667	29,635,609	28,634,055	31,836,140
Public works	9,750,060	8,547,371	8,624,464	11,583,305	10,862,082	12,091,319	12,169,873
Community services	9,881,779	10,319,043	10,723,724	11,465,302	10,559,736	9,637,947	13,438,158
Interest on long-term debt	519,078	128,042	-	671,893	3,757,618	4,109,187	3,917,534
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>
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
Sanitation	8,466,593	9,300,590	9,075,365	10,507,258	11,455,050	11,465,629	11,403,090
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>
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>
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
Public safety	233,786	223,224	219,114	283,460	288,258	266,085	245,863
Public works	-	466,849	-	50	50	-	1,200
Community services	754,306	849,429	890,174	1,009,470	1,001,004	1,125,845	1,003,750
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
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
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>
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
Sanitation	9,393,659	10,474,818	11,129,352	11,811,666	12,561,103	14,095,412	12,560,096
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
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>
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>
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)
Business-Type activities	(1,083,668)	2,222,879	4,153,895	2,983,325	(151,169)	7,888	6,294,647
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>

Table 2 (Continued)

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

	Fiscal Year						
	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008	2009
General Revenues and Other Changes in Net Assets							
Governmental activities:							
Taxes							
Property taxes	\$ 16,117,664	\$ 8,812,154	\$ 8,932,234	\$ 9,392,423	\$ 8,821,508	\$ 9,360,659	\$ 12,267,731
Sales taxes	35,748,841	30,940,060	31,236,465	40,747,820	53,014,309	57,837,124	52,601,763
Utility franchise fees	5,530,957	5,986,546	6,833,462	7,406,294	6,760,463	7,366,814	5,990,452
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
Unrestricted investment earnings	813,104	740,108	1,489,322	3,220,403	6,155,547	3,065,530	538,627
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
Transfers	(579,200)	(589,294)	(206,000)	(24,738,822)	(7,697,893)	(21,629,789)	(34,020,953)
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>
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
Other	283,977	212,889	317,700	304,583	504,328	1,247,516	1,116,923
Transfers	579,200	589,294	206,000	24,738,822	7,697,893	21,629,789	34,020,953
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>
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>
Changes in Net Assets							
Governmental activities	\$ 31,053,486	\$ 20,228,408	\$ 15,847,567	\$ (2,192,474)	\$ 24,722,231	\$ 14,688,799	\$ (10,030,763)
Business-type activities	<u>9,957,397</u>	<u>19,466,364</u>	<u>24,524,884</u>	<u>41,791,096</u>	<u>10,001,316</u>	<u>25,247,910</u>	<u>41,775,994</u>
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>

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

Table 3

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

Fiscal Year	Ad Valorem Taxes	Sales Taxes (1)	Utility Franchise Fees	Total
1999	\$ 3,242,972	\$ 29,121,222	\$ 4,224,932	\$ 39,589,126
2000	6,591,586	35,805,269	4,708,407	47,105,262
2001	7,079,863	35,872,020	5,199,799	48,151,682
2002	7,681,552	35,167,253	4,846,025	47,694,830
2003	7,909,748	35,748,841	5,530,957	49,189,546
2004	8,085,650	30,940,060	5,986,546	45,012,256
2005	8,624,431	31,236,465	6,833,462	46,694,358
2006	8,953,917	40,747,820	7,406,294	57,108,031
2007	8,736,124	53,014,309	6,760,463	68,510,896
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

Table 4

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General Fund										
Reserved	\$ 1,184,473	\$ 563,055	\$ 1,101,074	\$ 1,297,557	\$ 2,850,478	\$ 3,152,121	\$ 4,706,017	\$ 2,191,724	\$ 3,654,013	\$ 2,772,912
Unrsrvd	2,836,710	3,630,696	4,431,214	5,260,425	5,911,270	7,423,514	7,607,076	6,257,328	7,052,220	5,722,601
Total general fund	<u>4,021,183</u>	<u>4,193,751</u>	<u>5,532,288</u>	<u>6,557,982</u>	<u>8,761,748</u>	<u>10,575,635</u>	<u>12,313,093</u>	<u>8,449,052</u>	<u>10,706,233</u>	<u>8,495,513</u>
All other governmental funds										
Reserved	33,158,304	36,524,914	32,259,904	29,997,170	27,560,991	34,639,037	101,879,344	93,901,326	86,760,617	68,080,708
Unreserved, reported in:										
Special revenue funds	14,280,491	13,988,578	15,563,250	16,934,572	16,062,417	1,648,864	13,477,723	13,646,710	13,603,715	12,771,282
Debt service fund	-	-	-	-	-	-	3,634,024	-	-	-
Capital projects funds	4,872,479	1,816,158	966,281	549,288	367,067	394,212	457,785	457,547	516,855	709,966
Total all other governmental funds	<u>52,311,274</u>	<u>52,329,650</u>	<u>48,789,435</u>	<u>47,481,030</u>	<u>43,990,475</u>	<u>36,682,113</u>	<u>119,448,876</u>	<u>108,005,583</u>	<u>100,881,187</u>	<u>81,561,956</u>
Total governmental fund balances	<u>\$ 56,332,457</u>	<u>\$ 56,523,401</u>	<u>\$ 54,321,723</u>	<u>\$ 54,039,012</u>	<u>\$ 52,752,223</u>	<u>\$ 47,257,748</u>	<u>\$ 131,761,969</u>	<u>\$ 116,454,635</u>	<u>\$ 111,587,420</u>	<u>\$ 90,057,469</u>

Table 5

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

	2000	2001	2002	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008	2009
Revenues										
Taxes (1)	\$ 47,105,262	\$ 48,151,682	\$ 47,694,830	\$ 49,189,546	\$ 45,012,256	\$ 46,694,358	\$ 57,108,031	\$ 68,510,896	\$ 74,585,914	\$ 69,476,528
Licenses and permits	1,374,696	1,462,282	1,343,203	1,338,949	1,271,411	1,499,151	1,473,234	1,501,022	2,126,151	1,559,950
Intergovernmental	10,513,059	13,943,553	11,900,040	16,638,318	16,120,435	12,952,988	12,734,833	13,395,035	13,608,213	13,117,444
Fines and forfeitures	1,720,211	1,615,757	1,744,309	2,081,628	1,888,668	2,064,332	2,063,755	2,858,829	2,188,504	2,098,901
Charges for services	340,266	720,524	786,492	881,942	941,582	978,987	1,099,840	1,088,811	1,215,016	1,172,312
Investment earnings	3,921,011	2,864,102	1,515,915	846,138	755,355	1,530,732	3,326,046	6,294,463	3,114,332	566,378
Contributions	1,032,084	930,455	831,586	785,030	774,010	808,149	2,166,420	1,027,818	3,926,800	1,511,328
Miscellaneous	166,504	360,903	590,805	858,521	696,478	250,361	470,606	316,373	274,696	189,946
Total revenues	66,173,093	70,049,258	66,407,180	72,620,072	67,460,195	66,779,058	80,442,765	94,993,247	101,039,626	89,692,787
Expenditures										
General government	4,105,006	4,791,577	5,215,541	5,741,344	5,908,918	6,879,247	7,522,720	8,190,325	8,317,788	8,226,444
Public safety	19,895,794	19,956,251	19,892,329	21,064,548	22,076,641	24,139,684	26,003,929	28,062,350	26,885,795	30,697,704
Public works	13,514,651	18,805,624	23,702,402	5,874,858	4,550,486	4,600,934	5,433,522	5,202,463	5,820,879	5,254,628
Community services	2,411,123	4,997,754	5,536,507	6,105,744	6,550,085	6,463,376	7,194,025	6,387,764	5,586,246	9,338,549
Other	1,332,628	2,004,322	1,739,626	1,763,635	2,113,409	2,334,916	3,245,313	3,776,800	3,550,903	1,830,124
Capital outlay	34,461,654	7,133,868	3,415,681	23,747,366	21,153,521	14,068,089	23,933,708	32,939,098	29,323,932	31,766,713
Debt service										
Principal	6,325,000	9,220,000	8,178,002	7,785,000	6,540,000	-	-	14,355,000	17,110,000	17,785,000
Interest	1,673,421	1,391,728	937,122	519,078	128,042	-	671,893	3,757,618	3,141,156	2,917,861
Issuance Costs	-	-	-	-	-	-	-	-	-	259,839
Total expenditures	83,719,277	68,301,124	68,617,210	72,601,573	69,021,102	58,486,246	74,005,110	102,671,418	99,736,699	108,076,862
Excess (deficiency) of revenues over (under) expenditures	(17,546,184)	1,748,134	(2,210,030)	18,499	(1,560,907)	8,292,812	6,437,655	(7,678,171)	1,302,927	(18,384,075)
Other financing sources and (uses)										
Transfers in	2,449,777	3,296,518	2,263,625	1,939,996	2,459,809	4,101,090	63,067,680	2,602,260	17,313,147	29,689,472
Transfers out	(3,676,826)	(4,853,708)	(2,844,728)	(2,519,196)	(2,798,714)	(4,307,000)	(88,464,556)	(10,300,153)	(39,169,188)	(64,000,227)
Insurance proceeds from hail storm	-	-	-	-	-	-	-	-	-	1,778,572
Premium on bond issuance	-	-	-	-	-	-	-	-	-	236,307
Proceeds from bond issuance	-	-	-	-	-	-	88,299,286	-	15,685,899	29,150,000
Capital leases	-	-	589,455	277,990	613,023	1,241,713	341,156	(58,278)	-	-
Total other financing sources (uses)	(1,227,049)	(1,557,190)	8,352	(301,210)	274,118	1,035,803	63,243,566	(7,756,171)	(6,170,142)	(3,145,876)
Net change in fund balances	\$ (18,773,233)	\$ 190,944	\$ (2,201,678)	\$ (282,711)	\$ (1,286,789)	\$ 9,328,615	\$ 69,681,221	\$ (15,434,342)	\$ (4,867,215)	\$ (21,529,951)
Debt service as a % of noncapital expenditures	16.2%	17.3%	14.0%	17.0%	13.9%	-	1.3%	35.1%	40.4%	32.6%

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

Table 6

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

Fiscal Year	Total Tax Levy (1)	Current Tax Collections	Percent of Levy Collections	Delinquent Tax Collections	Total Tax Collections	Collection Percent of Current Levy	Outstanding Delinquent Taxes	Outstanding Delinquent Taxes as a Percent of Current Levy
2000	\$ 6,460,708	\$ 6,158,209	95.32%	\$ 29,427	\$ 6,187,636	95.77%	\$ 233,346	3.61%
2001	6,348,763	6,004,289	94.57%	121,353	6,125,642	96.49%	56,473	0.89%
2002	6,858,241	6,403,187	93.36%	208,685	6,611,872	96.41%	269,196	3.93%
2003	7,668,913	6,593,969	85.98%	286,387	6,880,356	89.72%	298,067	3.89%
2004	7,805,688	6,839,388	87.62%	268,913	7,108,301	91.07%	306,752	3.93%
2005	7,544,588	7,016,787	93.00%	270,725	7,287,512	96.59%	420,214	5.57%
2006	7,735,932	7,277,449	94.07%	397,572	7,675,021	99.21%	309,621	4.00%
2007	8,221,008	7,744,922	94.21%	337,687	8,082,609	98.32%	138,399	1.68%
2008	8,629,508	8,154,385	94.49%	434,209	8,588,594	99.53%	280,412	3.25%
2009	8,328,466	7,702,929	92.49%	305,640	8,008,569	96.16%	402,909	4.84%

(1) Total tax levy is based upon valuation of previous year and has been adjusted for the homestead tax relief for property owners

Table 7

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

Fiscal Year (1)	Real Property		Personal Property		Total		Ratio of Total Assessed to Total Estimated Actual
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1999	\$ 535,068,911	\$ 2,675,344,555	\$ 245,708,442	\$ 1,228,542,210	\$ 780,777,353	\$ 3,903,886,765	20.00%
2000	607,508,450	3,037,542,250	262,110,959	1,310,554,795	869,619,409	4,348,097,045	20.00%
2001	636,575,485	3,182,877,425	293,983,422	1,469,917,110	930,558,907	4,652,794,535	20.00%
2002	643,415,789	3,217,078,945	295,817,178	1,479,085,890	939,232,967	4,696,164,835	20.00%
2003	674,592,414	3,372,962,070	301,118,605	1,505,593,025	975,711,019	4,878,555,095	20.00%
2004	725,381,058	3,626,905,290	307,760,220	1,538,801,100	1,033,141,278	5,165,706,390	20.00%
2005	733,760,780	3,668,803,900	346,331,415	1,731,657,075	1,080,092,195	5,400,460,975	20.00%
2006	722,422,061	3,612,110,305	365,714,785	1,828,573,925	1,088,136,846	5,440,684,230	20.00%
2007	756,337,274	3,781,686,370	378,474,240	1,892,371,200	1,134,811,514	5,674,057,570	20.00%
2008	844,728,636	4,223,643,180	405,474,180	2,027,370,900	1,250,202,816	6,251,014,080	20.00%
2009	1,209,612,082	6,048,060,410	464,407,671	2,322,038,355	1,674,019,753	8,370,098,765	20.00%

(1) Fiscal year is year of valuation.

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

Table 8

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

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

Fiscal Year (1)	Overlapping Rates										Total Direct & Overlapping Rates	
	City of Fort Smith		Sebastian County		FS School District		FS Public Library		U of A Fort Smith		Real Property	Personal Property
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property		
2000	\$ 0.70	\$ 0.70	\$ 0.80	\$ 0.80	\$ 3.65	\$ 3.65	\$ 0.10	\$ 0.10	\$ 0.53	\$ 0.53	\$ 5.78	\$ 5.78
2001	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.53	0.53	5.78	5.78
2002	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2003	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2004	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2005	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2006	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2007	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2008	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	-	-	5.25	5.25
2009	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)	Overlapping Rates										Total Direct & Overlapping Rates	
	City of Fort Smith		Sebastian County		FS School District		FS Public Library		U of A Fort Smith		Real Property	Personal Property
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property		
2000	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
2001	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
2002	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2003	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2004	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2005	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2006	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2007	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2008	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50
2009	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	-	-	52.50	52.50

(1) Fiscal year is year of levy.

Table 9

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

Name of Taxpayer (1)	2009			2000		
	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation
Baldor Electric Company	\$ 28,870,033	1	2.31%			
Stephens Production	25,802,974	2	2.06%			
OK Foods, Inc.	22,364,015	3	1.79%			
Whirlpool Corporation	19,940,197	4	1.59%	11,805,530	2	1.51%
Cox Communications	9,999,012	5	0.80%			
Southwestern Electric Power	9,051,710	6	0.72%			
FS Mall Partners (Central Mall)	8,471,442	7	0.68%	6,714,260	7	0.86%
Farmers Bank	6,772,921	8	0.54%			
Southwestern Bell Telephone	5,768,694	9	0.46%	8,002,659	6	1.02%
Gerber Products Company	4,712,701	10	0.38%	10,791,660	3	1.38%
Oklahoma Gas & Electric				12,125,372	1	1.55%
Beverly Enterprises				9,715,245	4	1.24%
Wal-Mart				8,787,845	5	1.13%
Planters Peanuts				6,183,065	8	0.79%
Hiram Walker & Sons/Pernod Ricard USA				5,974,840	9	0.77%
Arkansas Best Corporation				5,818,415	10	0.75%
	<u>\$ 141,753,699</u>		11.34%	<u>\$ 85,918,891</u>		11.00%

(1) Sebastian County Assessor's Office.

(2) Property taxes collected in 2009 are based upon 2008 assessed valuation of \$1,250,202,816. Property taxes collected in 2000 were based upon the 1999 assessed valuation of \$780,777,353.

Table 10

City of Fort Smith, Arkansas
Computation of Direct and Estimated Overlapping Debt
December 31, 2009
(Unaudited)

Taxing Jurisdiction	Total Outstanding Bonded Debt (1)	Estimated Percent Applicable (2)	Direct and Estimated Overlapping Bonded Debt
Direct:			
City of Fort Smith	<u>\$ 81,970,000</u>	100%	<u>\$ 81,970,000</u>
Overlapping:			
Fort Smith Special School District	45,375,271	100%	45,375,271
Greenwood School District	36,600,000	5%	1,830,000
Sebastian County	<u>-</u>	76%	<u>-</u>
Total Overlapping	<u>81,975,271</u>		<u>47,205,271</u>
Total direct and estimated overlapping bonded debt	<u><u>\$ 163,945,271</u></u>		<u><u>\$ 129,175,271</u></u>
Ratio, direct and estimated overlapping debt to fiscal 2008 assessed valuation (3)			10%
Per capita direct and estimated overlapping bonded debt (4)			<u><u>\$ 1,531</u></u>

(1) Excluding self-supporting debt.

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

(3) From Table 7, \$1,250,202,816.

(4) Based on the estimated population for 2009 in Table 14; .

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net assessed value (1)	\$ 869,619,409	\$ 930,558,907	\$ 939,232,967	\$ 975,711,019	\$ 1,033,141,278	\$ 1,080,092,195	\$ 1,088,136,846	\$ 1,134,811,514	\$ 1,250,202,816	\$ 1,674,019,753
Plus exempt property (2)	-	-	-	-	-	-	-	-	-	-
Total assessed value	\$ 869,619,409	\$ 930,558,907	\$ 939,232,967	\$ 975,711,019	\$ 1,033,141,278	\$ 1,080,092,195	\$ 1,088,136,846	\$ 1,134,811,514	\$ 1,250,202,816	\$ 1,674,019,753
Debt limit - 25% of total assessed value (3)	\$ 217,404,852	\$ 232,639,727	\$ 234,808,242	\$ 243,927,755	\$ 258,285,320	\$ 270,023,049	\$ 272,034,212	\$ 283,702,879	\$ 312,550,704	\$ 418,504,938
Amount of debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Debt Margin	\$ 217,404,852	\$ 232,639,727	\$ 234,808,242	\$ 243,927,755	\$ 258,285,320	\$ 270,023,049	\$ 272,034,212	\$ 283,702,879	\$ 312,550,704	\$ 418,504,938

(1) From Table 7.

(2) Not available

(3) Limitation is established by state statute.

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

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

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	Sales Tax Bonds	Notes Payable	Capital Leases	Revenue Bonds	Sales Tax Bonds	Capital Leases			
2000	\$ 31,710,000	\$ -	\$ -	\$ 55,910,000	\$ -	\$ -	\$ 87,620,000	6.7%	1,092
2001	22,490,000	-	-	51,170,000	80,000,000	-	153,660,000	4.1%	1,914
2002	14,325,000	-	576,453	154,200,000	73,680,000	-	242,781,453	2.6%	3,025
2003	6,540,000	-	667,331	151,045,000	68,415,000	440,757	227,108,088	2.9%	2,829
2004	-	-	891,735	144,755,000	58,270,000	298,315	204,215,050	3.4%	2,544
2005	-	-	1,442,517	146,795,000	42,995,000	562,877	191,795,394	3.9%	2,389
2006	84,935,000	2,290,000	388,004	139,125,000	-	315,442	227,053,446	3.5%	2,722
2007	71,005,000	1,865,000	222,135	155,605,000	-	61,722	228,758,857	3.7%	2,742
2008	70,150,000	1,425,000	161,340	197,290,000	-	14,482	269,040,822	3.2%	3,189
2009	81,970,000	970,000	96,209	190,680,000	-	759,641	274,475,850	3.1%	3,253

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

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

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

	Fiscal Year	Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Services	Debt Service Requirements			Coverage
					Principal	Interest (3)	Total	
Water and Sewer System	2000	\$ 23,046,282	\$ 12,557,120	\$ 10,489,162	\$ 2,050,000	\$ 2,561,255	\$ 4,611,255	227%
	2001	23,167,106	13,753,378	9,413,728	2,140,000	1,832,688	3,972,688	237%
	2002	28,693,062	14,727,485	13,965,577	2,240,000	2,624,305	4,864,305	287%
	2003	30,461,180	15,104,962	15,356,218	2,370,000	3,990,161	6,360,161	241%
	2004	30,676,280	16,339,330	14,336,950	5,070,000	2,931,611	8,001,611	179%
	2005	32,668,644	17,116,764	15,551,880	5,700,000	3,016,704	8,716,704	178%
	2006	35,439,335	21,269,130	14,170,205	6,820,000	2,776,864	9,596,864	148%
	2007	35,181,555	19,365,972	15,815,583	7,115,000	6,245,962	13,360,962	118%
	2008	38,608,012	20,463,804	18,144,208	8,350,000	6,411,852	14,761,852	123%
	2009	37,118,841	21,489,095	15,629,746	5,665,000	9,335,000	15,000,000	104%
Solid Waste System	2000	10,155,226	7,134,530	3,020,696	635,000	528,529	1,163,529	260%
	2001	9,591,135	7,345,440	2,245,695	665,000	499,594	1,164,594	193%
	2002	9,803,303	7,054,152	2,749,151	975,000	302,660	1,277,660	215%
	2003	9,511,187	7,003,747	2,507,440	785,000	277,400	1,062,400	236%
	2004	10,622,644	8,069,676	2,553,268	805,000	260,782	1,065,782	240%
	2005	11,441,729	7,775,933	3,665,796	820,000	239,814	1,059,814	346%
	2006	12,216,101	9,108,943	3,107,158	850,000	214,021	1,064,021	292%
	2007	13,122,193	10,269,779	2,852,414	875,000	187,827	1,062,827	268%
	2008	14,650,900	10,346,750	4,304,150	910,000	153,320	1,063,320	405%
	2009	12,675,503	10,058,856	2,616,647	945,000	113,716	1,058,716	247%

(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.

2009 reconciliation of interest paid reported on this schedule to the statement of revenues, expenses, and changes in fund net assets for the proprietary funds:

	Water & Sewer	Sanitation
Interest paid - this schedule	\$ 9,335,000	\$ 113,716
Capitalized interest	(5,018,559)	-
Accrued interest - 12/31/08	(2,415,205)	(10,111)
Accrued interest - 12/31/09	2,272,281	6,935
	<u>\$ 4,173,517</u>	<u>\$ 110,540</u>

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

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)
2000	80,268	115,071	\$ 5,889,283	\$ 22,270	34.0	12	12,637	3.6%
2001	80,268	115,071	6,278,630	22,676	34.0	12	12,596	4.2%
2002	81,557	116,964	6,403,948	23,021	35.0	12	12,844	4.9%
2003	81,795	117,221	6,628,057	26,624	35.2	12	12,871	5.4%
2004	81,801	117,519	7,030,000	24,956	35.3	12	12,921	5.0%
2005	82,482	118,587	7,514,000	26,420	35.4	12	13,373	4.2%
2006	83,489	120,351	8,009,000	27,729	35.4	12	13,633	4.9%
2007	84,375	121,766	8,435,449	29,197	35.4	12	13,900	5.3%
2008	84,375	121,766	8,937,040	30,137	35.4	12	13,759	6.1%
2009	84,375	121,766	9,026,410 *	31,946 *	35.4	12	13,792	8.2%

Data Sources:

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

Table 15

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

Employer	2009			2000		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Sparks Health Systems	4,748	1	3.5%	2,800	3	2.2%
Baldor Electric Company	2,262	2	1.7%	1,711	4	1.4%
O. K. Industries	2,200	3	1.6%	4,500	2	3.6%
Fort Smith Public Schools	2,170	4	1.6%	1,599	7	1.3%
Whirlpool Corporation	1,800	5	1.3%	4,575	1	3.6%
St. Edward Mercy Medical Center	1,774	6	1.3%	1,703	5	1.4%
Rheem-Ruud	1,702	7	1.3%	1,651	6	1.3%
University of Arkansas at Fort Smith	946	8	0.7%			0.0%
Arkansas Best Corp.	898	9	0.7%			
City of Fort Smith	904	10	0.7%			
Beverly Enterprises	-			870	9	0.7%
Trane Company	-			850	10	0.7%
Riverside Furniture	-			1,325	8	1.1%
Total	19,404		14.5%	21,584		17.1%

Data Sources:

Chamber of Commerce

U.S. Department of Labor, employment totals:

2009	134,200
2000	126,001

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

Function	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General government	109	113	118	122	123	124	124	128	125	125
Public safety:										
Police										
Officers	152	150	150	154	160	160	168	168	168	168
Civilians	43	45	47	46	47	47	46	46	46	52
Fire										
Firefighters and officers	125	125	125	125	125	126	126	129	129	129
Civilians	3	3	3	3	3	3	3	3	3	3
Public works:										
Operations	5	5	5	5	5	5	5	5	5	5
Streets	44	46	46	46	46	46	46	46	46	46
Traffic control	12	13	13	13	12	13	13	13	13	13
Parks and recreation	36	45	44	45	47	53	54	57	57	58
Transit	28	34	35	35	35	35	36	36	36	36
Water and sewer	181	181	181	182	183	185	191	191	191	191
Sanitation	85	84	83	79	75	76	77	78	78	78
Total	823	844	850	855	861	873	889	900	897	904

Table 17

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

Function	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Sub-stations (2)	-	-	-	-	-	-	8	8	8	8
Patrol units	12	12	12	12	12	12	12	12	12	12
Fire:										
Stations	10	10	10	10	10	10	10	10	10	10
Apparatus	21	21	22	22	22	22	21	21	21	21
Streets										
Streets (miles)	532	541	603	582	590	558	562	566	578	590
Streetlights	5,350	5,383	5,383	5,589	5,285	5,957	5,971	5,971	6,029	6,029
Traffic signals	122	122	123	123	133	136	135	135	142	146
Parks and recreation										
Parks acreage (square feet)	287	292	295	295	315	260	273	273	273	273
Parks	11	18	20	20	26	26	26	26	25	25
Swimming pools	2	2	1	1	1	1	1	1	1	1
Water splashpad	-	-	-	-	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
Community centers	2	4	4	4	4	4	5	5	5	6
Convention center -										
Theater -seats	1,375	1,375	1,375	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	11	18	18	18	17	20	20	20	20	20
Water and sewer										
Water mains (miles)	570	576	576	584	584	584	560	560	627	626
Average daily production capacity (thousands of gallons)	45,000	45,000	55,000	55,000	55,000	55,000	54,100	54,100	55,000	59,000
Average daily consumption (thousands of gallons)	27,821	29,511	29,511	27,384	26,986	28,876	28,097	29,197	28,876	37,004
Sanitary sewers (miles)	470	481	481	488	503	503	505	505	505	516
Storm sewers	NA	NA	NA	NA	7,900	7,900	7,900	7,900	7,900	7,900
Sanitation										
Collection trucks	58	56	52	52	52	52	52	52	52	52
Landfill capacity (in cubic yards) (1)	9,789,639	9,506,239	9,186,033	68,036,250	67,716,006	67,337,973	67,197,006	66,853,337	66,405,305	66,151,721

NA - not available

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

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

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

Table 18

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

Function	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Police:											
Physical arrest	8,537	8,204	6,877	7,865	8,113	9,362	10,417	10,512	10,834	10,848	9,537
Parking violations	21,111	14,819	15,424	12,308	11,722	10,905	3,487	1,732	3,887	3,094	5,702
Traffic violations	16,055	15,563	16,249	16,191	18,466	19,287	19,289	20,442	21,129	24,191	19,593
Fire											
Number of calls answered	4,751	5,988	5,953	6,517	7,022	6,699	6,461	7,326	7,619	7,200	7,825
Transit											
Passenger trips	93,791	111,459	149,341	147,620	158,652	163,503	173,556	155,515	173,917	208,600	177,991
Water and sewer											
New connections	506	506	456	529	529	438	464	1,391	458	346	345
Average daily production (thousands of gallons)	26,629	27,821	29,511	29,511	27,384	26,986	28,876	28,097	29,197	23,567	23,934
Average daily sewage flow (thousands of gallons)	13,800	13,800	16,900	15,130	15,400	14,760	15,500	15,290	16,400	18,231	19,473
Sanitation											
Waste disposal (cubic yards/day)	3,049	3,020	3,020	2,586	2,401	3,011	3,475	3,848	3,657	3,620	3,710

Table 19

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

Fiscal Year	1% City Sales & Use Tax Allocated for Street (1)	City Share 1% County Sales & Use Tax (2)	1% City Sales & Use Tax Allocated for Bonds (3)	Total
2000	\$ 15,453,552	\$ 12,624,941	\$ 7,726,776	\$ 35,805,269
2001	15,728,836	12,278,766	12,387,128	40,394,730
2002	15,502,200	11,913,953	15,502,200	42,918,353
2003	15,635,325	12,295,853	15,635,326	43,566,504
2004	16,465,972	13,032,372	16,465,972	45,964,316
2005	17,372,140	13,864,325	17,372,140	48,608,605
2006	18,420,915	14,718,645	18,420,915	51,560,475
2007	18,929,527	15,155,255	18,929,527	53,014,309
2008	20,613,205	16,610,714	20,613,205	57,837,124
2009	18,777,493	15,046,777	18,777,493	52,601,763
Total	<u>\$ 172,899,165</u>	<u>\$ 137,541,601</u>	<u>\$ 103,510,457</u>	<u>\$ 472,271,448</u>

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

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

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

Table 20

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

Fiscal Year	Annual # Sanitation System Customers	Cubic Yardage of Waste at Landfill	Useful Life of Landfill Remaining	Remaining Storage Capacity at Landfill
2000	236,376	1,106,718	13 yrs	9,789,639 cubic yards
2001	276,564	1,096,082	12 yrs	9,506,239 cubic yards
2002	277,896	938,670	11 yrs	9,186,033 cubic yards
2003	277,896	871,647	42 yrs	68,036,250 cubic yards (1)
2004	299,412	1,092,855	41 yrs	67,716,006 cubic yards
2005	300,624	1,263,149	40.5 yrs	67,337,973 cubic yards
2006	304,620	1,404,524	40 yrs	67,197,006 cubic yards
2007	306,864	1,334,806	40 yrs	66,853,337 cubic yards
2008	310,224	1,129,422	40 yrs	66,405,305 cubic yards
2009	312,972	1,124,130	39 yrs	66,151,721 cubic yards

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

Table 21

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

Fiscal Year	Average Daily Water Use in Gallons	Maximum Daily Water Use in Gallons	Total Water Use for Year in Gallons	Average Daily Sewage Flow in Gallons
2005	29,161,000	45,536,000	10,539,665,000	15,500,000
2006	28,097,000	42,941,000	10,283,590,000	15,290,000
2007	29,197,000	39,956,000	9,196,894,000	16,400,000
2008	23,567,000	37,004,000	8,625,607,000	18,231,000
2009	23,934,000	37,616,000	8,735,804,000	19,473,000

Water Customers					
Fiscal Year	Residential	Commercial	Wholesale	Other	Total
2005	26,479	3,979	12	10	30,480
2006	27,748	4,024	13	10	31,795
2007	27,998	4,127	13	10	32,148
2008	28,386	4,142	13	10	32,551
2009	28,431	4,261	13	10	32,715

Sewer Customers				
Fiscal Year	Residential	Commercial	Government	Total
2005	25,443	3,875	10	29,328
2006	25,533	3,681	10	29,224
2007	25,790	3,661	10	29,461
2008	26,076	3,662	10	29,748
2009	26,171	3,688	10	29,869

Table 21 (Continued)

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

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

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

Table 22

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Revenues	\$ 30,133,031	\$ 32,780,080	\$ 33,972,924	\$ 36,218,142	\$ 37,164,047	\$ 38,953,983	\$ 36,683,453
Expenditures	<u>30,724,130</u>	<u>33,032,858</u>	<u>34,663,140</u>	<u>38,309,177</u>	<u>43,059,070</u>	<u>38,654,800</u>	<u>41,671,672</u>
Excess (deficiency) of revenues over (under) expenditures	(591,099)	(252,778)	(690,216)	(2,091,035)	(5,895,023)	299,183	(4,988,219)
Other financing sources (uses)	<u>1,616,793</u>	<u>2,456,544</u>	<u>2,507,103</u>	<u>3,825,493</u>	<u>2,030,982</u>	<u>1,957,998</u>	<u>2,777,499</u>
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)
Fund balance, January 1	<u>5,532,288</u>	<u>6,557,982</u>	<u>8,761,748</u>	<u>10,578,635</u>	<u>12,313,093</u>	<u>8,449,052</u>	<u>10,706,233</u>
Fund balance, December 31	<u><u>\$ 6,557,982</u></u>	<u><u>\$ 8,761,748</u></u>	<u><u>\$ 10,578,635</u></u>	<u><u>\$ 12,313,093</u></u>	<u><u>\$ 8,449,052</u></u>	<u><u>\$ 10,706,233</u></u>	<u><u>\$ 8,495,513</u></u>

OTHER REQUIRED REPORTS

Independent Accountants' Report on Compliance With Certain State Acts

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

We have examined management's assertions that the City of Fort Smith, Arkansas complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas statutes during the year ended December 31, 2009.

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

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

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

In our opinion, the City of Fort Smith, Arkansas complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2009.

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

BKD, LLP

June 28, 2010

(This Page Intentionally Left Blank)

**SINGLE AUDIT
SECTION**

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fort Smith, Arkansas as of and for the year ended December 31, 2009, which collectively comprise its basic financial statements and have issued our report thereon dated June, 28, 2010, which contained a reference to the report of other accountants and an explanatory paragraph regarding a change in accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other accountants audited the financial statements of the Fort Smith Public Library, as described in our report on the City's financial statements. This report does not include the results of the other accountant's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those accountants.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we reported to the City's management in a separate letter dated June 28, 2010.

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

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

June 28, 2010

Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Fort Smith, Arkansas with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the compliance of the City of Fort Smith, Arkansas based on our audit.

The City's basic financial statements include the operations of the Fort Smith Regional Airport, which received \$2,912,650 in federal awards which are not included in the schedule during the year ended December 31, 2009. Our audit, described below, did not include the operations of the Fort Smith Regional Airport because a Schedule of Expenditures of Federal Awards was issued separately by the Airport.

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

In our opinion, the City of Fort Smith, Arkansas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2009-01 and 2009-02.

Internal Control Over Compliance

The management of the City of Fort Smith, Arkansas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings and questions costs as items 2009-01 and 2009-02. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

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

BKD, LLP

June 28, 2010

City of Fort Smith, Arkansas
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2009

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount
Cooperative Forestry Assistance	U. S. Department of Agriculture/ Arkansas Forestry Commission	10.664	UCF08-DG	\$ 591
<i>CDBG Entitlement Grant Cluster</i>				
Community Development Block Grants/Entitlement Grants	U. S. Department of Housing and Urban Development	14.218	B07MC050003 B08MC050003	408,720 669,659
ARRA-Community Development Block Grant Entitlement Grants (CDBG-R) (Recovery Act Funded)	U. S. Department of Housing and Urban Development	14.253	B09MY050003	98,239
				<u>1,176,618</u>
HOME Investment Partnership Program	U. S. Department of Housing and Urban Development	14.239	M03MC050202 M05MC050202 M06MC050202 M07MC050202 M08MC050202 M09MC050202	180 72,045 15,194 200,495 288,986 57,426
				<u>634,326</u>
U.S. Department of Housing and Urban Development Total				<u>1,810,944</u>
Drug Enforcement Task Force	U. S. Department of Justice	16.000		65,446
Asset Forfeiture and Money Laundering	U. S. Department of Justice	16.000	AR060100	155,118
Immigration and Customs Enforcement Task Force	U. S. Department of Justice	16.000		1,893
Treasury Criminal Investigation Task Force	U. S. Department of Justice	16.000	2-9-62-2128	8,818
BJA/Bullet Proof Vest Program	U. S. Department of Justice	16.607	BVP02011932	19,170
Edward Byrne Memorial Justice Assistance Grant Program	U. S. Department of Justice	16.738	2008-DJ-BX-0589 2009-DJ-BX-0834	38,435 37,024
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	U. S. Department of Justice	16.804	2009-DJ-SB-2884	150,946
U.S. Department of Justice Total				<u>476,850</u>

City of Fort Smith, Arkansas
Schedule of Expenditures of Federal Awards (continued)
For the Year Ended December 31, 2009

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount
<i>Federal Transit Cluster</i>				
Federal Transit_Capital Investment Grants	U. S. Department of Transportation	20.500	AR-03-X026	266,361
ARRA - Federal Transit_Formula Grants	U. S. Department of Transportation	20.507	AR-96-X002	255,480
			AR-90-X062	346,173
			AR-90-X081	204,586
			AR-90-X096	908,223
U.S. Department of Transportation Total				<u>1,950,823</u>
Nonpoint Source Implementation Grants	U. S. Environmental Protection Agency/Arkansas Soil & Water Conservation	66.460	C-999610314	1,016
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	U. S. Department of Energy	81.128	SC 0003023	14,000
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	U. S. Department of Homeland Security/Arkansas Department of Emergency Management Disaster Public Assistance	97.036	FEMA 1751 DR AR	47,250
			FEMA 1786 EM LA	42,561
				<u>89,811</u>
Assistance to Firefighters Grant	U. S. Department of Homeland Security	97.044	EMW-2008-FO-06892	35,628
U.S. Department of Homeland Security Total				<u>125,439</u>
Total Expenditures of Federal Awards				<u>\$ 4,379,663</u>

City of Fort Smith, Arkansas
Schedule of Expenditures of State Awards
Year Ended December 31, 2009

Granting Agency/Grant Program	Grant Number	Expenditures
Department of Arkansas Heritage:		
CLG Grant - Historic Preservation Program	CLG 08-PA-0304	\$ 32,500
CLG Grant - Historic Preservation Program	CLG 08-03	1,681
CLG Grant - Historic Preservation Program	CLG 09-04	523
		<u>34,704</u>
Arkansas State Highway and Transportation Department:		
Jenny Lind Road/Ingersol	40471	52,313
Miscellaneous Agencies Fund	N/A	24,640
Public Transit Trust Fund	N/A	200,048
		<u>277,001</u>
Arkansas State Police:		
Alcohol/Other Drug Countermeasures Program	K8-2009-08-08-10	69,719
Alcohol/Other Drug Countermeasures Program	K8-2010-08-08-14	26,390
		<u>96,109</u>
	Total State Awards	<u>\$ 407,814</u>
Total Federal and State Assistance		<u>\$ 4,787,477</u>

City of Fort Smith, Arkansas
Notes to Schedules of Expenditures of Federal and State Awards
December 31, 2009

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

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

(2) Organization and Accounting Policies

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

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

(3) Basis of Accounting

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

(4) Relationship to Federal and State Financial Reports

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

(5) Relationship to Basic Financial Statements

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

Total intergovernmental revenue	\$ 13,117,444
State turnback revenue	(7,648,872)
Local match	<u>(681,095)</u>
 Federal and state assistance per accompanying schedules	 <u><u>\$ 4,787,477</u></u>

City of Fort Smith, Arkansas

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

December 31, 2009

(6) Subrecipients

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

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant	14.218	\$ 703,194
HOME Investment Partnership	14.239	602,323

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009

Summary of Auditor's Results

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

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

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

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

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

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

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2009

7. The Organization's major programs were:

Cluster/Program	CFDA Number
CDBG Entitlement Grant Cluster	14.218/14.253
HOME Investment Partnership Program	14.239
Federal Transit Cluster	20.500/20.507

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

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

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2009

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
-----------------------------	----------------	-----------------------------

No matters are reportable.

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2009

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
2009-01	<u>CDBG Entitlement Grant Cluster</u> <u>CFDA Nos. 14.218/14.253</u> <u>U.S. Department of Housing and Urban Development</u> <u>Program Income</u>	None

Criteria or Specific Requirement:

Pursuant to 24CFR570.502, the CDBG department of the City is required to maintain records for a period of at least four years in accordance with the regulations specified in 24CFR85.42 “Retention and access requirements for records” In addition, according to subpart (c)(3) of 24CFR85.42 in the case of records where income is earned after the period of grant support, the retention period for the records pertaining to the earning of income will begin at the end of the grantee’s fiscal year in which the income is earned.

Condition

The department was unable to locate certain loan document records

Context

Out of 11 active loan files selected for testing of program income, 2 could not be located.

Effect

The program income of the two missing files could not be recalculated. Therefore, the program income earned on the loans could not be verified for accuracy and proper recording.

Cause

Most files from the CDBG department are located in the basement of the building which is prone to occasionally flooding. It is believed that the missing files were destroyed during one of the flooding episodes.

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2009

Reference Number	Finding	Questioned Costs
---------------------	---------	---------------------

Recommendation

It is recommended that all loan files be stored in the CDBG department offices in a secured fireproof filing cabinet until a minimum of four years after the loan obligation has been satisfied.

Views of responsible officials and planned corrective actions

The Community Development Department had no controls over the security of files in the basement. Since the loan program began there has been a flood and the city has thrown away boxes when CDBG representatives were not present. The boxes are noted with a destroy date, however because of the number of departments using the basement for storage it is possible they were accidentally thrown away. As this was brought to our attention, we have retrieved all files with outstanding loans and any files that have been paid off less than four years ago and the files are now in a locking filing cabinet in the lockable office of the Housing Assistance Coordinator and Assistant located at 623 Garrison Avenue, Room 400 (CDBG Office). The remaining department files are now stored in a locked room at 801 Cornell.

Responsible Official – Matt Jennings, CDBG Director

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2009

Reference Number	Finding	Questioned Costs
2009-02	<u>Home Investment Partnership Act (HOME)</u> <u>CFDA No. 14.239</u> <u>U.S. Department of Housing and Urban Development</u> <u>Reporting</u>	None

Criteria or Specific Requirement:

Pursuant to 24CFR135.90 the City is required to submit an accurate *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons* (OMB No. 2529-0043) annually for the HOME Investment Partnership Program if the program receives over \$200,000 in funding that involves housing rehabilitation, housing construction, or other public construction.

Condition

The City did not timely file the report for the HOME program for the fiscal year ending June 30, 2009.

Context

A Section 3 report is required to be submitted with the program's annual performance report since the program received over \$200,000 in funding involving housing rehabilitation, housing construction, or other public construction.

Effect

The HOME program performance reporting requirements were not followed in the manner required by federal regulations.

Cause

The City inadvertently filed two Section 3 reports (OMB Form No. 2529-0043) for the CDBG Entitlement program instead of filing one report for the HOME program and one report for the CDBG Entitlement program as required. The error was caused by the City incorrectly reporting a program number in Box 9 of the report. The City filed two reports with a program code of 7 "CDBG Entitlement." One of the reports should have been filed with a program code of 5 "HOME" as instructed in the report.

City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2009

Reference Number	Finding	Questioned Costs
---------------------	---------	---------------------

Recommendation

It is recommended that the Section 3 report for the HOME program be amended and that review procedures be put in place before reports are submitted.

Views of responsible officials and planned corrective actions

The City disagrees with the overall finding, the correct grant information was given on Form HUD-60002 in the Federal Identification (Grant Number) in Box 2. The grant code was a clerical error in Box 9. The form will be revised and sent to the HUD Office. There was no incorrect reporting in the federal numbers since there was no reportable Section 3 activity.

Responsible Official – Matt Jennings, CDBG Director

City of Fort Smith, Arkansas
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2009

Reference Number	Summary of Finding	Status
-----------------------------	---------------------------	---------------

No matters are reportable.

(This Page Intentionally Left Blank)