

City of Fort Smith, Arkansas

Comprehensive Annual Financial Report

Year Ended December 31, 2011

Prepared By the

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

City Board of Directors

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

City Administrator
Ray Gosack

Director of Finance
Kara Bushkuhl

City of Fort Smith, Arkansas
Year Ended December 31, 2011

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INTRODUCTORY SECTION



DEPARTMENT OF FINANCE

Kara Bushkuhl, CPFO

Director of Finance

June 14, 2012

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, 2011.

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, 2011 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, 2011. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

Profile of the City

Fort Smith is located in western Arkansas on the border of Oklahoma and is the second largest city in the state. The City was incorporated in 1842 and is the county seat for Sebastian County. Fort Smith is 159 miles west of Little Rock and 145 miles southeast of Tulsa, Oklahoma. The City serves as the central focus for a six-county economic and trade region in the west central area of Arkansas and the east central area of Oklahoma. The City encompasses 92.4 square miles and has a population of 86,209. The City is empowered by state statutes to levy real and personal property taxes within its limits and extend the corporate limit by annexation, which occurs periodically when deemed appropriate by the Board of Directors. State statutes also allow the City to levy local sales and use taxes.

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

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

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

Factors Affecting Financial Condition

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

Local Economy. The City has experienced modest downturns during the recent national recession. Sales tax revenues were up 3.4% in 2011 over 2010; however, actual sales taxes in 2010 were the lowest since 2006 and were only 1% above the 2006 level.

On October 27, 2011 Whirlpool Corporation announced its intention to permanently close its production facility in the City in 2012, likely before June 29. Whirlpool is the City's seventh largest employer, employing 989 people at the Fort Smith facility, all of whom presumably will be either laid off or transferred from this facility within the next six months. This number of jobs lost is equal to 9/10 of 1% (0.009%) of the civilian labor force in the Fort Smith Metropolitan Service Area. The City will work with Whirlpool Corporation, the Fort Smith Regional Chamber of Commerce and the Arkansas Economic Development Commission to seek appropriate re-purposing of the property.

The City has also seen significant industrial and residential development. Mitsubishi Power Systems Americas has completed construction of its new 200,000 square foot \$40 million wind turbine manufacturing plant at Chaffee Crossing. Umarex USA, a manufacturer of air rifles and small caliber firearms, opened its new 100,000 square foot manufacturing and distribution center at Chaffee Crossing in 2010. The facility employs approximately 60 persons. Gerber Products is nearing completion of a \$90 million investment to expand its Fort Smith baby food manufacturing plant and add approximately 50 new jobs.

Chaffee Crossing and other areas of the City continue to see robust residential development. There are currently 800 residential lots at various stages of development in the City. An additional 300 acres of property for residential development were annexed

into the City in 2011. The City's utility infrastructure planning has encouraged these developments.

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

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

Three new hotels on the City's east side near I-540 and the regional airport have opened in the last two years.

The Arkansas Air National Guard received a new flying mission through the Base Realignment and Closure Commission. The unit, located at the airport, has replaced 14 obsolete F-16 fighter aircraft with 21 A-10 attack aircraft. This change preserves 1,000 full and part-time jobs and adds 150 new positions.

Sparks Regional Medical Center has completed a major expansion to its health care campus near the downtown area of the City. The downtown area of the City is continuing its resurgence with additional streetscaping projects and private investment in office, residential, commercial and entertainment properties.

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

St. Edward Mercy Health System recently announced its commitment to invest \$192 million to update and expand its facilities in the City. Plans include an \$8 million 12,977 square foot orthopedic hospital that is expected to be complete in late 2012.

Sykes Call Center opened a new facility in the City in 2010 that now employs approximately 600 people. Golden Living is consolidating its administrative operations in the City which will add 200 more 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 being refunded by the 2012 Sales & Use Tax Refunding and Construction Bonds. In April 2012, the City issued \$110 million in sales & use tax bonds to provide funding for water improvements, additional wastewater improvements, a new fire station, repair and maintenance of existing fire stations, fire apparatus, and park improvements, including a water park in cooperation with Sebastian County. Three-fourths of the existing 1% local sales tax will support the redemption of the 2012 bonds. The remaining ¼% of the tax assessment will be used to provide operating costs for the fire department and the parks department.

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

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, 2010. The Certificate of Achievement is the highest form of recognition for excellence in local government financial reporting. This was the twenty-sixth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

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

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

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

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

Respectfully submitted,

A handwritten signature in blue ink that reads "Ray Gosack". The signature is written in a cursive, slightly slanted style.

Ray Gosack
City Administrator

A handwritten signature in black ink that reads "Kara Bushkuhl". The signature is written in a cursive, slightly slanted style.

Kara Bushkuhl
Director of Finance

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fort Smith
Arkansas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2010

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.



Linda C. Davison

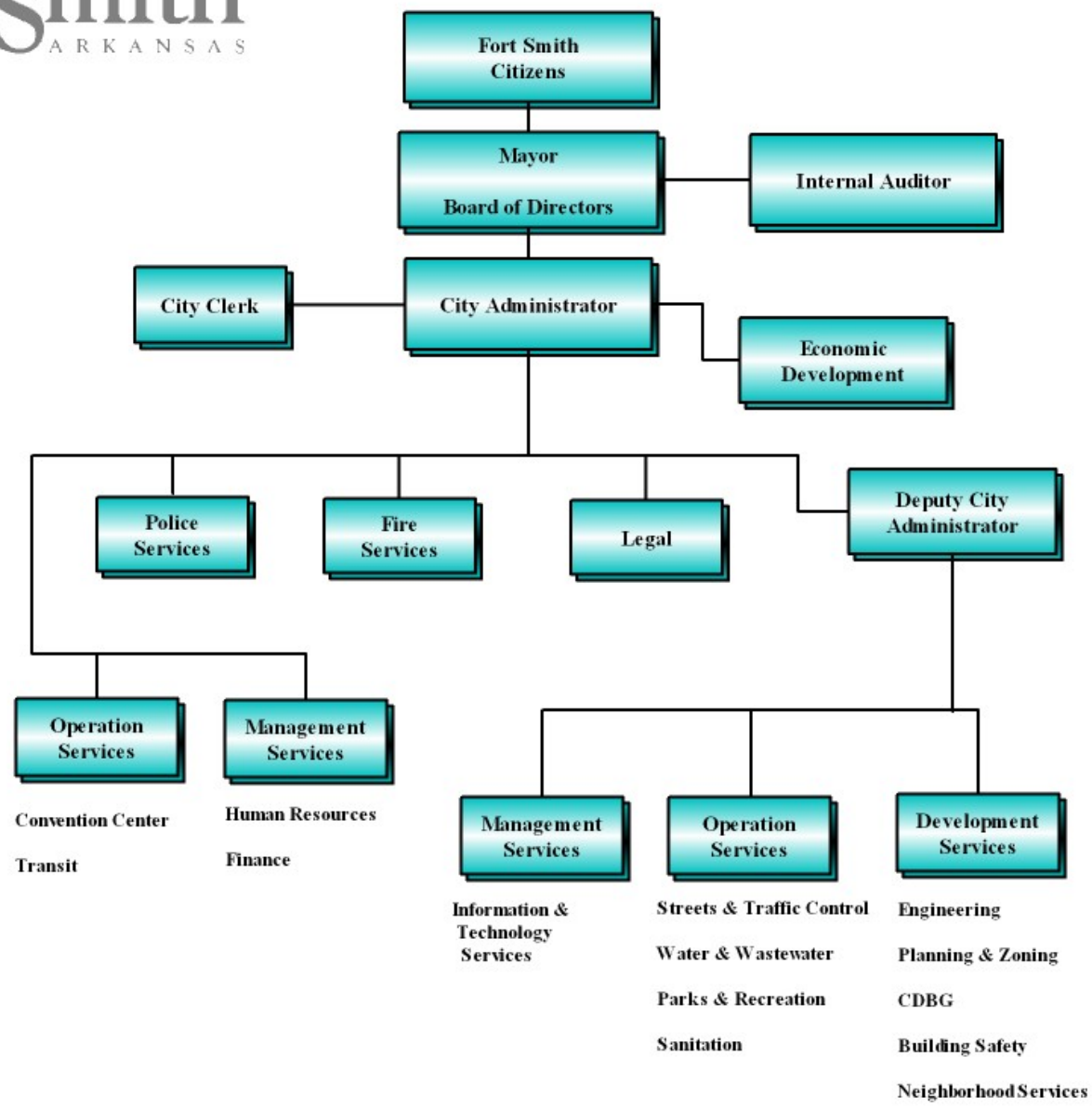
President

Jeffrey R. Emer

Executive Director



Plan of Organization



City of Fort Smith, Arkansas
List of Elected and Appointed Officials
December 31, 2011

Elected Officials

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

Appointed Officials

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

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FINANCIAL SECTION

Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fort Smith, Arkansas as of and for the year ended December 31, 2011, 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 \$2,352,497 and \$2,701,600 respectively, and represents 93% and 79% of the aggregate discretely presented component units' (governmental activities) total assets and revenues at December 31, 2011 and for the year then ended, respectively. Those statements were audited by another accountant 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 accountant.

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

In our opinion, based on our audit and the report of the other accountant, 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 1* to the financial statements, in 2011 the City changed its method of accounting for fund balances in accordance with the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund-Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2012, 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.

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

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

BKD, LLP

June 14, 2012

City of Fort Smith, Arkansas

Management's Discussion and Analysis

December 31, 2011

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, 2011. 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 2011 by \$722,144,029 (net assets). Of this amount, \$647.2 million was invested in capital assets, net of related debt; \$57.6 million was restricted for debt service, police and fire retirement contributions, construction projects, and other purposes; and \$17.3 million was unrestricted and available for meeting the City's emergency and unexpected obligations. The City's governmental activities have unrestricted net assets of \$15,010,176. The City's business-type activities have unrestricted net assets of \$2,270,311.
- The City's total net assets increased by \$27,400,936 in 2011. Net assets of the governmental activities increased by \$14,036,788 in 2011 compared to a net increase of \$5.3 million in 2010 ending net assets. The City's net assets of the business-type activities increased by \$13,364,148 in 2011 as compared to a net increase of \$17.1 million in 2010.
- As of the close of 2011, the City's governmental funds reported combined ending fund balances of \$60,111,466 that was a decrease of \$15,325,833 from the prior year. The restricted portion of the fund balances is \$51,320,998. The remaining fund balances is classified as nonspendable of \$592,722; committed of \$443,933; assigned of \$3,201,345; and unassigned of \$4,552,468.
- At the end of 2011, the unassigned fund balance for the General Fund was \$4,552,468 or 11.2% of total General Fund expenditures. There was a decrease of \$702,209 in total General Fund balance between years.
- The City's total bonded indebtedness decreased by \$23.62 million during the current year. The decrease is a result of the call and maturity of outstanding Sales and Use Tax Bonds, Series 2006, 2008, and 2010 that totaled \$17 million, and the maturity of revenue bonds during the year of \$25.54 million. The decrease was offset by the \$18.92 million issuance of Water and Sewer Revenue Refunding Bonds, Series 2011 during the year.
- The City's governmental component units reported net assets of \$2,464,930 at December 31, 2011 that was a decrease of \$9,778 from 2010.
- The City's business-type component units reported net assets of \$38,956,470 at December 31, 2011 that was a \$148,072 decrease from 2010.

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, community service, and debt service. The business-type activities of the City include the water and sewer system and the solid waste disposal system.

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

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

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

The government-wide financial statements can be found on pages 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 three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

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

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

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

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

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

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

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

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 32-88 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 95-111 of this report.

Government-Wide Financial Analysis

City of Fort Smith Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 83,333,446	\$ 100,857,045	\$ 51,811,028	\$ 59,870,186	\$ 135,144,474	\$ 160,727,231
Capital assets	363,612,500	351,827,278	488,706,782	474,156,992	852,319,282	825,984,270
Total assets	446,945,946	452,684,323	540,517,810	534,027,178	987,463,756	986,711,501
Long-term liabilities	48,715,235	63,506,807	182,468,636	186,719,212	231,183,871	250,226,019
Other liabilities	21,181,570	26,165,163	12,954,286	15,577,226	34,135,856	41,742,389
Total liabilities	69,896,805	89,671,970	195,422,922	202,296,438	265,319,727	291,968,408
Net Assets:						
Invested in capital assets, net of related debt	323,022,637	305,663,999	324,215,779	314,941,959	647,238,416	620,605,958
Restricted	39,016,328	41,640,406	18,608,798	24,385,436	57,625,126	66,025,842
Unrestricted (deficit)	15,010,176	15,707,948	2,270,311	(7,596,655)	17,280,487	8,111,293
Total net assets	\$ 377,049,141	\$ 363,012,353	\$ 345,094,888	\$ 331,730,740	\$ 722,144,029	\$ 694,743,093

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 \$722,144,029 at the close of 2011.

The largest portion of the City's net assets (89.7%) 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 (8%) represents resources that are subject to restrictions as to how they may be used. Of the total restricted net assets (\$57.6 million), \$30.3 million is restricted for bond retirement, \$17.1 million is restricted for construction projects, \$10.1 million is restricted for police and fire retirement contribution, and approximately \$111,000 is restricted for other purposes. The remaining balance of net assets (\$17.3 million) 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 positive balances in unrestricted net assets at the end of the current year but reported negative balances in unrestricted net assets at the end of 2010.

The City's net assets increased by \$27,400,936 during 2011. Total revenues increased by 4.6% between years. Revenues generated by fees, fines, and charges for services increased by 2.3% due primarily to higher water consumption in 2011. Sales tax revenue on a government-wide basis increased by 3.4%.

City of Fort Smith
Changes in Net Assets

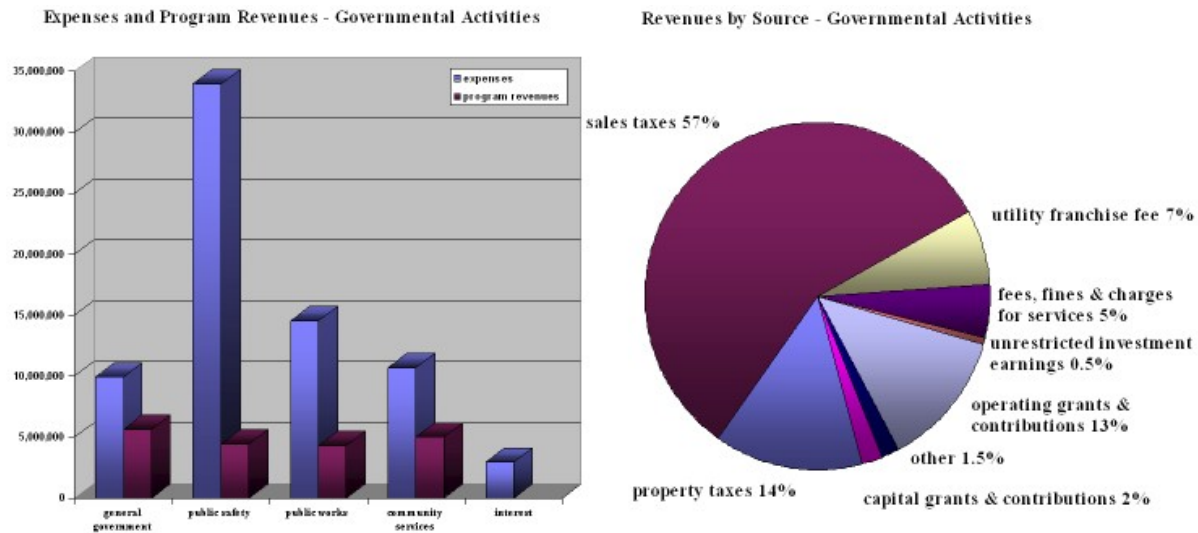
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues						
Fees, fines, and charges						
for services	\$ 5,264,803	\$ 5,345,580	\$ 53,155,228	\$ 51,756,652	\$ 58,420,031	\$ 57,102,232
Operating grants and contributions	12,269,135	13,142,881	-	-	12,269,135	13,142,881
Capital grants and contributions	1,796,754	1,357,800	638,698	512,378	2,435,452	1,870,178
	<u>19,330,692</u>	<u>19,846,261</u>	<u>53,793,926</u>	<u>52,269,030</u>	<u>73,124,618</u>	<u>72,115,291</u>
General revenues						
Property taxes	13,143,979	10,623,101	-	-	13,143,979	10,623,101
Sales taxes	53,838,552	52,091,471	-	-	53,838,552	52,091,471
Utility franchise fees	6,571,993	6,492,100	-	-	6,571,993	6,492,100
Grants and contributions not restricted to specific programs	-	10,085	-	-	-	10,085
Unrestricted investment earnings	18,480	163,172	14,459	89,914	32,939	253,086
Other	1,539,449	1,199,332	1,403,727	339,356	2,943,176	1,538,688
	<u>94,443,145</u>	<u>90,425,522</u>	<u>55,212,112</u>	<u>52,698,300</u>	<u>149,655,257</u>	<u>143,123,822</u>
Expenses						
General government	9,874,051	9,464,539	-	-	9,874,051	9,464,539
Public safety	34,009,318	32,350,902	-	-	34,009,318	32,350,902
Public works	14,541,350	13,226,363	-	-	14,541,350	13,226,363
Community services	10,732,048	12,165,578	-	-	10,732,048	12,165,578
Interest on long-term debt	2,933,735	3,838,008	-	-	2,933,735	3,838,008
Water and sewer	-	-	38,875,863	37,974,129	38,875,863	37,974,129
Sanitation	-	-	11,287,956	11,670,602	11,287,956	11,670,602
	<u>72,090,502</u>	<u>71,045,390</u>	<u>50,163,819</u>	<u>49,644,731</u>	<u>122,254,321</u>	<u>120,690,121</u>
Increase in net assets before transfers and capital contributions	22,352,643	19,380,132	5,048,293	3,053,569	27,400,936	22,433,701
Transfers	<u>(8,315,855)</u>	<u>(14,083,290)</u>	<u>8,315,855</u>	<u>14,083,290</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	14,036,788	5,296,842	13,364,148	17,136,859	27,400,936	22,433,701
Net assets - January 1	<u>363,012,353</u>	<u>357,715,511</u>	<u>331,730,740</u>	<u>314,593,881</u>	<u>694,743,093</u>	<u>672,309,392</u>
Net assets - December 31	<u>\$ 377,049,141</u>	<u>\$ 363,012,353</u>	<u>\$ 345,094,888</u>	<u>\$ 331,730,740</u>	<u>\$ 722,144,029</u>	<u>\$ 694,743,093</u>

Governmental Activities. Governmental activities increased the City's net assets by \$14,036,788. Key elements of the net increase are as follows:

- Total revenues for 2011 were approximately \$4 million more than the prior year. This was offset by the increase in total expenditures between years of approximately \$1 million.
- Net capital asset acquisition exceeded depreciation by \$20.8 million. This was offset by the \$9 million capital contribution to the Water and Sewer Fund for wastewater improvements provided by the Sales & Use Tax Construction Fund.

- Sales tax revenue allocated for governmental purposes reflects a 3.4% increase between years. The City’s share of the county sales tax, accounted for in the General Fund, increased 1.8% in 2011 over 2010. The City’s sales tax that is allocated for street projects and accounted for in the Sales Tax Fund increased 4% between 2010 and 2011, as did the city sales tax allocated for redemption of the Sales and Use Tax Bonds, Series 2006, 2008, 2009, and 2010.
- Utility franchise fee revenues increased by \$80,000 or 1.2% during 2011 due to increased electric usage during the year.

The reported 2011 expenses were approximately \$1 million more than in 2010. The increase resulted from additional spending for public safety and for street improvements.



Business-Type Activities. Business-type activities increased the City’s net assets by \$13,364,148 . Key elements of the increase are as follows:

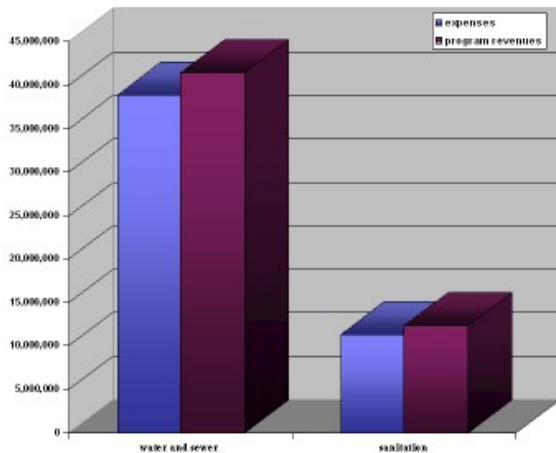
- The water and sewer system contributed \$12,120,279 to the increase in total net assets. The most significant increase in net assets was the \$9 million capital contribution from the Sales & Use Tax Construction Fund, a capital projects fund in the governmental activities, for wastewater improvements during the year. The operating income for the system totaled \$11,266,734 in 2011.
- The solid waste system added \$1,483,666 to the increase in total net assets. The operating income for the system in 2011 totaled \$1,245,714.

Water and sewer system service charges contribute 75.4% of the operating revenue to business-type activities.

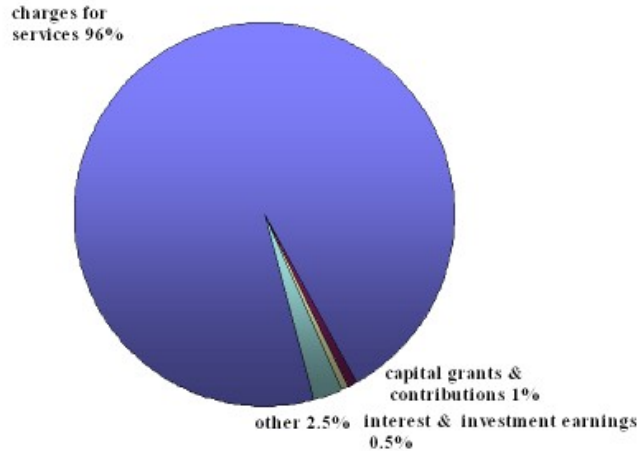
The solid waste system service charges accounted for 23.2% of the revenue to business-type activities.

Current year operating expenses for the business-type activities were 76.5% of current revenues.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government’s Funds

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

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

As of December 31, 2011, the City’s governmental funds reported combined ending fund balances of \$60,111,466 a decrease of \$15,325,833 in comparison with the prior year. Of this amount, \$51,320,998 represents restricted fund balance for construction projects, debt service coverage, police and fire retirement contributions, and other purposes. A portion of the fund balance (\$443,933) is committed to construction projects and another portion (\$3.2 million) is assigned for specific uses by fund type. The remainder of the balance (\$4.5 million) is unassigned in the General Fund and is available for spending at the government’s discretion.

The General Fund is the chief operating fund of the City. At December 31, 2011, unassigned fund balance of the General Fund was \$4,552,468, while the total fund balance was \$7,740,401. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balances and total fund balances to total fund expenditures, including transfers out. Unassigned fund balances represent 11.2% of total General Fund expenditures, including transfers out, while total fund balances represents 18.8% of that same amount. The fund balances of the City’s General Fund decreased by \$702,209 during 2011.

Key factors in this decrease are as follows:

- Total expenditures increased between 2011 and 2010 by \$1.2 million. The main reasons for the increase was due to more spending for public safety (\$657,000) and capital outlay (\$571,000).
- The decrease was offset by an increase in revenues between years of approximately \$730,000 due to additional intergovernmental revenue (\$647,000), additional property taxes (\$211,000), and an increase in sales taxes (\$263,000). These increased revenues were offset by a \$611,000 decrease in fees for services due to the allocation of convention center rental revenue from the General Fund to the Convention Center Fund beginning in 2011.

The Street Maintenance Fund and the Sales Tax Fund, both special revenue funds, are presented as major funds and account for 30.3% 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 \$3,417,072 between years. The decrease was due to an increase in street projects spending during the year.

The Sales & Use Tax Construction Fund is also presented as a major fund and accounts for 18% of the total governmental fund balances. This fund accounts for the capital projects approved by voters that include the purchase of a new radio communication system for public safety and utility purposes and the wastewater projects for improvements to the sewer system in response to an EPA administrative order. The fund balance decreased by \$9.5 million due to the level of capital expenditures in 2011.

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 \$316,771,970 and \$27,079,957 for the Water and Sewer Fund and the Sanitation Fund, respectively. The increase in net assets was \$12,120,279 for the Water and Sewer Fund and \$1,483,666 for the Sanitation Fund. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

General Fund. The final amended General Fund budget had total appropriations of \$43,497,926 (total expenditures plus transfers out) compared to the original budget total of \$43,106,191. The increase in appropriations of \$391,735 is summarized briefly as follows:

- \$324,115 for the demolition and preservation of the Mallalieu building.
- \$39,900 for preliminary engineering and architectural services for fire station 11.
- \$27,720 for additional unemployment compensation costs during 2011.

Revenue estimates for the General Fund were increased from an original budget of \$36,827,892 to the final estimate of \$38,231,845. The \$1,403,953 increase was due to the increase in intergovernmental revenue from the ARRA funds for the transit capital improvements as well as additional transit operating reimbursements (\$1.18 million), the anticipated increase in franchise fee revenue (\$265,000), the increase in fines and forfeitures (\$167,000), the increase in fees for services (\$81,000), and the increase in miscellaneous revenues (\$68,000). These increases were offset by the expected decreases in the City's share of the county sales tax (\$220,000) and property taxes (\$143,000).

Total actual revenue, including, "other financing sources", for the General Fund was \$487,139 less than the final budget estimates. The decreased revenues were due to further decreases in property tax revenue of \$179,000. Additionally, intergovernmental revenue was \$767,000 less than the final revenue estimate as the transit reimbursements were approximately \$380,000 less than anticipated and local cost sharing with Sebastian County for the district court and the health programs were less than anticipated. These decreases were offset by even more franchise fee revenue of \$115,000, an additional increase in fine revenues of \$110,000, additional sales tax revenue of \$49,000, and \$99,000 more miscellaneous revenue. Total actual expenditures were \$1.4 million less than the final appropriated budget of the General Fund. Actual expenditures were lower due to: police and fire expenditures being \$1.5 million less than budget; general government costs were \$259,000 less than budgeted; and park operations were \$262,000 less than anticipated. These decreases were offset by the \$503,250 in promissory note principal and interest payments during 2011.

The budget and actual schedule for the General Fund may be found on page 92 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, 2011 amounts to \$852,319,282, 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 3.2%, a 3.3% increase for governmental activities and a 3.1% increase for business-type activities.

City of Fort Smith Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 26,034,596	\$ 26,015,756	\$ 12,726,581	\$ 12,040,339	\$ 38,761,177	\$ 38,056,095
Buildings	55,064,060	56,523,090	1,170,774	1,235,041	56,234,834	57,758,131
Water System	-	-	245,407,570	242,826,105	245,407,570	242,826,105
Sewer System	-	-	131,706,301	111,446,622	131,706,301	111,446,622
Improvement other than buildings	6,397,422	6,430,000	10,974,615	11,020,663	17,372,037	17,450,663
Infrastructure	232,953,394	229,907,105	-	-	232,953,394	229,907,105
Machinery and equipment	21,122,956	8,346,964	10,610,420	9,374,547	31,733,376	17,721,511
Construction in progress	22,040,072	24,604,363	76,110,521	86,213,675	98,150,593	110,818,038
Total	<u>\$ 363,612,500</u>	<u>\$ 351,827,278</u>	<u>\$ 488,706,782</u>	<u>\$ 474,156,992</u>	<u>\$ 852,319,282</u>	<u>\$ 825,984,270</u>

Major capital asset events during 2011 included the following:

- Net transfers from construction in progress totaled \$12.7 million. Of this amount, water and wastewater improvements accounted for a decrease of \$10.1 million and the public safety radio system of \$12.2 million was completed during 2011. This was offset by the additions for streets of \$10 million.
- Net additions to infrastructure totaled \$10.7 million due to the completion of several street projects during 2011.
- Net additions to the sewer system totaled \$23.5 million and to the water system totaled \$7.9 million in 2011.
- Depreciation expense totaled \$20.6 million.

Additional information on the City’s capital assets can be found in Note 3 on pages 48-56 of this report.

Long-term debt. At December 31, 2011, the City had \$229,365 million of long-term bonds outstanding, including \$177.13 million of bonds secured solely by specified revenue sources, (i.e. revenue bonds).

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Sales and Use Tax Bonds	\$ 52,235,000	\$ 69,235,000	\$ -	\$ -
Revenue Bonds	<u>-</u>	<u>-</u>	<u>177,130,000</u>	<u>183,750,000</u>
Total	<u>\$ 52,235,000</u>	<u>\$ 69,235,000</u>	<u>\$ 177,130,000</u>	<u>\$ 183,750,000</u>

The City’s total bonded debt decreased by \$23.62 million or 9.3% during 2011. The key factors in this decrease were the retirement of \$25.54 million in revenue bonds, and the call and maturity of \$17 million in sales and use tax bonds. The decrease was offset by the \$18.92 million issuance in Water and Sewer Refunding Revenue Bonds, Series 2011. The City maintains bond ratings as follows: “AA” rating from Standard & Poor’s on its water and sewer revenue bonds series 2005; an “A” rating from Standard & Poor’s on its water and sewer revenue bonds series 2007 and 2008; and an “AA” rating from Standard & Poor’s on its sales and use tax bonds series 2006, 2008, 2009, and 2010.

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 \$323.7 million. The City has no general obligation debt at December 31, 2011. Sales and use tax bonds are special debt of the City and are not considered general obligation bonds by the state.

Additional information regarding the City’s long-term debt can be found in Note 4 on pages 57-71 of this report.

Economic Factors and the Next Year’s Budget and Rates

- The year-end unemployment rate for the City was 8.6%, which was above the 8.2% rate for 2010. The state unemployment rate for 2011 was 7.7% and the national was 8.9%. The City is slowly recovering from a down economy over the past few years.
- The City expects a 1% increase in its tax revenue for the coming year.

These factors were considered when the City prepared its 2012 Budget.

One of the major goals of the Board of Directors is to maintain financial stability in the General Fund by adopting a budget with a minimum unassigned fund balance at 15% of operating expenditures. Due to the economic slowdown in its major revenue sources, the City’s General Fund budget for 2012 was approved at \$41.1 million and includes an estimated year end fund balance approximating 8% as \$1.4 million of the 2011 balance was used to provide the funding gap between 2012 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, 2011

Assets

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Cash	\$ 14,354,154	\$ 9,763,670	\$ 24,117,824	\$ 1,051,456	\$ 1,549,948
Investments	25,602,570	6,548,976	32,151,546	371,208	1,123,727
Receivables, net of allowance for uncollectibles					
Taxes	13,796,402	-	13,796,402	50,178	-
Sales taxes	2,926,473	-	2,926,473	150,660	-
Accounts	568,965	6,166,877	6,735,842	9,380	240,660
Interest	3,899	2,136	6,035	11	514
Grants and other governments	548,892	-	548,892	-	651,621
Internal balances	(1,757)	1,757	-	-	-
Inventory	-	946,265	946,265	5,000	10,721
Prepays and deposits	687,666	37,992	725,658	54,439	55,464
Deferred charges	230,572	4,043,051	4,273,623	-	109,499
Restricted assets					
Cash	61,546	-	61,546	-	382,499
Investments	22,908,583	24,085,614	46,994,197	-	298,615
Accounts receivable, net of allowances for uncollectibles	-	148,947	148,947	-	44,839
Sales tax receivable	1,645,481	-	1,645,481	-	-
Interest receivable	-	24	24	-	208
Prepaid items and deposits	-	65,719	65,719	-	-
Capital assets					
Nondepreciable	48,074,668	88,837,102	136,911,770	422,132	8,611,362
Depreciable	315,537,832	399,869,680	715,407,512	403,197	30,292,503
Total Assets	\$ 446,945,946	\$ 540,517,810	\$ 987,463,756	\$ 2,517,661	\$ 43,372,180

City of Fort Smith, Arkansas
Statement of Net Assets (Continued)
December 31, 2011

Liabilities and Net Assets

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Liabilities					
Accounts payable and accrued expenses	\$ 6,411,329	\$ 4,039,785	\$ 10,451,114	\$ 52,731	\$ 812,629
Other current liabilities	-	3,124	3,124	-	-
Accrued interest	566,084	2,032,797	2,598,881	-	2,362
Deposits	-	525,774	525,774	-	-
Unearned revenue	331,671	-	331,671	-	-
Noncurrent liabilities					
Other long-term liabilities due within one year	1,382,486	817,806	2,200,292	-	25
Current portion of long-term debt	12,490,000	5,535,000	18,025,000	-	285,000
Due in more than one year	48,715,235	182,468,636	231,183,871	-	3,315,694
Total Liabilities	69,896,805	195,422,922	265,319,727	52,731	4,415,710
Net Assets					
Invested in capital assets, net of related debt	323,022,637	324,215,779	647,238,416	825,329	35,305,603
Restricted for:					
Construction projects	16,523,656	625,471	17,149,127	-	698,059
Debt service	12,310,940	17,983,327	30,294,267	-	452,327
Parks & recreation	106,774	-	106,774	-	-
Housing and rehabilitation	4,031	-	4,031	-	-
Police & fire retirement contributions	10,070,927	-	10,070,927	-	-
Other purposes	-	-	-	152,394	-
Unrestricted	15,010,176	2,270,311	17,280,487	1,487,207	2,500,481
Total Net Assets	\$ 377,049,141	\$ 345,094,888	\$ 722,144,029	\$ 2,464,930	\$ 38,956,470

City of Fort Smith, Arkansas
Statement of Activities
For the Year Ended December 31, 2011

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	\$ 5,485,379	\$ 985,964	\$ 1,199,213	\$ -	\$ (3,300,202)		\$ (3,300,202)		
Legal	1,884,258	2,274,084	450,588	-	840,414		840,414		
Finance	2,504,414	675,478	-	-	(1,828,936)		(1,828,936)		
Public safety									
Police	20,436,051	252,836	2,573,983	418,663	(17,190,569)		(17,190,569)		
Fire	13,573,267	72,462	1,121,769	-	(12,379,036)		(12,379,036)		
Public works									
Operations	481,421	-	-	-	(481,421)		(481,421)		
Streets	11,840,206	9,535	4,212,647	83,565	(7,534,459)		(7,534,459)		
Traffic Control	2,219,723	-	-	-	(2,219,723)		(2,219,723)		
Community services									
Health and Social Services	367,262	-	75,054	-	(292,208)		(292,208)		
Parks and Recreation	4,401,532	309,363	7,093	400	(4,084,676)		(4,084,676)		
Convention Center	1,900,928	481,458	-	-	(1,419,470)		(1,419,470)		
Transit	2,399,651	203,580	1,008,032	1,294,126	106,087		106,087		
Housing and Rehabilitation	1,662,675	43	1,620,756	-	(41,876)		(41,876)		
Debt service									
Interest	2,933,735	-	-	-	(2,933,735)		(2,933,735)		
Total Governmental Activities	72,090,502	5,264,803	12,269,135	1,796,754	(52,759,810)		(52,759,810)		
Business-Type Activities:									
Water and Sewer	38,875,863	40,818,042	-	638,698		2,580,877	2,580,877		
Sanitation	11,287,956	12,337,186	-	-		1,049,230	1,049,230		
Total Business-Type Activities	50,163,819	53,155,228	-	638,698		3,630,107	3,630,107		
Total Primary Government	\$ 122,254,321	\$ 58,420,031	\$ 12,269,135	\$ 2,435,452	\$ (52,759,810)	\$ 3,630,107	\$ (49,129,703)		
Component Units:									
Governmental									
Advertising & Promotion	\$ 681,872	\$ -	\$ 3,825	\$ -			\$ (678,047)		
Public Library	2,743,760	167,123	279,620	-			(2,297,017)		
Sub-total	3,425,632	167,123	283,445	-			(2,975,064)		
Business-Type									
Parking Authority	267,280	183,480	-	-				\$ (83,800)	
Airport	4,827,516	2,629,701	-	1,845,855				(351,960)	
Sub-total	5,094,796	2,813,181	-	1,845,855				(435,760)	
Total Component Units	\$ 8,520,428	\$ 2,980,304	\$ 283,445	\$ 1,845,855			(2,975,064)	(435,760)	

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Activities (Continued)
For the Year Ended December 31, 2011

	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	13,143,979	-	13,143,979	1,322,096	-
Sales taxes	53,838,552	-	53,838,552	909,302	-
Gross receipts utility franchise fees	6,571,993	-	6,571,993	710,400	-
Unrestricted investment earnings	18,480	14,459	32,939	1,019	37,688
Payment from City of Fort Smith	-	-	-	-	250,000
Other	1,539,449	1,403,727	2,943,176	22,469	-
Transfers	(8,315,855)	8,315,855	-	-	-
Total general revenues and transfers	66,796,598	9,734,041	76,530,639	2,965,286	287,688
Change in net assets	14,036,788	13,364,148	27,400,936	(9,778)	(148,072)
Net assets, beginning	363,012,353	331,730,740	694,743,093	2,474,708	39,104,542
Net assets, end of year	\$ 377,049,141	\$ 345,094,888	\$ 722,144,029	\$ 2,464,930	\$ 38,956,470

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Balance Sheet – Governmental Funds
December 31, 2011

	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
Assets							
Cash	\$ 3,176,687	\$ 1,855,168	\$ 2,546,026	\$ -	\$ -	\$ 5,440,988	\$ 13,018,869
Investments	2,576,139	1,080,620	12,747,587	-	-	6,965,780	23,370,126
Receivables, net of allowance for uncollectibles							
Taxes	8,697,770	2,185,128	-	-	-	2,913,504	13,796,402
Sales taxes	1,280,992	-	1,645,481	-	-	-	2,926,473
Accounts	393,020	55	4,725	-	-	5,025	402,825
Accrued interest	548	303	1,464	-	-	1,218	3,533
Due from other funds	32,471	-	-	-	-	-	32,471
Due from other governments	402,535	16,219	525	70	-	129,543	548,892
Restricted assets:							
Cash	-	-	-	-	61,546	-	61,546
Investments	-	-	-	12,304,670	10,603,913	-	22,908,583
Sales taxes receivable	-	-	-	-	1,645,481	-	1,645,481
Prepaid items	49,169	833	-	-	-	-	50,002
Deposits	17,538	-	22,695	502,487	-	-	542,720
Total Assets	\$ 16,626,869	\$ 5,138,326	\$ 16,968,503	\$ 12,807,227	\$ 12,310,940	\$ 15,456,058	\$ 79,307,923
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued liabilities	\$ 1,477,124	\$ 318,399	\$ 1,135,169	\$ 1,576,837	\$ -	\$ 941,497	\$ 5,449,026
Retainage payable	115,509	-	305,508	383,104	-	32,740	836,861
Due to other funds	-	-	-	-	-	34,228	34,228
Deferred revenue	7,133,880	2,140,164	-	-	-	3,440,020	12,714,064
Other	159,955	-	-	-	-	2,323	162,278
Total Liabilities	8,886,468	2,458,563	1,440,677	1,959,941	-	4,450,808	19,196,457
Fund Balances:							
Nonspendable							
Prepaid items	49,169	833	-	-	-	-	50,002
Deposits	17,538	-	22,695	502,487	-	-	542,720
Restricted for:							
Construction projects	283,616	2,678,930	15,505,131	10,344,799	-	15,850	28,828,326
Debt service	-	-	-	-	12,310,940	-	12,310,940
Parks & recreation	-	-	-	-	-	106,774	106,774
Housing and rehabilitation	-	-	-	-	-	4,031	4,031
Police & fire retirement contributions	-	-	-	-	-	10,070,927	10,070,927
Committed to:							
Construction projects	-	-	-	-	-	443,933	443,933
Assigned to:							
Budgeted expenditures for subsequent year	1,430,547	-	-	-	-	-	1,430,547
Convention center	-	-	-	-	-	361,668	361,668
Construction projects	667,888	-	-	-	-	2,067	669,955
Other purposes	739,175	-	-	-	-	-	739,175
Unassigned	4,552,468	-	-	-	-	-	4,552,468
Total Fund Balances	7,740,401	2,679,763	15,527,826	10,847,286	12,310,940	11,005,250	60,111,466
Total Liabilities and Fund Balances	\$ 16,626,869	\$ 5,138,326	\$ 16,968,503	\$ 12,807,227	\$ 12,310,940	\$ 15,456,058	\$ 79,307,923

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, 2011

Total fund balances - governmental funds \$ 60,111,466

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

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

Land	\$	26,034,596	
Buildings		72,725,398	
Improvements other than buildings		13,517,226	
Machinery and equipment		40,394,457	
Infrastructure		305,845,345	
Accumulated depreciation		<u>(116,944,594)</u>	
		341,572,428	
Construction in progress		<u>22,040,072</u>	
 Total	 \$	 <u>363,612,500</u>	 363,612,500

Some revenues in the governmental funds are deferred because they are
not collected within the prescribed time period after year end and are not
considered available. On the accrual basis, however, those revenues would
be recognized regardless of when they are collected. 12,382,393

Internal service funds are used by management to charge the costs of
certain activities, such as fuel and insurance, to individual funds. A portion
of the assets and liabilities are included in governmental activities in the
statement of net assets. 2,510,936

Some assets related to long-term debt are deferred and, therefore, are not
reported in the funds. 230,572

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	\$	2,381,878	
Claims payable		82,500	
Sales tax bonds payable, net		52,894,533	
Interest payable		566,084	
OPEB liabilities		<u>5,873,731</u>	
	\$	<u>61,798,726</u>	<u>(61,798,726)</u>

Net assets of governmental activities \$ 377,049,141

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended December 31, 2011

	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
Revenues							
Taxes	\$ 6,815,325	\$ 1,989,709	\$ -	\$ -	\$ -	\$ 2,653,362	\$ 11,458,396
Sales taxes	15,155,032	-	19,341,760	-	19,341,760	-	53,838,552
Licenses and permits	1,442,781	-	-	-	-	185,376	1,628,157
Utility franchise fees	6,571,993	-	-	-	-	-	6,571,993
Intergovernmental	4,587,098	4,045,511	83,565	-	-	3,836,093	12,552,267
Fines and forfeitures	2,226,844	-	-	-	-	129,965	2,356,809
Fees for services	626,755	-	-	-	-	481,458	1,108,213
Interest	1,771	1,004	3,684	1,143	6,232	3,910	17,744
Increase (decrease) in fair value of investments	-	-	-	-	736	-	736
Contributions	-	-	-	-	-	1,341,458	1,341,458
Miscellaneous	316,699	10,460	103,000	40,764	-	74	470,997
Total Revenues	37,744,298	6,046,684	19,532,009	41,907	19,348,728	8,631,696	91,345,322
Expenditures							
Current:							
General government							
Administration	3,716,104	208,530	-	-	-	-	3,924,634
Legal	1,739,016	48,267	-	-	-	-	1,787,283
Finance	1,937,373	319,757	-	-	-	-	2,257,130
Public safety							
Police	14,912,803	-	-	-	-	3,996,878	18,909,681
Fire	9,401,673	-	-	-	-	3,348,107	12,749,780
Public works							
Operations	-	453,029	-	-	-	-	453,029
Streets	-	2,690,540	906,946	-	-	250,523	3,848,009
Traffic Control	-	1,982,581	-	-	-	167,136	2,149,717
Community services							
Health and Social Services	131,348	-	-	-	-	-	131,348
Parks and Recreation	1,941,735	239,248	-	-	-	11,083	2,192,066
Convention Center	-	-	-	-	-	1,166,186	1,166,186
Transit	2,034,024	-	-	-	-	-	2,034,024
Housing and Rehabilitation	-	-	-	-	-	1,620,756	1,620,756
Other	2,248,953	27,030	-	69,569	23,214	-	2,368,766
Capital Outlay	2,103,830	350,884	19,300,983	9,642,465	-	272,565	31,670,727
Debt Service:							
Principal	495,000	-	-	-	17,000,000	-	17,495,000
Interest	8,250	-	-	-	2,359,401	-	2,367,651
Total Expenditures	40,670,109	6,319,866	20,207,929	9,712,034	19,382,615	10,833,234	107,125,787
Excess (deficiency) in revenues over (under) expenditures	(2,925,811)	(273,182)	(675,920)	(9,670,127)	(33,887)	(2,201,538)	(15,780,465)

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Continued)
For the Year Ended December 31, 2011

	<u>General</u>	<u>Street Maintenance</u>	<u>Sales Tax</u>	<u>Sales & Use Tax Construction</u>	<u>Sales & Use Tax Bond</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other Financing Sources (Uses)							
Transfers in	2,653,602	-	-	179,393	699,004	-	3,531,999
Transfers out	<u>(430,000)</u>	<u>(82,160)</u>	<u>(2,385,810)</u>	<u>(4)</u>	<u>(179,393)</u>	-	<u>(3,077,367)</u>
Total Other Financing Sources and Uses	<u>2,223,602</u>	<u>(82,160)</u>	<u>(2,385,810)</u>	<u>179,389</u>	<u>519,611</u>	-	<u>454,632</u>
Net Change in Fund Balances	(702,209)	(355,342)	(3,061,730)	(9,490,738)	485,724	(2,201,538)	(15,325,833)
Fund Balances, January 1	<u>8,442,610</u>	<u>3,035,105</u>	<u>18,589,556</u>	<u>20,338,024</u>	<u>11,825,216</u>	<u>13,206,788</u>	<u>75,437,299</u>
Fund Balances, December 31	<u>\$ 7,740,401</u>	<u>\$ 2,679,763</u>	<u>\$ 15,527,826</u>	<u>\$ 10,847,286</u>	<u>\$ 12,310,940</u>	<u>\$ 11,005,250</u>	<u>\$ 60,111,466</u>

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, 2011

Net change in fund balances - total governmental funds \$ (15,325,833)

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. 31,670,727

Capital contributions to the Water and Sewer Fund are recognized as transfers out on the government-wide statement of activities (8,999,175)

The net effect of various transactions, i.e. sales, contributions, capital leases, is to increase net assets. 500,878

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. (10,869,892)

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. 17,602,243

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. 1,685,583

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. (1,466,638)

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 \$(503,584) and the external activities adjustment of \$679,697]. (761,105)

Change in net assets of governmental activities \$ 14,036,788

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City of Fort Smith, Arkansas
Statement of Fund Net Assets –
Proprietary Funds
December 31, 2011

Assets

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Current Assets				
Cash	\$ 3,426,285	\$ 5,637,983	\$ 9,064,268	\$ 2,034,687
Investments	3,819,868	1,694,133	5,514,001	3,267,419
Receivables, net of allowance for uncollectibles				
Accounts	4,981,709	1,118,277	6,099,986	233,031
Accrued interest	768	1,196	1,964	538
Restricted				
Investments	19,610,110	-	19,610,110	-
Accounts receivable, net of allowances for uncollectibles	-	148,947	148,947	-
Interest receivable	24	-	24	-
Inventory	889,400	-	889,400	56,865
Prepaid items	-	324	324	132,612
Due from other funds	-	-	-	1,757
	32,728,164	8,600,860	41,329,024	5,726,909
Total Current Assets				
Noncurrent Assets				
Restricted				
Investments	-	4,475,504	4,475,504	-
Prepaid items and deposits	65,719	-	65,719	-
Deferred charges	4,043,051	-	4,043,051	-
Capital assets				
Land	12,352,809	373,772	12,726,581	-
Buildings	-	1,999,645	1,999,645	-
Improvements other than buildings	-	21,016,775	21,016,775	-
Leasehold improvements	-	709,952	709,952	-
Machinery and equipment	9,196,983	19,479,709	28,676,692	-
Water system	325,595,081	-	325,595,081	-
Sewer system	192,539,376	-	192,539,376	-
Construction in progress	75,979,382	131,139	76,110,521	-
Less accumulated depreciation	(147,743,451)	(22,924,390)	(170,667,841)	-
	472,028,950	25,262,106	497,291,056	-
Total Noncurrent Assets				
Total Assets	\$ 504,757,114	\$ 33,862,966	\$ 538,620,080	\$ 5,726,909

City of Fort Smith, Arkansas
Statement of Fund Net Assets –
Proprietary Funds (Continued)
December 31, 2011

Liabilities and Net Assets

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Current liabilities				
Accounts payable and accrued liabilities	\$ 1,633,958	\$ 507,754	\$ 2,141,712	\$ 232,303
Retainage payable	1,791,212	-	1,791,212	-
Accrued vacation and sick leave	9,544	2,848	12,392	-
Accrued interest	2,032,797	-	2,032,797	-
Claims and judgments	-	-	-	1,740,709
Revenue bonds payable	5,535,000	-	5,535,000	-
Capital leases payable	56,422	201,084	257,506	-
Deposits	525,774	-	525,774	-
Other	3,124	-	3,124	-
	<u>11,587,831</u>	<u>711,686</u>	<u>12,299,517</u>	<u>1,973,012</u>
Total Current Liabilities				
Noncurrent liabilities				
Accrued vacation and sick leave	944,938	281,908	1,226,846	-
Landfill closure and postclosure care	-	4,475,504	4,475,504	-
Revenue bonds, net	173,453,542	-	173,453,542	-
Capital leases payable	17,545	402,168	419,713	-
OPEB liabilities	1,981,288	911,743	2,893,031	-
	<u>176,397,313</u>	<u>6,071,323</u>	<u>182,468,636</u>	<u>-</u>
Total Noncurrent Liabilities				
Total Liabilities	<u>187,985,144</u>	<u>6,783,009</u>	<u>194,768,153</u>	<u>1,973,012</u>
Net Assets				
Invested in capital assets, net of related debt	304,032,429	20,183,350	324,215,779	-
Restricted for bond retirement	17,983,327	-	17,983,327	-
Restricted for asset replacement	500,000	125,471	625,471	-
Unrestricted (deficit)	(5,743,786)	6,771,136	1,027,350	3,753,897
	<u>\$ 316,771,970</u>	<u>\$ 27,079,957</u>	<u>343,851,927</u>	<u>\$ 3,753,897</u>
Total Net Assets				

Reconciliation to government - wide statement of net assets:

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

1,242,961

Net assets of business type activities

\$ 345,094,888

City of Fort Smith, Arkansas
Statement of Revenues, Expenses and Changes in
Fund Net Assets – Proprietary Funds
For the Year Ended December 31, 2011

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Operating Revenues				
Water service	\$ 27,536,490	\$ -	\$ 27,536,490	\$ -
Sewer service	12,539,235	-	12,539,235	-
Charges for services	708,755	12,337,186	13,045,941	9,042,838
Other	33,562	-	33,562	-
Total Operating Revenues	<u>40,818,042</u>	<u>12,337,186</u>	<u>53,155,228</u>	<u>9,042,838</u>
Operating Expenses				
Personnel services	12,036,163	5,669,274	17,705,437	-
Contractual services	2,696,036	1,230,282	3,926,318	710,776
Materials and supplies	4,328,232	3,161,150	7,489,382	973,448
Heat, light, and power	1,699,362	81,457	1,780,819	-
Depreciation	8,791,515	949,309	9,740,824	-
Insurance claims and expenses	-	-	-	8,184,244
Total Operating Expenses	<u>29,551,308</u>	<u>11,091,472</u>	<u>40,642,780</u>	<u>9,868,468</u>
Operating Income (Loss)	<u>11,266,734</u>	<u>1,245,714</u>	<u>12,512,448</u>	<u>(825,630)</u>
Nonoperating Revenues (Expenses)				
Interest revenue	2,796	3,758	6,554	1,934
Increase (decrease) in fair value of investments	8,428	(523)	7,905	-
Interest expense and fiscal charges	(8,654,032)	(17,888)	(8,671,920)	-
Other nonoperating revenues, net	1,155,851	154,765	1,310,616	-
Total Nonoperating Revenues (Expenses)	<u>(7,486,957)</u>	<u>140,112</u>	<u>(7,346,845)</u>	<u>1,934</u>
Income Before Contributions and Transfers	3,779,777	1,385,826	5,165,603	(823,696)
Capital contributions	9,121,662	-	9,121,662	-
Transfers in	-	180,000	180,000	-
Transfers out	(781,160)	(82,160)	(863,320)	-
Change in Net Assets	12,120,279	1,483,666	13,603,945	(823,696)
Total net assets, beginning of year	<u>304,651,691</u>	<u>25,596,291</u>		<u>4,577,593</u>
Total net assets, ending	<u>\$ 316,771,970</u>	<u>\$ 27,079,957</u>		<u>\$ 3,753,897</u>

Reconciliation to government - wide statement of activities:

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

(239,797)

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

\$ 13,364,148

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City of Fort Smith, Arkansas
Statement of Cash Flows – Proprietary Funds
For the Year Ended December 31, 2011

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Operating Activities				
Cash received from customers	\$ 40,206,765	\$ 12,287,622	\$ 52,494,387	\$ -
Cash received from service users	-	-	-	1,388,632
Cash received from city and employee contributions	-	-	-	7,691,103
Cash payments for goods and services	(8,717,570)	(4,513,234)	(13,230,804)	(945,112)
Cash paid to employees	(11,497,154)	(5,406,271)	(16,903,425)	-
Cash payments for premiums and other operating expenses	-	-	-	(8,495,243)
Cash payments for claims paid	-	-	-	(924,818)
Cash received from other operating revenues	1,259,144	226,897	1,486,041	-
Net cash provided by (used for) operating activities	<u>21,251,185</u>	<u>2,595,014</u>	<u>23,846,199</u>	<u>(1,285,438)</u>
Noncapital Financing Activities				
Transfers in from other funds	-	180,000	180,000	-
Transfers out to other funds	(781,160)	(82,160)	(863,320)	-
Net cash provided by (used for) noncapital financing activities	<u>(781,160)</u>	<u>97,840</u>	<u>(683,320)</u>	<u>-</u>
Capital and Related Financing Activities				
Proceeds from sale of capital assets	165,486	65,264	230,750	-
Acquisition and construction of capital assets	(14,093,285)	(1,839,024)	(15,932,309)	-
Principal paid on bonds	(6,170,000)	(1,060,000)	(7,230,000)	-
Interest paid on bonds	(8,841,807)	(15,101)	(8,856,908)	-
Net cash used for capital and related financing activities	<u>(28,939,606)</u>	<u>(2,848,861)</u>	<u>(31,788,467)</u>	<u>-</u>
Investing Activities				
Proceeds from sales and maturities of investment securities	35,200,484	9,349,336	44,549,820	4,460,170
Outlays for purchases of investment securities	(25,518,657)	(13,831,244)	(39,349,901)	(6,717,114)
Interest on investments	21,541	2,619	24,160	1,683
Net cash provided by (used for) investing activities	<u>9,703,368</u>	<u>(4,479,289)</u>	<u>5,224,079</u>	<u>(2,255,261)</u>
Net increase (decrease) in cash	<u>1,233,787</u>	<u>(4,635,296)</u>	<u>(3,401,509)</u>	<u>(3,540,699)</u>
Cash, January 1	<u>2,192,498</u>	<u>10,273,279</u>	<u>12,465,777</u>	<u>5,575,386</u>
Cash, December 31	<u>\$ 3,426,285</u>	<u>\$ 5,637,983</u>	<u>\$ 9,064,268</u>	<u>\$ 2,034,687</u>

City of Fort Smith, Arkansas
Statement of Cash Flows – Proprietary Funds (Continued)
For the Year Ended December 31, 2011

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 11,266,734	\$ 1,245,714	\$ 12,512,448	\$ (825,630)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	8,791,515	949,309	9,740,824	-
Miscellaneous revenue (expense)	1,217,890	127,200	1,345,090	-
Change in assets and liabilities				
Accounts receivable	(572,484)	(49,564)	(622,048)	38,220
Due from other funds	-	-	-	(1,323)
Inventory	(58,387)	-	(58,387)	5,011
Prepaid items	(2,670)	(324)	(2,994)	(52,418)
Accounts payable and accrued liabilities	72,695	56,521	129,216	(227,186)
Deposits	(5,231)	-	(5,231)	-
Accrued vacation and sick leave	15,986	26,905	42,891	-
Liability for claims and judgments	-	-	-	(222,112)
OPEB liabilities	531,845	239,253	771,098	-
Other liabilities	(6,708)	-	(6,708)	-
 Total adjustments	 9,984,451	 1,349,300	 11,333,751	 (459,808)
 Net cash provided by operating activities	 \$ 21,251,185	 \$ 2,595,014	 \$ 23,846,199	 \$ (1,285,438)

Noncash investing, capital and financing activities:

Enterprise funds:

The Water and Sewer Fund received contributions of capital assets of \$9,121,662 for 2011 and recognized an \$8,428 increase in fair value of investments in 2011. The 2002 advance refunding and the 2005 advance refunding for water and sewer revenue bonds resulted in cash flow savings of \$34,875 and \$28,885, respectively, for 2011.

The Sanitation Fund recognized a decrease in fair value of investments of \$523 for 2011. During 2011, the 2002 advance refunding for solid waste revenue bonds resulted in cash flow savings of \$98,468.

City of Fort Smith, Arkansas
Statement of Fiduciary Net Assets
OPEB Trust Fund
December 31, 2011

Assets

Current Assets

Investments	<u>\$ 1,489,182</u>
Total Current Assets	<u>1,489,182</u>
Total Assets	<u>1,489,182</u>

Liabilities

Current Liabilities

Accounts payable	<u>3,129</u>
Total Current Liabilities	<u>3,129</u>
Total Liabilities	<u>3,129</u>

Net Assets

Held in trust for OPEB	<u>1,486,053</u>
Total Net Assets	<u><u>\$ 1,486,053</u></u>

City of Fort Smith, Arkansas
Statement of Changes in Fiduciary Net Assets
OPEB Trust Fund
For the Year Ended December 31, 2011

Additions:

Contributions:		
Employer	\$	350,000
Total contributions		<u>350,000</u>
Investment earnings:		
Interest		16,102
Net increase in fair value of investments		48,038
Total investment earnings		<u>64,140</u>
Less investment expense		10,688
Net investment earnings		<u>53,452</u>
Total Additions		<u>403,452</u>
Change in Net Assets		403,452
Net assets, beginning		<u>1,082,601</u>
Net assets, ending	\$	<u><u>1,486,053</u></u>

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2011

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, 2011

Discretely Presented Component Units

Business-Type

Fort Smith Parking Authority (the Authority) - The Authority's governing board is appointed by the City's Board; the operation and administration of the Authority's property is conducted by City personnel; and the legal liability for the Authority's revenue bond obligation remains with the City. In addition, the City provides a subsidy to fund the Authority's operations; however, the Authority functions almost entirely for the benefit of residents and other customers. The Authority is a special purpose government engaged solely in business-type activities and is discretely presented in the City's basic financial statements. Separate financial statements are not prepared for the Authority. See Note 13 on pages 86-87 of these notes for condensed financial statements.

Airport Commission - The Airport Commission manages the Fort Smith Regional Airport and consists of seven members as appointed by the Mayor and confirmed by the Board. Debt is issued in the name of the City and the tax rate on aviation fuel must be approved by the Board. The Airport Commission is a special purpose government engaged solely in business-type activities and is discretely presented in the City's basic financial statements. Financial statements of the Airport Commission can be obtained from the Airport's administrative office located at 6700 McKennon Boulevard, Suite 200, Fort Smith, Arkansas 72903, or from the City Clerk's office. See Note 13 on pages 86-87 of these notes for condensed financial statements.

Governmental

Advertising and Promotion Commission (the Commission) - The Commission was established during 1989 to promote the City and increase tourism. The Commission is governed by seven members appointed by the Board. The Mayor and one board member serve as two of the seven members of the Commission. The City levies taxes for the Commission's revenue, performs administrative services for collection of taxes, and provides financial services to the Commission. However, the Commission functions for the benefit of the citizens and visitors to the City. The Commission is a special purpose government engaged in governmental activities and is discretely presented in the City's basic financial statements. Separate financial statements are not prepared for the Commission. See Note 13 on pages 86-87 of these notes for condensed financial statements.

Public Library - The board of trustees for the Fort Smith Public Library manages the Public Library and consists of seven members appointed by the Mayor and confirmed by the Board. Debt is issued in the name of the City and the City levies the Public Library's ad valorem tax annually. The Public Library is a special purpose government engaged in governmental activities and is discretely presented in the City's basic financial statements. Financial statements of the Public Library can be obtained from the Library's administrative office located at 3201 Rogers Avenue, Fort Smith, Arkansas, 72903, or from the City Clerk's office. See Note 13 on pages 86-87 of these notes for condensed financial statements.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2011

Related Organizations

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

Adoption of Accounting Principles

Effective January 1, 2011, the City implemented the following financial accounting and reporting standard issued by GASB:

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 implementation had no effect on total beginning fund balance.

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

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2011

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:

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

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2011

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.

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

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, 2011

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

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

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

Interest is capitalized on enterprise fund capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There was no capitalized interest in 2011.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2011

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

Property Tax Revenue

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

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

The City is permitted by Arkansas State Law to levy taxes up to \$0.50 per \$100 of assessed valuation on real and personal property for general governmental services, \$0.50 per \$100 of assessed valuation on real and personal property for the payment of principal and interest on long-term debt, \$0.10 per \$100 of assessed valuation on real and personal property for the police pension funds and \$0.10 per \$100 of assessed valuation on real and personal property for the fire pension funds. The combined tax rate levied by the City in 2011 to finance the above operations was \$0.70 per \$100 of assessed valuation on real and personal property, leaving a tax margin of \$0.50 per \$100 of assessed valuation on real and personal property. Approximately \$6.5 million of additional taxes could be raised per year based on the current year's assessed value of \$941,388,230 for real property and \$353,247,975 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 fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured such as a result of employee resignations and retirements.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Risk Management

The City maintains a medical self-insurance plan funded by the City and administered by a third party. The plan provides certain healthcare benefits to active and retired City employees. Substantially all regular, full-time City employees are eligible for these benefits. The City's costs of providing these benefits, including premiums, totaled \$8,369,561 in 2011, 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 \$737,460 in 2011 to fund this program. There have been no significant reductions in insurance coverage from the prior year and there were no settlements that exceeded insurance coverage in the past three fiscal years.

Sales Taxes

In November 1985, the City began assessing a 1% sales and use tax on retail sales in the City. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes for this purpose totaled \$19,341,760 for fiscal year 2011, and are included in the Sales Tax Fund's sales tax revenues in the accompanying financial statements. Sales tax revenues are restricted for repair, maintenance, and improvement of City streets, bridges, and associated drainage. The City refers the tax to the voters every ten years for reapproval. The tax is currently extended through 2015.

In August 1994, Sebastian County began assessing a 1% sales and use tax on retail sales in the county. Each city within Sebastian County receives a portion of the tax based upon population of the city. Currently, the City receives approximately 70% of the county tax. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes totaled \$15,155,032 for fiscal year 2011. These taxes are included in the General Fund's sales tax revenues. The County refers the tax to the voters every ten years for reapproval. The tax is currently in place through August 2014 as the tax was reapproved during 2003 for the period August 2004 through August 2014.

In May 2006, the citizens approved a referendum to continue the 1% sales and use tax on retail sales in the City to refund the Sales and Use Tax Construction Bonds, Series 2001, to fund a new radio communications system for public safety and utility purposes, and to fund the wastewater improvements. Sales tax revenues are restricted for the repayment of the Sales and Use Tax Refunding and Construction Bonds, Series 2006, 2008, and 2009. These taxes are collected by the state and remitted to the City net of a collection fee. The taxes for this purpose totaled \$19,341,760 for fiscal year 2011. City management expects the Series 2006, 2008, and 2009 Bonds to be refunded during 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, 2011

Long-Term Obligations

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

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

Restricted Assets

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

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

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

Cash		\$	61,546
Investments			22,908,583
Sales taxes receivable			1,645,481
Total restricted assets - general government		\$	24,615,610

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

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

Current Assets:

Investments - water and sewer bond account	\$ 4,435,352
Investments - water and sewer bond construction account	15,174,758
Accounts receivable - solid waste cleanup program account	148,947
Interest receivable - water and sewer bond account	24
Total current assets - restricted	19,759,081

Noncurrent assets:

Investments - solid waste landfill construction/closure and postclosure care acco	4,475,504
Prepaid items and deposits - water and sewer operating account	1,661
Prepaid items and deposits - water and sewer bond construction account	64,058
Total noncurrent assets - restricted	4,541,223
Total restricted assets - enterprise funds	\$ 24,300,304

Estimates

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

Fund Balances – Governmental Funds

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

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

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

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

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

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

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

Note 2: Cash and Investments

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

The City follows GASB Statement 3, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement 40, *Deposit and Investment Risk Disclosure*. The investments and deposits of the primary government are stated at quoted fair values. As a result, a net unrealized gain of \$8,641 is recorded as an increase in fair value of investments for the primary government in 2011, with a \$7,905 increase related to the City’s enterprise funds and a \$736 increase 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, 2011, all City’s deposits were fully collateralized and, therefore, were not exposed to custodial credit risk. The bank balances and carrying amount of the City’s deposits held as of December 31, 2011 were as follows:

Pooled and Nonpooled Funds

Description	Bank Balance	Carrying Amount
Demand deposits	\$ 65,865,837	\$ 66,453,490
Certificates of deposit	6,828,004	6,828,004
	\$ 72,693,841	\$ 73,281,494

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Component Units

At year-end, the carrying amount and the bank balance of the Advertising and Promotion Commission deposits was \$110,072. At December 31, 2011, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Public Library's deposits was \$1,011,615 and the bank balance was \$1,062,025. At December 31, 2011, 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 \$425,362. At December 31, 2011, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Airport Commission's deposits was \$2,454,620 and the bank balance was \$1,362,789. At December 31, 2011, none of the balances were exposed to custodial credit risk.

Investments

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

The City's investments, including accrued interest, held as of December 31, 2011 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	\$ 19,996,126	\$ 19,996,126	\$ -
U.S. Treasury Notes	10,053,552	-	10,053,552
	<u>\$ 30,049,678</u>	<u>\$ 19,996,126</u>	<u>\$ 10,053,552</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Component Units

At year-end, the Public Library held \$300,988 in money market funds. The Public Library reports investments at fair value.

At year-end, the Parking Authority fund held \$68,962 in U.S. Treasury Bills and \$23,388 in governmental money market accounts. The Parking Authority reports investments at fair value and the maturity of the bills is December 13, 2012.

At year-end, the Airport Commission held \$383,179 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, 2011 are securities issued and guaranteed by the U.S. Government.

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

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	\$ 73,281,494
Deposits classified as investments	<u>(49,102,124)</u>
	<u>\$ 24,179,370</u>
Cash as reported on the government-wide statement of net assets	\$ 24,117,824
Restricted cash as reported on the government-wide statement of net assets	<u>61,546</u>
	<u>\$ 24,179,370</u>
Carrying value of investments -	
Pooled and nonpooled funds	\$ 30,049,678
Deposits classified as investments	<u>49,102,124</u>
	<u>\$ 79,151,802</u>
As reported on the government-wide statement of net assets:	
Investments	\$ 32,151,546
Interest receivable	6,035
Restricted investments	46,994,197
Restricted interest receivable	<u>24</u>
	<u>\$ 79,151,802</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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Component Units:

Governmental type-

Carrying value of deposits -		
Advertising and Promotion		
Commission	\$	110,072
Public Library		1,011,615
Carrying value of investments -		
Public Library		300,988
		300,988
	\$	1,422,675

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

Cash	\$	1,051,456
Investments		371,208
Interest receivable		11
		11
	\$	1,422,675

Business type-

Carrying value of deposits -		
Parking Authority	\$	425,362
Airport Commision		2,454,620
Carrying value of investments -		
Parking Authority		92,350
Airport Commision		383,179
		383,179
	\$	3,355,511

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

Cash	\$	1,549,948
Investments		1,123,727
Interest receivable		514
Restricted cash		382,499
Restricted investments		298,615
Restricted interest receivable		208
		208
	\$	3,355,511

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Note 3: Capital Assets

Capital assets activity for the year ended December 31, 2011 was as follows:

Primary Government:

	December 31, 2010	Additions	Deletions/ Transfers	December 31, 2011
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 26,015,756	\$ 18,840	\$ -	\$ 26,034,596
Construction in progress	24,604,363	21,203,736	(23,768,027)	22,040,072
Total capital assets not being depreciated	<u>50,620,119</u>	<u>21,222,576</u>	<u>(23,768,027)</u>	<u>48,074,668</u>
Capital assets being depreciated				
Buildings	72,678,819	46,579	-	72,725,398
Improvements other than buildings	13,137,619	164,112	215,495	13,517,226
Infrastructure	295,160,994	-	10,684,351	305,845,345
Machinery and equipment	26,705,849	1,238,285	12,450,323	40,394,457
Total depreciable capital assets at historical cost	<u>407,683,281</u>	<u>1,448,976</u>	<u>23,350,169</u>	<u>432,482,426</u>
Less accumulated depreciation for				
Buildings	16,155,729	1,505,609	-	17,661,338
Improvements other than buildings	6,707,619	412,185	-	7,119,804
Infrastructure	65,253,889	7,638,062	-	72,891,951
Machinery and equipment	18,358,885	1,314,036	(401,420)	19,271,501
Total accumulated depreciation	<u>106,476,122</u>	<u>10,869,892</u>	<u>(401,420)</u>	<u>116,944,594</u>
Capital assets being depreciated, net	<u>301,207,159</u>	<u>(9,420,916)</u>	<u>23,751,589</u>	<u>315,537,832</u>
Governmental activities capital assets, net	<u>\$ 351,827,278</u>	<u>\$ 11,801,660</u>	<u>\$ (16,438)</u>	<u>\$ 363,612,500</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Primary Government:

	December 31, 2010	Additions	Deletions/ Transfers	December 31, 2011
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 12,040,339	\$ 686,242	\$ -	\$ 12,726,581
Construction in progress	86,213,675	10,827,136	(20,930,290)	76,110,521
Total capital assets not being depreciated	98,254,014	11,513,378	(20,930,290)	88,837,102
Capital assets being depreciated:				
Water system	317,691,379	696,941	7,206,761	325,595,081
Sewer system	169,064,654	9,751,194	13,723,528	192,539,376
Buildings	1,998,195	1,450	-	1,999,645
Improvements other than buildings	21,016,775	-	-	21,016,775
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	27,114,449	2,332,548	(770,305)	28,676,692
Total depreciable capital assets at historical cost	537,595,404	12,782,133	20,159,984	570,537,521
Less accumulated depreciation for:				
Water system	74,865,274	5,322,237	-	80,187,511
Sewer system	57,618,032	3,215,043	-	60,833,075
Buildings	763,154	65,717	-	828,871
Improvements other than buildings	9,972,027	32,051	-	10,004,078
Leasehold improvements	734,037	13,997	-	748,034
Machinery and equipment	17,739,902	1,091,779	(765,409)	18,066,272
Total accumulated depreciation	161,692,426	9,740,824	(765,409)	170,667,841
Capital assets being depreciated, net	375,902,978	3,041,309	20,925,393	399,869,680
Business-type activities capital assets, net	\$ 474,156,992	\$ 14,554,687	\$ (4,897)	\$ 488,706,782

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

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

Governmental activities:	
General government -	
Administration	\$ 29,213
Legal	1,271
Finance	157,118
Public safety -	
Police	565,506
Fire	292,833
Public works -	
Operations	8,852
Streets	7,828,673
Traffic control	18,067
Community services -	
Health and social services	6,016
Parks and recreation	1,093,925
Convention center	664,908
Transit	190,418
Housing and rehabilitation	<u>13,092</u>
Total governmental activities depreciation expense	<u>10,869,892</u>
Business type activities:	
Water and Sewer	8,791,515
Sanitation	<u>949,309</u>
Total business-type activities depreciation expense	<u>9,740,824</u>
Total depreciation expense	<u><u>\$ 20,610,716</u></u>

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

Capital asset activity (on page 48):	
Additions for capital assets not being depreciated	\$ 21,222,576
Additions for capital assets being depreciated	<u>1,448,976</u>
	<u><u>\$ 22,671,552</u></u>
Capital outlay reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 31,670,727
Less: capital contributions to the water and sewer fund	<u>(8,999,175)</u>
	<u><u>\$ 22,671,552</u></u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Capital asset activity for the year ended December 31, 2011 for the major enterprise funds was as follows:

Primary Government:

	December 31, 2010	Additions	Deletions/ Transfers	December 31, 2011
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 11,666,567	\$ 686,242	\$ -	\$ 12,352,809
Construction in progress	86,213,675	10,695,997	(20,930,290)	75,979,382
	<u>97,880,242</u>	<u>11,382,239</u>	<u>(20,930,290)</u>	<u>88,332,191</u>
Total capital assets not being depreciated:				
	<u>97,880,242</u>	<u>11,382,239</u>	<u>(20,930,290)</u>	<u>88,332,191</u>
Capital assets being depreciated:				
Water system	317,691,379	696,941	7,206,761	325,595,081
Sewer system	169,064,654	9,751,194	13,723,528	192,539,376
Machinery and equipment	8,918,593	506,861	(228,471)	9,196,983
	<u>495,674,626</u>	<u>10,954,996</u>	<u>20,701,818</u>	<u>527,331,440</u>
Total depreciable capital assets at historical cost				
	<u>495,674,626</u>	<u>10,954,996</u>	<u>20,701,818</u>	<u>527,331,440</u>
Less accumulated depreciation for:				
Water system	74,865,274	5,322,237	-	80,187,511
Sewer system	57,618,032	3,215,043	-	60,833,075
Machinery and equipment	6,692,205	254,235	(223,575)	6,722,865
	<u>139,175,511</u>	<u>8,791,515</u>	<u>(223,575)</u>	<u>147,743,451</u>
Total accumulated depreciation				
	<u>139,175,511</u>	<u>8,791,515</u>	<u>(223,575)</u>	<u>147,743,451</u>
Capital assets being depreciated, net				
	<u>356,499,115</u>	<u>2,163,481</u>	<u>20,925,393</u>	<u>379,587,989</u>
Total water and sewer fund capital assets, net				
	<u>\$ 454,379,357</u>	<u>\$ 13,545,720</u>	<u>\$ (4,897)</u>	<u>\$ 467,920,180</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

	December 31, 2010	Additions	Deletions/ Transfers	December 31, 2011
Sanitation Fund:				
Capital assets not being depreciated:				
Land	\$ 373,772	\$ -	\$ -	\$ 373,772
Construction in progress	-	131,139	-	131,139
Total capital assets not being depreciated:	373,772	131,139	-	504,911
Capital assets being depreciated:				
Buildings	1,998,195	1,450	-	1,999,645
Improvements other than buildings	21,016,775	-	-	21,016,775
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	18,195,856	1,825,687	(541,834)	19,479,709
Total depreciable capital assets at historical cost	41,920,778	1,827,137	(541,834)	43,206,081
Less accumulated depreciation for:				
Buildings	763,154	65,717	-	828,871
Improvements other than buildings	9,972,027	32,051	-	10,004,078
Leasehold improvements	734,037	13,997	-	748,034
Machinery and equipment	11,047,697	837,544	(541,834)	11,343,407
Total accumulated depreciation	22,516,915	949,309	(541,834)	22,924,390
Capital assets being depreciated, net	19,403,863	877,828	-	20,281,691
Total sanitation fund capital assets, net	\$ 19,777,635	\$ 1,008,967	\$ -	\$ 20,786,602

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Component Units-

	December 31, 2010	Additions	Deletions/ Transfers	December 31, 2011
Governmental Activities:				
Public Library				
Capital assets not being depreciated:				
Land	\$ 422,132	\$ -	\$ -	\$ 422,132
Capital assets being depreciated:				
Equipment	1,058,770	5,597	-	1,064,367
Transportation equipment	139,952	-	-	139,952
Total depreciable capital assets at historical cost	1,198,722	5,597	-	1,204,319
Less accumulated depreciation	738,966	62,156	-	801,122
Capital assets being depreciated, net	459,756	(56,559)	-	403,197
Governmental activities capital assets, net	\$ 881,888	\$ (56,559)	\$ -	\$ 825,329
Public Library				
	\$ 881,888	\$ (56,559)	\$ -	\$ 825,329
Business-type activities:				
Parking Authority				
Capital assets not being depreciated:				
Land	\$ 1,359,160	\$ -	\$ -	\$ 1,359,160
Capital assets being depreciated:				
Buildings	2,339,608	30,944	-	2,370,552
Machinery and equipment	73,525	-	-	73,525
Total depreciable capital assets at historical cost	2,413,133	30,944	-	2,444,077
Less accumulated depreciation for:				
Buildings	1,379,625	55,192	-	1,434,817
Machinery and equipment	66,485	-	-	66,485
Total accumulated depreciation	1,446,110	55,192	-	1,501,302
Capital assets being depreciated, net	967,023	(24,248)	-	942,775
Business-type activities capital assets, net	\$ 2,326,183	\$ (24,248)	\$ -	\$ 2,301,935
Parking Authority				
	\$ 2,326,183	\$ (24,248)	\$ -	\$ 2,301,935

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

	December 31, 2010	Additions	Deletions/ Transfers	December 31, 2011
Airport Commission:				
Capital assets not being depreciated:				
Land	\$ 6,058,806	\$ -	\$ -	\$ 6,058,806
Construction in progress	685,357	1,585,405	(1,077,366)	1,193,396
Total capital assets not being depreciated	<u>6,744,163</u>	<u>1,585,405</u>	<u>(1,077,366)</u>	<u>7,252,202</u>
Capital assets being depreciated:				
Buildings	21,538,988	-	-	21,538,988
Runways & other airport infrastructure	42,079,987	-	1,077,366	43,157,353
Equipment, furniture & fixtures, and other	10,342,021	98,120	(78,123)	10,362,018
Total depreciable capital assets at historical cost	<u>73,960,996</u>	<u>98,120</u>	<u>999,243</u>	<u>75,058,359</u>
Less accumulated depreciation for:				
Buildings	8,853,207	753,958	-	9,607,165
Runways & other airport infrastructure	27,787,684	1,306,104	-	29,093,788
Equipment, furniture & fixtures, and other	6,410,324	646,644	(49,290)	7,007,678
Total accumulated depreciation	<u>43,051,215</u>	<u>2,706,706</u>	<u>(49,290)</u>	<u>45,708,631</u>
Capital assets being depreciated, net	<u>30,909,781</u>	<u>(2,608,586)</u>	<u>1,048,533</u>	<u>29,349,728</u>
Business-type activities capital assets, net				
Airport Commission	<u>\$ 37,653,944</u>	<u>\$ (1,023,181)</u>	<u>\$ (28,833)</u>	<u>\$ 36,601,930</u>

Construction-in-progress is composed of the following:

	Primary Appropriation	Expended to December 31, 2011	Committed
Primary government:			
Governmental activities	\$ 37,617,592	\$ 22,040,072	\$ 15,577,520
Business-type activities			
Sanitation capital improvements	3,772,824	131,139	3,641,685
Water and sewer capital improvements	103,990,260	75,979,382	28,010,878
Total	<u>\$ 145,380,676</u>	<u>\$ 98,150,593</u>	<u>\$ 47,230,083</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

The City's governmental construction projects include major street and drainage improvements. 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 a general government fund. Funds are available for these projects. The water and sewer capital improvement projects also include the waterline improvements in the southern areas of the City, wet weather wastewater improvements, and plant designs that are funded by the 2007 and 2008 water and sewer system revenue bonds. The 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 plans to issue additional sales and use tax bonds during 2012 to fund additional water and wastewater improvements. The City plans to issue additional debt in future years for the remainder of the projects. The sanitation project currently includes engineering work and design for a new and expanded scale house for operations at the landfill. Funds are in place for the scale house project.

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

	Governmental	Business-Type		
		Water and Sewer	Sanitation	Total
Primary Government:				
Net book value	\$ 363,612,500	\$ 467,920,180	\$ 20,786,602	\$ 488,706,782
Current and noncurrent debt	(52,894,533)	(179,062,509)	(603,252)	(179,665,761)
Restricted assets - unspent bond/not proceeds	12,304,670	15,174,758	-	15,174,758
Invested in capital assets, net of related debt	<u>\$ 323,022,637</u>	<u>\$ 304,032,429</u>	<u>\$ 20,183,350</u>	<u>\$ 324,215,779</u>
Component Units:				
Net book value	\$ 825,329	38,903,865		
Current and noncurrent debt	-	(3,598,262)		
Invested in capital assets, net of related debt	<u>\$ 825,329</u>	<u>\$ 35,305,603</u>		

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Note 4: Long-Term Liabilities

Changes in long-term liabilities for the year ended December 31, 2011 were as follows:

Primary Government-

	Balance December 31, 2010	Increases	Decreases	Balance December 31, 2011	Amount Due in One Year
Governmental Activities:					
Bonds Payable -					
Sales tax bonds	\$ 69,235,000	\$ -	\$ 17,000,000	\$ 52,235,000	\$ 12,490,000
Add issuance premium	907,001	-	247,468	659,533	-
Sales tax bonds payable, net	<u>70,142,001</u>	<u>-</u>	<u>17,247,468</u>	<u>52,894,533</u>	<u>12,490,000</u>
Notes Payable	495,000	-	495,000	-	-
Capital leases payable	49,134	-	49,134	-	-
Compensated Absences	2,208,284	203,179	29,585	2,381,878	107,185
Claims Payable - General Fund					
Legal	82,500	-	-	82,500	82,500
Employee insurance/workers' compensation	1,454,016	-	261,215	1,192,801	1,192,801
OPEB liabilities	4,407,093	1,466,638	-	5,873,731	-
Other	<u>406,638</u>	<u>-</u>	<u>244,360</u>	<u>162,278</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 79,244,666</u>	<u>\$ 1,669,817</u>	<u>\$ 18,326,762</u>	<u>\$ 62,587,721</u>	<u>\$ 13,872,486</u>
Business-Type Activities					
Bonds Payable -					
Revenue bonds	\$ 183,750,000	\$ 18,920,000	\$ 25,540,000	\$ 177,130,000	\$ 5,535,000
Less issuance discounts	(34,393)	-	(2,457)	(31,936)	-
Add issuance premium	2,536,317	636,755	1,048,738	2,124,334	-
Less deferral on refunded issue	<u>(386,441)</u>	<u>93,625</u>	<u>(58,960)</u>	<u>(233,856)</u>	<u>-</u>
Revenue bonds payable, net	<u>185,865,483</u>	<u>19,650,380</u>	<u>26,527,321</u>	<u>178,988,542</u>	<u>5,535,000</u>
Capital leases payable	514,572	603,252	440,605	677,219	257,506
Compensated absences	1,196,347	107,771	64,877	1,239,241	12,392
Claims Payable-Employee insurance and worker's compensation	508,805	39,103	-	547,908	547,908
OPEB liabilities	2,121,933	771,098	-	2,893,031	-
Closure/postclosure landfill costs	<u>4,475,504</u>	<u>-</u>	<u>-</u>	<u>4,475,504</u>	<u>-</u>
Total other long-term liabilities	<u>8,817,161</u>	<u>1,521,224</u>	<u>505,482</u>	<u>9,832,903</u>	<u>817,806</u>
Total business-type activities long-term liabilities	<u>\$ 194,682,644</u>	<u>\$ 21,171,604</u>	<u>\$ 27,032,803</u>	<u>\$ 188,821,445</u>	<u>\$ 6,352,806</u>

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

Current Liabilities:	
Current portion of long-term debt	\$ 5,535,000
Noncurrent liabilities:	
Due within one year	817,806
Due in more than one year	<u>182,468,636</u>
Total business-type activities long-term liabilities	<u>\$ 188,821,442</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

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

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

Changes in long-term liabilities for the year ended December 31, 2011 for the major enterprise funds were as follows:

	Balance December 31, 2010	Increases	Decreases	Balance December 31, 2011	Amount Due in One Year
Water and Sewer Fund:					
Bonds Payable -					
Revenue bonds	\$ 182,690,000	\$ 18,920,000	\$ 24,480,000	\$ 177,130,000	\$ 5,535,000
Less issuance discounts	(34,393)	-	(2,457)	(31,936)	-
Add issuance premium	2,536,317	636,755	1,048,738	2,124,334	-
Less deferral on refunded issue	(348,741)	93,625	(21,260)	(233,856)	-
Revenue bonds payable, net	<u>184,843,183</u>	<u>19,650,380</u>	<u>25,505,021</u>	<u>178,988,542</u>	<u>5,535,000</u>
Capital leases payable	140,996	-	67,029	73,967	56,422
Compensated absences	938,496	71,045	55,059	954,482	9,544
OPEB liabilities	1,449,443	531,845	-	1,981,288	-
Other long-term liabilities	<u>2,528,935</u>	<u>602,890</u>	<u>122,088</u>	<u>3,009,737</u>	<u>65,966</u>
Total water and sewer fund	<u>\$ 187,372,118</u>	<u>\$ 20,253,270</u>	<u>\$ 25,627,109</u>	<u>\$ 181,998,279</u>	<u>\$ 5,600,966</u>
Sanitation Fund:					
Bonds Payable -					
Revenue bonds	\$ 1,060,000	\$ -	\$ 1,060,000	\$ -	\$ -
Less deferral on refunded issue	(37,700)	-	(37,700)	-	-
Revenue bonds payable, net	<u>1,022,300</u>	<u>-</u>	<u>1,022,300</u>	<u>-</u>	<u>-</u>
Capital leases payable	373,576	603,252	373,576	603,252	201,084
Compensated absences	257,851	36,723	9,818	284,756	2,848
OPEB liabilities	672,490	239,253	-	911,743	-
Closure/postclosure landfill costs	<u>4,475,504</u>	<u>-</u>	<u>-</u>	<u>4,475,504</u>	<u>-</u>
Other long-term liabilities	<u>5,779,421</u>	<u>879,228</u>	<u>383,394</u>	<u>6,275,255</u>	<u>203,932</u>
Total sanitation fund	<u>\$ 6,801,721</u>	<u>\$ 879,228</u>	<u>\$ 1,405,694</u>	<u>\$ 6,275,255</u>	<u>\$ 203,932</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

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	\$ 5,535,000	\$ -
Capital leases payable	56,422	201,084
Accrued vacation and sick leave	9,544	2,848
Noncurrent Liabilities:		
Landfill closure and postclosure care	-	4,475,504
Revenue bonds, net	173,453,542	-
Capital leases payable	17,545	402,168
Accrued vacation and sick leave	944,938	281,908
OPEB liabilities	1,981,288	911,743
	<u> </u>	<u> </u>
Total long-term liabilities for major enterprise funds	<u>\$ 181,998,279</u>	<u>\$ 6,275,255</u>

Changes in long-term liabilities for the year ended December 31, 2011, for the component units were as follows:

	<u>Balance December 31, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2011</u>	<u>Amount Due in One Year</u>
Component Units:					
Business-type activities-					
Parking Authority:					
Bonds Payable -					
Revenue bonds payable, net	\$ 715,000	\$ -	\$ 105,000	\$ 610,000	\$ 110,000
Less issuance discounts	(13,212)	-	(1,887)	(11,325)	-
Bonds payable, net	<u>701,788</u>	<u>-</u>	<u>103,113</u>	<u>598,675</u>	<u>110,000</u>
Compensated Absences	2,072	385	-	2,457	25
Total	<u>703,860</u>	<u>385</u>	<u>103,113</u>	<u>601,132</u>	<u>110,025</u>
Airport Commission:					
Bonds payable -					
Revenue Bonds	3,315,000	3,205,000	3,315,000	3,205,000	175,000
Less deferral on refunding	-	(208,829)	(3,416)	(205,413)	-
Less issuance discounts	(31,084)	-	(31,084)	-	-
Bonds payable, net	<u>3,283,916</u>	<u>2,996,171</u>	<u>3,280,500</u>	<u>2,999,587</u>	<u>175,000</u>
Total	<u>3,283,916</u>	<u>2,996,171</u>	<u>3,280,500</u>	<u>2,999,587</u>	<u>175,000</u>
Total Component Units	<u>\$ 3,987,776</u>	<u>\$ 2,996,556</u>	<u>\$ 3,383,613</u>	<u>\$ 3,600,719</u>	<u>\$ 285,025</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Operating Leases

The City leases office space under a noncancelable-operating lease. Total costs for the lease to the General Fund were \$226,000 for the year ended December 31, 2011. The future minimum lease payments for the lease are as follows:

2012		\$	238,000	
2013			242,000	
			242,000	
		\$	480,000	

Capital Leases

The City has entered into lease agreements for the acquisition of capital assets in 2009 through 2011. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date in the statement of net assets.

The assets acquired through capital lease are as follows:

	Primary Government Business - Type Activities	
	Water & Sewer	Sanitation
Machinery and Equipment	\$ 316,241	\$ 1,170,020
Less accumulated depreciation	(237,049)	(61,704)
Total	\$ 79,192	\$ 1,108,316

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2011 were as follows:

	Primary Government Business - Type Activities	
	Water & Sewer	Sanitation
2012	\$ 61,878	\$ 201,084
2013	18,839	201,084
2014	-	201,084
	<hr/>	<hr/>
Total future minimum lease payments	80,717	603,252
Less interest	(6,750)	-
	<hr/>	<hr/>
 Net present value of future minimum lease payments	 <u>\$ 73,967</u>	 <u>\$ 603,252</u>

Notes Payable

In June 2006, the City issued \$2,290,000 in promissory notes to provide funding for a phone system, the Martin Luther King Park community center, and downtown improvements. The notes were redeemed on June 1, 2011.

In accordance with Amendment 78 of the Arkansas Constitution, Arkansas state statutes limit the amount of short-term financing, including capital leases, the City may have in any fiscal year to five percent (5%) of the assessed valuation of property within the City. The limit applies to the reporting entity governmental activities. The governmental activities had no short-term financing as of December 31, 2011. The limit as of December 31, 2011 was \$64.7 million; therefore management believes the City is in compliance with state statutes for short-term financing at December 31, 2011.

Sales and Use Tax Bonds- Governmental Activities

On September 21, 2006, the City issued \$84,935,000 Sales and Use Tax Refunding and Construction Bonds, Series 2006. The bonds are payable solely from a one percent (1%) local sales and use tax levied by the City and approved by citizens on May 20, 2006. The bonds are due in annual installments at varying amounts through September 1, 2013, with interest ranging from 3.875% to 5%, payable semiannually.

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2011

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

The 2006 Bonds are subject to extraordinary redemption from surplus tax receipts and proceeds of the Bonds not needed for purposes intended at a purchase price equal to the principal amount being redeemed plus accrued interest to the redemption date. A total of \$2,875,000 bonds were called during 2011.

On November 13, 2008, the City issued \$15,815,000 Sales and Use Tax Construction Bonds, Series 2008. The bonds are payable solely from the same sales tax that supports the 2006 Bonds. The bonds are due in annual installments at varying amounts through September 1, 2014, with interest ranging from 3.75% to 4%.

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

The 2008 Bonds are subject to extraordinary redemption from surplus tax receipts and proceeds of the Bonds not needed for purposes intended at a purchase price equal to the principal amount being redeemed plus accrued interest to the redemption date. A total of \$470,000 bonds were called during 2011.

On September 30, 2009, the City issued \$29,150,000 Sales and Use Tax Construction Bonds, Series 2009 with interest rates ranging from 2.3% to 2.5%. The bonds are payable solely from the same sales tax that supports the 2006 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.

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 was also pledged for the 2010 Bonds. A total of \$30,000 in bonds were called during 2011. The 2010 Bonds were redeemed on September 1, 2011.

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, 2011. 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, 2011.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Maturity Schedule – The debt service requirements for the Sales Tax Bonds at December 31, 2011 is as follows:

Sales Tax Bonds Maturity Schedule

	Principal	Interest
2012	\$ 12,490,000	\$ 1,698,251
2013	23,915,000	1,119,102
2014	15,830,000	382,875
Total	52,235,000	\$ 3,200,228
Add unamortized bond premium	659,533	
Net bonds outstanding at December 31, 2011	\$ 52,894,533	

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Revenue Bonds - Business-Type Activities

Revenue bonds outstanding at December 31, 2011, are comprised of the following individual issues:

Water and Sewer:

\$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 4.1% payable semiannually	\$ 14,455,000
\$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	20,975,000
\$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	115,450,000
\$18,920,000 of Series 2011 Water and Sewer Refunding Revenue Bonds; due in varying amounts through October 1, 2023 with interest ranging from 2% to 4.5% payable semiannually	<u>18,920,000</u>
Bonds outstanding, December 31, 2011	177,130,000
Unamortized bond discount	(31,936)
Unamortized bond premium	2,124,334
Deferred amount on refunding	<u>(233,856)</u>
Net bonds outstanding, December 31, 2011	<u><u>\$ 178,988,542</u></u>

Water and Sewer-

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

City of Fort Smith, Arkansas

Notes to Basic Financial Statements

December 31, 2011

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 2005A Bonds.

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

On August 6, 2008, the City issued \$117,420,000 Water and Sewer Refunding and Construction Revenue Bonds, Series 2008. The 2008 Bonds were issued to advance refund the 2002A Bonds and to provide funding for improvements to the water and sewer facilities. The sewer improvements include extensions in growth areas of the City and the water improvements include the Mountainburg water treatment plant rehabilitation and expansion, the replacement of neighborhood water lines, and the Howard Hill elevated water storage tank. The 2008 Bonds advance refunded \$66.475 million of the outstanding Series 2002A Bonds. The carrying amount of the old debt exceeded the reacquisition price by \$440,770. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The remaining unamortized deferred amount on refunding was \$319,679 as of December 31, 2011. The 2008 Bonds were issued as additional bonds on a parity of security with the 2002, 2005A, 2005B, and 2007 bonds. The 2002A Bonds were redeemed on October 1, 2011; therefore, the 2002A escrow account balance was zero at December 31, 2011.

On November 10, 2011, the City issued \$18,920,000 Water and Sewer Refunding Revenue Bonds, Series 2011, to refund the outstanding \$2,325,000 of 2002B Series Bonds and to refund the outstanding \$16,595,000 of 2002C Series Bonds. The reacquisition price exceeded the carrying amount of the old debt by \$93,625. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The deferred amount on refunding was \$85,823 as of December 31, 2011. The City completed the refunding to obtain an economic gain of \$1,372,849 over the remaining life of the bonds. The balance in the 2002C Bonds Series escrow account at December 31, 2011 was \$16,811,891. The 2002B Series Bonds were redeemed in November 2011.

The Series 2005A, 2005B, 2007, 2008, and 2011 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,

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

for construction, extension, betterments and improvements to the system, or for any other lawful purpose.

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

The ordinances also contain provisions that, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2011, the City is in compliance with all applicable requirements.

Restricted accounts required by the bond ordinances are as follows:

Bond Retirement - The City is required to restrict funds for the payment of principal, interest, and trustee and paying agents' fees up to a maximum of \$1,760,500 related to the 2005A Bonds, \$727,354 related to the 2005B Bonds, \$1,891,369 related to the 2007 Bonds, \$11,712,104, related to the 2008 Bonds, and \$1,892,000 related to the 2011 Bonds. The City held surety bonds valued at \$1,760,500, \$727,354, \$1,891,369, \$11,712,104, and \$1,892,000 at December 31, 2011 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, 2011.

Sanitation-

On September 3, 2002, the City issued \$6,305,000 Solid Waste Refunding Revenue Bonds. The Series 2002 Bonds were issued to refund the outstanding Series 1995 Bonds. The 1995 Bonds were redeemed at 101% on December 1, 2002. The refunded debt is considered defeased and the related liabilities have been removed from the Sanitation Fund statement of net assets. The reacquisition price exceeded the carrying amount of the old debt by \$376,991. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method. The deferred amount on refunding was amortized as of December 31, 2011. 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 2002 bonds were redeemed on June 1, 2011.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Maturity Schedule

Aggregate debt service requirements at December 31, 2011 for business-type activity related bonds were as follows:

	Total Business-Type Activities	
	Water and Sewer	
	<u>Principal</u>	<u>Interest</u>
2012	5,535,000	8,122,192
2013	5,610,000	7,993,471
2014	5,805,000	7,795,474
2015	6,035,000	7,564,450
2016	6,285,000	7,322,776
2017-2021	35,095,000	32,928,427
2022-2026	43,760,000	24,273,474
2027-2031	56,045,000	11,987,388
2032	12,960,000	648,000
Total	<u>\$ 177,130,000</u>	<u>\$ 108,635,652</u>

Component Units Revenue Bonds-Business-Type Activities

Airport Commission-

On August 2, 2011, the Airport Commission issued \$3,205,000 of City of Fort Smith, Arkansas Airport Refunding and Improvement Revenue Bonds, Series 2011, to refund the remaining outstanding bonds of the Series 1999 Bonds. The bonds bear interest at 1.5% to 5.35%, payable semi-annually and the bonds are payable in annual installments through October 1, 2026. All the bonds still outstanding may be redeemed at the Airport's option on or after October 1, 2020. At December 31, 2011, bonds payable were \$3,205,000. The bonds outstanding net of amortized discount at December 31, 2011, were \$2,999,587.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

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

	<u>Principal</u>	<u>Interest</u>
2012	175,000	130,163
2013	175,000	127,537
2014	180,000	124,388
2015	180,000	120,967
2016	190,000	115,658
2017-2021	1,045,000	466,980
2022-2026	<u>1,260,000</u>	<u>197,152</u>
 Total Payments	 3,205,000	 <u>\$ 1,282,845</u>
 Less unamortized deferral on refunding	 <u>(205,413)</u>	
 Net bond outstanding, December 31, 2011	 <u>\$ 2,999,587</u>	

The bond covenants require the maintenance of the following restricted account:

Bond Retirement - The Airport Commission is required to maintain funds for the payment of principal, interest and trustee and paying agents' fees of \$382,499, which are classified as restricted assets on the balance sheet, as of December 31, 2011. The Airport Commission held investments equal to this amount at December 31, 2011.

Parking Authority-

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

Bond Retirement - The Parking Authority is required to maintain funds for the payment of principal, interest, and trustee and paying agents' fees of \$69,620. As of December 31, 2011, 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

City of Fort Smith, Arkansas
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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 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, 2011, Parking Authority Revenue Bonds payable was \$610,000. The bonds are due in annual installments at varying amounts through December 1, 2017, with interest ranging from 4.5% to 4.75%, payable semiannually. The bonds outstanding net of unamortized discount at December 31, 2011, was \$598,675.

Debt service requirements for the bonds at December 31, 2011 were as follows:

	Principal	Interest
2012	\$ 110,000	\$ 28,340
2013	115,000	23,390
2014	120,000	18,042
2015	125,000	12,463
2016	130,000	6,650
2017	10,000	475
 Total Payments	 610,000	 \$ 89,360
 Less unamortized bond discount	 (11,325)	
 Net bond outstanding, December 31, 2011	 \$ 598,675	

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, 2011, the City has recorded \$19,932 as arbitrage payable. This liability is included as other long-term liabilities in the Sales and Use Tax Construction Fund.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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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, 2011, there were thirteen series of Industrial Development Revenue Bonds outstanding with an aggregate principal amount payable of \$208,600,000, two series of Fair and Exhibition Facilities Bonds outstanding with an aggregate principal amount payable of \$5,865,000, and two series of Residential Housing Facilities Board Multi-Family Housing Revenue Bonds outstanding with an aggregate principal payable of \$6,375,000.

Note 5: Risk Management

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

All funds of the City participate in the City's insurance programs and make payments to the respective self-insurance funds based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for future claims. The Airport Commission and the Fort Smith Public Library participate in the City's health plans by making contributions as required by the City. At December 31, 2011 the net assets were \$3,168,998 and \$525,349 in the Employee Insurance and Workers' Compensation Funds, respectively. The claims liability balances of \$1,350,625 and \$390,084 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 2011 are detailed below:

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

	Employee Insurance	Workers' Compensation
Self-insurance liability, December 31, 2010	\$ 1,399,016	\$ 563,805
Current year claims and changes in estimate	7,814,601	195,922
Claim payments	(7,862,992)	(369,643)
Self-insurance liability, December 31, 2011	\$ 1,350,625	\$ 390,084

Note 6: Deferred Compensation Plan

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

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

Note 7: Pension Plans

(a) Public Employees Retirement System

Plan Description

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

City of Fort Smith, Arkansas
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Plan; however, the City makes contributions equal to 10% of each covered employees' earnings. Employer contributions to the PERS plan totaled \$2,333,364 for 2011.

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 2011 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 12.46% from January 1 through June 30, 2011 and it was 13.47% from July 1 through December 31, 2011 of covered payroll. The Clerk's contribution rate was 5% of covered payroll for 2011.

Covered payroll for the clerk was \$80,316 for the fiscal year ended December 31, 2011. There is one retired clerk receiving benefits from APERS.

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

Plan Description

The Fire Relief and Pension Plan and the Police Relief and Pension Plan (the Old Plans) are agent multi-employer defined benefit pension plans for employees of the Fire and Police Department who were hired prior to January 1, 1983. The Old Plans were established in accordance with Arkansas statutes and were closed, by state law, to new employees effective January 1, 1983. On September 20, 1990, the City entered into an agreement with the Arkansas local police and fire (LOPFI) retirement system whereby LOPFI assumed responsibility for administration and a portion of the obligation of the Old Plans pursuant to Act 364 of 1981, as amended, and Act 655 of 1983 of the General Assembly of the State of Arkansas. Per the Agreement between the City and LOPFI, the City will contribute an actuarially determined rate sufficient to support the current plan benefit levels and fund the Old Plan's net pension obligation over a 30 year 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.

City of Fort Smith, Arkansas
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December 31, 2011

Members and participants of the old plans at December 31, 2011 are:

	Fire	Police
Active Members:		
Vested	8	3
Retirees and beneficiaries	116	96
Total	124	99

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 2011 plan year were based upon the December 31, 2010, actuarial report.

Arkansas LOPFI plan administration policy, as required by state statutes, contains the following provisions: segregate all of the plan's retired participants and fund future benefit payments at 100%; remove these retirees as City obligations while the City realizes the remaining, net unfunded obligation on the segregated retirees; amortize these funded, accrued liabilities over a closed period of 40 years that began September 20, 1990; if the length of the financing period for unfunded liabilities causes closed plan assets to temporarily dip below zero, Arkansas LOPFI would loan the shortages until the financing period is complete as, at that time, Arkansas LOPFI will have been fully reimbursed including investment credits.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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The actuarially required contributions rate as of December 31, 2011, 2010, and 2009, and amounts required by the City and active participants of the Old Plans for 2011, 2010, and 2009 were as follows:

	Fire Plan			Police Plan		
	2011	2010	2009	2011	2010	2009
Employer actuarially required contribution rates	39.14%	36.97%	34.30%	27.53%	27.75%	24.05%
Employer contributions as a percentage of annual covered payroll	39.14%	36.97%	34.30%	27.53%	27.75%	24.05%
Employer contributions to LOPFI	\$ 208,566	\$ 214,956	\$ 226,519	\$ 51,745	\$ 68,162	\$ 85,670
Annual Pension Cost (APC)	\$ 208,566	\$ 214,956	\$ 226,519	\$ 51,745	\$ 68,162	\$ 85,670
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	-	-	-	-	-	-

The Fire portion of the Old Plan, as of December 31, 2010, the most recent actuarial valuation date, was 30% funded. The actuarial accrued liability for benefits was \$44,835,482, and the actuarial value of assets was \$13,623,622, resulting in an unfunded actuarial accrued liability (UAAL) of \$31,211,860. The covered payroll (annual payroll of active employees covered by the plan) was \$7,333,658 and the ratio of the UAAL to the covered payroll was 426%.

The Police portion of the Old Plan, as of December 31, 2010, the most recent actuarial valuation date, was 33% funded. The actuarial accrued liability for benefits was \$35,427,310, and the actuarial value of assets was \$11,728,706, resulting in an unfunded actuarial accrued liability (UAAL) of \$23,698,604. The covered payroll (annual payroll of active employees covered by the plan) was \$8,034,511 and the ratio of the UAAL to the covered payroll was 295%.

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to compute the contribution rates for the year ended December 31, 2011, for the Old Plans:

	Old Fire and Police Plans
Valuation date	December 31, 2010
Cost method	Entry age
Asset valuation method	Smooth market over a period of 5 years
Amortization method	Level percentage
Amortization period	26 years closed
 Assumptions:	
Inflation rate	4.0%
Investment rate of return	8.0%
Projected salary increases	4.0%
Post-retirement benefit increases	3.0%

d) Arkansas Local Police and Fire Retirement System (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, 2011 are:

	Fire	Police
Active Members:		
Vested	124	166
Retirees and beneficiaries	10	35
Total	134	201

City of Fort Smith, Arkansas
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Participants who retire at or after age 55 with 20 years of credited service or any age for a participant with 28 or more years of credited service are entitled to retirement benefits payable annually for life equal to 2.94% of final average pay for each year of credited service prior to January 1, 2004. The City adopted Benefit Program 2 for members of the new plans effective January 1, 2004. Benefit Program 2 provides retirement benefits payable annually for life equal to 3.28% of final average pay for each year of credited service that began January 1, 2004 and after. The total benefit cannot exceed 100% of final average pay. Benefits are fully vested after ten years.

Funding Policy and Funded Status

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

The actuarially computed contribution rates as of December 31, 2011, 2010, and 2009, and amounts required by the City and active participants of the New Plans for 2011, 2010, and 2009 were as follows:

	Fire Plan			Police Plan		
	2011	2010	2009	2011	2010	2009
Employer actuarially required contribution rates	39.14%	36.97%	34.30%	27.53%	27.75%	24.05%
Employer contributions as a percentage of annual covered payroll	39.14%	36.97%	34.30%	27.53%	27.75%	24.05%
Employer contributions to LOPFI	\$ 2,661,827	\$ 2,459,884	\$ 2,174,691	\$ 2,160,156	\$ 2,187,755	\$ 1,892,713
Annual Pension Cost (APC)	\$ 2,661,827	\$ 2,459,884	\$ 2,174,691	\$ 2,160,156	\$ 2,187,755	\$ 1,892,713
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	-	-	-	-	-	-

The Fire portion of the New Plan, as of December 31, 2010, the most recent actuarial valuation date, was 57% funded. The actuarial accrued liability for benefits was \$36,824,901 and the actuarial value of assets was \$20,879,206 resulting in an unfunded actuarial accrued liability (UAAL) of \$15,945,695. The covered payroll (annual payroll of active employees covered by the plan) was \$6,800,785 and the ratio of the UAAL to the covered payroll was 235%.

The Police portion of the New Plan, as of December 31, 2010, the most recent actuarial valuation date, was 71% funded. The actuarial accrued liability for benefits was \$31,884,017, and the actuarial value of assets was \$22,560,319, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,323,698. The covered payroll (annual payroll of active employees covered by the plan) was \$7,846,552 and the ratio of the UAAL to the covered payroll was 119%.

City of Fort Smith, Arkansas
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December 31, 2011

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

Actuarial Methods and Assumptions

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

	New Fire and Police Plans
Valuation date	December 31, 2010
Cost method	Entry age
Asset valuation method	Smooth market over a period of 5 years
Amortization method	Level percentage
Amortization period	30 years open
 Assumptions:	
Inflation rate	4.0%
Investment rate of return	8.0%
Projected salary increases	4.0%
Post-retirement benefit increases	3.0% every 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 contributions to the plan on behalf of the retirees. The plan has 866 active participants and 29

City of Fort Smith, Arkansas
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December 31, 2011

retirees and beneficiaries receiving benefits who pay monthly premiums between \$363 for single coverage and \$993 for family coverage. Administrative costs of the plan are financed through investment earnings and employer contributions.

Summary of Significant Accounting Policies

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

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

Funded Status and Funding Progress

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

Annual required contribution (ARC)	\$ 3,543,305
30 - year amortization of net OPEB obligation	(706,482)
Interest on net OPEB obligation	613,673
	3,450,496
Annual OPEB cost	3,450,496
Total annual employer contribution	1,212,760
Increase in net OPEB obligation	2,237,736
Net OPEB obligation - beginning of year	6,529,026
Net OPEB obligation - end of year	\$ 8,766,762

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 \$5,873,731 and for business-type activities at \$2,893,031. Furthermore, the obligation for business-type activities is reflected on the statement of fund net assets for proprietary funds as non-current liabilities for the Water and Sewer Fund (\$1,981,288) and for the Sanitation Fund (\$911,743).

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

Normal cost	\$ 1,757,608
Amortization of transition obligation	<u>1,785,697</u>
Annual required contribution	<u><u>\$ 3,543,305</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011, 2010, and 2009 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2011	\$ 3,450,496	35.15%	\$ 8,766,762
12/31/2010	3,193,299	0.18%	6,529,026
12/31/2009	2,257,547	31.89%	3,452,842

Funded Status and Funding Progress: As of January 1, 2012, the most recent actuarial valuation date, the plan was 4.3% funded. The actuarial accrued liability for benefits was \$34,363,100, and the actuarial value of assets was \$1,489,183, resulting in an unfunded actuarial accrued liability (UAAL) of \$32,873,917. The covered payroll (annual payroll of active employees covered by the plan) was \$38,782,126, and the ratio of the UAAL to the covered payroll was 84.8%.

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, 2011

In the January 1, 2012, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7% investment rate of return based upon funding the plan in the future, a 5% inflation rate, and an annual healthcare cost trend rate of 10% for 2012 and then reduced by decrements of 0.5% to 1.0% annually to an ultimate rate of 5.5% after seven years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2011, was twenty-seven 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, 2011 the City has accrued a liability in the amount of \$82,500.

Contingencies

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

For the past several years, the City has been subject to various administrative orders issued by the Environmental Protection Agency (EPA) with reference to the sanitary sewer system's ability to adequately handle wet weather flows. On September 9, 2005, the EPA issued an additional administrative order. The latest order specifically orders the removal of several planned and constructed overflow sites in the City's sanitary sewer system which are necessary to prevent harm resulting from the overflows during wet weather conditions. The City has been notified by the Department of Justice that the EPA has referred the City's file to the Department of Justice. The City is communicating with the Department of Justice in an effort to establish timelines for the wastewater improvements required. The 2006 Sales and Use Tax Refunding and Construction Bonds included \$49.3 million for wastewater improvements in response to EPA regulations. Additionally, the Sales and Use Tax Construction Bonds, Series 2008, 2009, and 2010 included \$14 million, \$29.15 million, and \$3.595 million, respectively, for wastewater improvements as required by the EPA. The City plans to issue an additional \$71 million in sales and use tax bonds for wastewater improvements in 2012. 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, 2011

Note 10: Individual Fund Disclosures

Interfund receivables and payables as of December 31, 2011 are as follows:

Fund	Receivables	Payables
Governmental Funds:		
General Fund	\$ 32,471	\$ -
Special Revenue Funds		
Economic Development Grants Fund	-	860
CDBG Fund	-	26,485
HOME Fund	-	6,883
Internal Service Funds	<u>1,757</u>	<u>-</u>
Total	<u>\$ 34,228</u>	<u>\$ 34,228</u>

The \$32,471 receivable in the General Fund represents amounts paid for expenditures incurred by the Community Development Block Grant Fund (\$24,728), the HOME Investment Partnership Act Fund (\$6,883), and the Economic Development Grants Fund (\$860). The \$1,757 receivable in the Working Capital Fund, an internal service fund, represents charges to the Community Development Block Grant Fund for fuel and supplies.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Interfund transfers in (out) for the year ended December 31, 2011, is as follows:

Fund	Transfers	
	In	Out
Primary Government -		
Governmental Funds:		
Major funds:		
General Fund	\$ 2,653,602	\$ 430,000
Special revenue -		
Street Maintenance Fund	-	82,160
Sales Tax Fund	-	2,385,810
Debt service fund -		
Sales & Use Tax Bond Fund	699,004	179,393
Capital projects fund -		
Sales & Use Tax Construction Fund	179,393	4
	<u>3,531,999</u>	<u>3,077,367</u>
Total governmental funds		
Proprietary Funds:		
Water and Sewer Fund	-	781,160
Sanitation Fund	180,000	82,160
	<u>180,000</u>	<u>863,320</u>
Total proprietary funds		
Component Units -		
Advertising & Promotion Fund	-	21,312
Parking Authority Fund	250,000	-
	<u>250,000</u>	<u>21,312</u>
Total component units		
	<u>250,000</u>	<u>21,312</u>
Total	<u>\$ 3,961,999</u>	<u>\$ 3,961,999</u>

The transfer out of \$2,385,810 from the Sales Tax Fund is to the General Fund and represents the allocation of overhead costs provided by General Fund programs during 2011. Of the \$781,160, transferred out from the Water and Sewer Fund, \$699,000 was a transfer to the Sales and Use Tax Bond Fund to provide funding for interest payments on the Sales and Use Tax Bonds, Series 2009, that were issued for wastewater improvements.

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Note 11: Landfill Closure and Post Closure Care Costs

In October 1991, the EPA issued rules and regulations which require the City to place a final cover on its Municipal Solid Waste Landfill (MSWLF) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for a period of 30 years following closure of the site.

In 1994, the City adopted GASB Statement 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. This statement requires that the City recognize a portion of the closure and postclosure care costs referred to above as an operating expense in each fiscal year based on landfill capacity used as of each fiscal year-end, even though such costs will be paid only near or after the date that the landfill stops accepting waste.

The City's permitted landfill capacity was increased from a total of 13,507,000 cubic yards to 72,607,000 cubic yards in 2003. The life of the landfill is now projected to last through 2050 rather than 2013. The landfill was opened on October 9, 1993. The City's reported landfill closure and postclosure care liability at December 31, 2011, is \$4,475,504. The remaining estimated closure and postclosure care costs of approximately \$31.6 million will be recognized as the remaining capacity is filled. The percentage of landfill capacity used to date was approximately 9.7% at December 31, 2011. 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, 2011. 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, 2011, is \$7,385,303. In order to comply with this requirement, the City held an irrevocable standby letter of credit with BancorpSouth that is pledged to the Arkansas Department of Environmental Quality in the amount of \$7,287,000 at December 31, 2011. The city has also pledged a certificate of deposit investment as collateral for the letter of credit. The City will increase the value of the letter of credit and certificate of deposit held as collateral to meet the required level of financial assurance during 2012.

Note 12: New Applicable GASB Standards

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

City of Fort Smith, Arkansas
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December 31, 2011

OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

GASB Statement No. 59 – Financial Instruments Omnibus

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

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

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

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

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
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GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

This statement issued December 2010 will be effective for the City for the year ending December 31, 2012. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

GASB Statement No. 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

This statement is effective for periods beginning after December 15, 2011. It provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). This Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. GASB 63 also amends certain provisions of GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. The City has not yet determined the potential impact, if any; this statement could have on its financial statements.

GASB Statement No. 64 - Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)

This statement is effective for periods beginning after June 15, 2011. It clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (a) the collectability of swap payments is considered to be probable, (b) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in this Statement, and (c) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied. 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, 2011

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

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

GASB Statement No. 66 - Technical Corrections – 2012

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

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Note 13: Condensed Financial Statements-Discretely Presented Component Units

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

Statement of Net Assets
December 31, 2011

	Governmental			Business-Type		
	Advertising and Promotion	Public Library	Total	Parking Authority	Airport Commission	Total
Assets						
Current assets	\$ 165,164	\$ 1,376,508	\$ 1,541,672	\$ 521,972	\$ 3,836,844	\$ 4,358,816
Sales taxes receivable from the City	-	150,660	150,660	-	-	-
Capital Assets, net of accumulated depreciation, as applicable	-	825,329	825,329	2,301,935	36,601,930	38,903,865
Noncurrent assets	-	-	-	10,875	98,624	109,499
Total Assets	165,164	2,352,497	2,517,661	2,834,782	40,537,398	43,372,180
Liabilities						
Current liabilities	12,770	39,961	52,731	150,924	949,067	1,099,991
Noncurrent liabilities	-	-	-	491,132	2,824,587	3,315,719
Total liabilities	12,770	39,961	52,731	642,056	3,773,654	4,415,710
Net Assets						
Investment in capital assets, net of related debt	-	825,329	825,329	1,703,260	33,602,343	35,305,603
Restricted	152,394	-	152,394	69,620	1,080,766	1,150,386
Unrestricted	-	1,487,207	1,487,207	419,846	2,080,635	2,500,481
Total net assets	\$ 152,394	\$ 2,312,536	\$ 2,464,930	\$ 2,192,726	\$ 36,763,744	\$ 38,956,470

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Statement of Activities
For the Year Ended December 31, 2011

	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
Advertising/Promotion	\$ 681,872	\$ -	\$ 3,825	\$ (678,047)	\$ -	\$ (678,047)
Public Library	2,743,760	167,123	279,620	-	(2,297,017)	(2,297,017)
Total	<u>\$ 3,425,632</u>	<u>\$ 167,123</u>	<u>\$ 283,445</u>	(678,047)	(2,297,017)	(2,975,064)
General revenues						
Property taxes				-	1,322,096	1,322,096
Sales taxes				-	909,302	909,302
Hospitality hotel/motel taxes				710,400	-	710,400
Unrestricted investments earnings				29	990	1,019
Other				-	22,469	22,469
Total general revenues				<u>710,429</u>	<u>2,254,857</u>	<u>2,965,286</u>
Change in net assets				32,382	(42,160)	(9,778)
Net assets, beginning				<u>120,012</u>	<u>2,354,696</u>	<u>2,474,708</u>
Net assets, ending				<u>\$ 152,394</u>	<u>\$ 2,312,536</u>	<u>\$ 2,464,930</u>
	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	\$ 267,280	\$ 183,480	\$ -	\$ (83,800)	\$ -	\$ (83,800)
Airport Commission	4,827,516	2,629,701	1,845,855	-	(351,960)	(351,960)
Total	<u>\$ 5,094,796</u>	<u>\$ 2,813,181</u>	<u>\$ 1,845,855</u>	(83,800)	(351,960)	(435,760)
General revenues						
Unrestricted investment earnings				354	37,334	37,688
Payment from City of Fort Smith				250,000	-	250,000
Total general revenues				<u>250,354</u>	<u>37,334</u>	<u>287,688</u>
Change in net assets				166,554	(314,626)	(148,072)
Net assets, beginning				<u>2,026,172</u>	<u>37,078,370</u>	<u>39,104,542</u>
Net assets, ending				<u>\$ 2,192,726</u>	<u>\$ 36,763,744</u>	<u>\$ 38,956,470</u>

City of Fort Smith, Arkansas
Notes to Basic Financial Statements
December 31, 2011

Note 14: Subsequent Events

On February 23, 2012, the City issued \$13,250,000 Water and Sewer Revenue Refunding Bonds, Series 2012, for the purpose of refunding the outstanding 2005A Water and Sewer Revenue Refunding Bonds. The bonds are due in varying amounts on October 1, 2012 through 2019 with interest rates ranging from 2% to 3.807%, payable semiannually. The reacquisition price exceeded the carrying amount of the old debt by \$265,391. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The City completed the refunding to reduce its total debt service payments over the next seven (7) years by \$1,803,168 and to obtain an economic gain of \$1,115,323.

On May 22, 2012, the City issued \$110,660,000 Sales and Use Tax Refunding and Improvement Bonds, Series 2012. The bonds were issued to refund the outstanding Sales and Use Tax Refunding and Improvement Bonds, Series 2006, Sales and Use Tax Bonds, Series 2008, and Sales and Use Tax & Water and Sewer Revenue Bonds, Series 2009. The 2006 and 2008 Bonds will be redeemed by September 1, 2013 and the 2009 Bonds will be redeemed by September 1, 2014. The reacquisition price exceeded the carrying amount of the old debt by \$1,483,000. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The bonds were also issued to fund \$39.4 million in wastewater improvements; \$20.7 million in water system improvements; \$8.6 million in fire improvements; and \$4 million in aquatic center improvements. The bonds are due May 1, 2013 through May 1, 2027 in varying amounts with interest ranging from 1% to 5%, payable semiannually. On March 13, 2012, voters approved the reauthorization of two ½% sales and use taxes for these bonds and for operation costs. The bonds are supported by .75% sales and use tax. The bonds are subject to mandatory redemption in inverse order from surplus tax collections on any payment date. The remaining .25% sales and use tax is to be used for fire and park operations.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

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:						
2010	\$ 13,623,622	\$ 44,835,482	30.4%	\$ (31,211,860)	\$ 7,333,658	-425.6%
2009	11,682,884	40,306,539	29.0%	(28,623,655)	7,235,164	-395.6%
2008	1,046,343	25,238,443	4.1%	(24,192,100)	7,000,612	-345.6%
Police Plan:						
2010	\$ 11,728,706	\$ 35,427,310	33.1%	\$ (23,698,604)	\$ 8,034,511	-295.0%
2009	12,404,021	35,656,105	34.8%	(23,252,084)	8,129,433	-286.0%
2008	6,207,679	27,638,811	22.5%	(21,431,132)	8,226,122	-260.5%
Arkansas Local Police and Fire Retirement System (the New Plans)						
Fire Plan:						
2010	\$ 20,879,206	\$ 36,824,901	56.7%	\$ (15,945,695)	\$ 6,800,785	-234.5%
2008	18,635,161	32,868,368	56.7%	(14,233,207)	6,653,731	-213.9%
2007	22,453,784	25,238,443	89.0%	(2,784,659)	6,340,207	-43.9%
Police Plan:						
2010	\$ 22,560,319	\$ 31,884,017	70.8%	\$ (9,323,698)	\$ 7,846,552	-118.8%
2009	22,975,883	32,229,734	71.3%	(9,253,851)	7,883,803	-117.4%
2008	28,028,232	27,638,811	101.4%	389,421	7,869,907	4.9%
Other Post Employment Benefit Plan (OPEB)						
2011	\$ 1,489,183	\$ 34,363,100	4.3%	\$ (32,873,917)	\$ 38,782,126	-84.8%
2010	1,082,601	23,918,052	4.5%	(22,835,451)	38,966,330	-58.6%
2009	720,000	23,918,052	3.0%	(23,198,052)	39,464,105	-58.8%

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, 2011

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
Revenues						
Taxes	\$ 7,137,000	\$ 6,994,000	\$ 6,815,325	\$ -	\$ 6,815,325	\$ (178,675)
Sales taxes	15,326,500	15,106,500	15,155,032	-	15,155,032	48,532
Licenses and permits	1,340,000	1,386,772	1,442,781	-	1,442,781	56,009
Utility franchise fees	6,191,500	6,456,500	6,571,993	-	6,571,993	115,493
Intergovernmental	4,174,992	5,354,722	4,587,098	-	4,587,098	(767,624)
Fines and forfeitures	1,950,000	2,116,528	2,226,844	-	2,226,844	110,316
Fees for services	515,900	597,414	626,755	-	626,755	29,341
Interest	42,000	1,836	1,771	-	1,771	(65)
Miscellaneous	150,000	217,573	316,699	-	316,699	99,126
Total revenues	36,827,892	38,231,845	37,744,298	-	37,744,298	(487,547)
Expenditures						
Current:						
General government						
Administration	4,075,918	3,728,898	3,716,104	8,885	3,724,989	3,909
Legal	1,884,190	1,884,190	1,739,016	1,000	1,740,016	144,174
Finance	2,109,759	2,085,008	1,937,373	37,151	1,974,524	110,484
Public safety						
Police	16,395,734	16,079,928	14,912,803	12,738	14,925,541	1,154,387
Fire	10,079,360	10,000,620	9,401,673	284,814	9,686,487	314,133
Community services						
Health and social services	150,070	131,340	131,348	-	131,348	(8)
Parks and recreation	2,223,645	2,225,700	1,941,735	22,344	1,964,079	261,621
Transit	2,163,290	2,034,056	2,034,024	-	2,034,024	32
Other	1,892,479	2,437,756	2,248,953	229,956	2,478,909	(41,153)
Capital outlay	1,701,746	2,460,430	2,103,830	354,616	2,458,446	1,984
Debt service:						
Principal	-	-	495,000	-	495,000	(495,000)
Interest	-	-	8,250	-	8,250	(8,250)
Total expenditures	42,676,191	43,067,926	40,670,109	951,504	41,621,613	1,446,313
Excess (deficiency) of revenues over (under) expenditures	(5,848,299)	(4,836,081)	(2,925,811)	(951,504)	(3,877,315)	958,766
Other Financing Sources (Uses):						
Transfers in	2,653,290	2,653,194	2,653,602	-	2,653,602	408
Transfers out	(430,000)	(430,000)	(430,000)	-	(430,000)	-
Total other financing sources and uses	2,223,290	2,223,194	2,223,602	-	2,223,602	408
Net change in fund balances	(3,625,009)	(2,612,887)	(702,209)	(951,504)	(1,653,713)	959,174
Fund Balances, January 1	8,495,513	8,495,513	8,442,610	-	8,442,610	-
Fund Balances, December 31	\$ 4,870,504	\$ 5,882,626	\$ 7,740,401	\$ (951,504)	\$ 6,788,897	\$ 959,174

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, 2011

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
Revenues						
Taxes	\$ 2,141,000	\$ 2,098,200	\$ 1,989,709	\$ -	\$ 1,989,709	\$ (108,491)
Intergovernmental	3,812,730	4,094,928	4,045,511	-	4,045,511	(49,417)
Interest	10,000	1,212	1,004	-	1,004	(208)
Miscellaneous	5,000	11,085	10,460	-	10,460	(625)
Total revenues	5,968,730	6,205,425	6,046,684	-	6,046,684	(158,741)
Expenditures						
Current:						
General government						
Administration	226,332	229,410	208,530	-	208,530	20,880
Legal	55,550	55,550	48,267	-	48,267	7,283
Finance	342,235	342,234	319,757	10,020	329,777	12,457
Public works						
Operations	449,918	472,718	453,029	1,599	454,628	18,090
Streets	2,944,000	2,869,567	2,690,540	-	2,690,540	179,027
Traffic control	2,336,179	2,342,679	1,982,581	-	1,982,581	360,098
Community services						
Parks and recreation	264,587	264,588	239,248	1,770	241,018	23,570
Other	74,767	27,031	27,030	-	27,030	1
Capital Outlay	287,000	379,869	350,884	-	350,884	28,985
Total expenditures	6,980,568	6,983,646	6,319,866	13,389	6,333,255	650,391
Excess (deficiency) of revenues over (under) expenditures	(1,011,838)	(778,221)	(273,182)	(13,389)	(286,571)	491,650
Other Financing Uses:						
Transfers out	(82,160)	(82,160)	(82,160)	-	(82,160)	-
Total Other Financing Uses	(82,160)	(82,160)	(82,160)	-	(82,160)	-
Net Change in Fund Balances	(1,093,998)	(860,381)	(355,342)	(13,389)	(368,731)	491,650
Fund Balances, January 1	3,133,706	3,133,706	3,035,105	-	3,035,105	-
Fund Balances, December 31	\$ 2,039,708	\$ 2,273,325	\$ 2,679,763	\$ (13,389)	\$ 2,666,374	\$ 491,650

City of Fort Smith, Arkansas
Notes to Required Supplementary Information
December 31, 2011

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 2011, supplemental appropriations (expenditures and transfers out) were adopted by the Board for the General Fund totaling \$391,735 to allocate \$324,115 for the Mallalieu demolition and preservation, \$39,900 for preliminary engineering and architectural fees for Fire Station 11, and \$27,720 for additional unemployment compensation costs. During 2011, the Board adopted supplemental appropriations for the Street Maintenance Fund totaling \$3,078 for additional unemployment costs. For budgetary purposes, unencumbered appropriations lapse at year-end.

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

**SUPPLEMENTARY INFORMATION
SECTION**

City of Fort Smith, Arkansas
Nonmajor Governmental Funds
For the Fiscal Year Ended December 31, 2011

Special Revenue Funds:

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

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

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

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

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

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

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

Capital Projects Fund:

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

City of Fort Smith, Arkansas
Combining Balance Sheet – Nonmajor Governmental Funds
December 31, 2011

			Special Revenue				Capital Projects		Total Nonmajor Governmental Funds
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Economic Development	Convention Center	Sidewalk Construction	
Assets									
Cash	\$ 9,564	\$ -	\$ 56,070	\$ 165,518	\$ 4,856,665	\$ -	\$ 348,614	\$ 4,557	\$ 5,440,988
Investments	133,303	9,437	-	395,916	5,896,117	-	60,967	470,040	6,965,780
Receivables, net of allowance for uncollectibles									
Taxes	-	-	-	-	2,913,504	-	-	-	2,913,504
Accounts	-	400	-	-	-	-	4,625	-	5,025
Accrued interest	13	1	-	39	1,071	-	45	49	1,218
Due from other governments	80,704	-	8,251	37,730	-	860	1,998	-	129,543
Total assets	<u>223,584</u>	<u>9,838</u>	<u>64,321</u>	<u>599,203</u>	<u>13,667,357</u>	<u>860</u>	<u>416,249</u>	<u>474,646</u>	<u>15,456,058</u>
Liabilities and Fund Balances									
Liabilities:									
Accounts payable and accrued liabilities	84,109	-	8,257	50,620	742,878	-	37,417	18,216	941,497
Retainage payable	20,243	-	-	-	-	-	-	12,497	32,740
Due to other funds	26,485	-	6,883	-	-	860	-	-	34,228
Deferred revenues	86,393	-	49,181	433,730	2,853,552	-	17,164	-	3,440,020
Other	2,323	-	-	-	-	-	-	-	2,323
Total liabilities	<u>219,553</u>	<u>-</u>	<u>64,321</u>	<u>484,350</u>	<u>3,596,430</u>	<u>860</u>	<u>54,581</u>	<u>30,713</u>	<u>4,450,808</u>
Fund Balances:									
Restricted for:									
Construction projects	-	-	-	15,850	-	-	-	-	15,850
Parks & recreation	-	9,838	-	96,936	-	-	-	-	106,774
Housing and rehabilitation	4,031	-	-	-	-	-	-	-	4,031
Police & fire retirement contributions	-	-	-	-	10,070,927	-	-	-	10,070,927
Committed to:									
Construction projects	-	-	-	-	-	-	-	443,933	443,933
Assigned to:									
Construction projects	-	-	-	2,067	-	-	-	-	2,067
Convention center	-	-	-	-	-	-	361,668	-	361,668
Total Fund Balances	<u>4,031</u>	<u>9,838</u>	<u>-</u>	<u>114,853</u>	<u>10,070,927</u>	<u>-</u>	<u>361,668</u>	<u>443,933</u>	<u>11,005,250</u>
Total liabilities and fund balances	<u>\$ 223,584</u>	<u>\$ 9,838</u>	<u>\$ 64,321</u>	<u>\$ 599,203</u>	<u>\$ 13,667,357</u>	<u>\$ 860</u>	<u>\$ 416,249</u>	<u>\$ 474,646</u>	<u>\$ 15,456,058</u>

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balance –
Nonmajor Governmental Funds
For the Year Ended December 31, 2011

	Special Revenue						Capital Projects	Total Nonmajor Governmental Funds	
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Economic Development	Convention Center		Sidewalk Construction
Revenues									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,653,362	\$ -	\$ -	\$ 2,653,362	
Licenses and permits	-	-	-	-	-	-	185,376	185,376	
Intergovernmental	951,192	-	358,394	1,377,087	838,250	311,170	-	3,836,093	
Fines and forfeitures	-	-	-	-	129,965	-	-	129,965	
Fees for services	-	-	-	-	-	481,458	-	481,458	
Interest	22	6	-	56	3,023	-	563	3,910	
Contributions	-	400	-	-	1,341,058	-	-	1,341,458	
Miscellaneous	-	-	-	-	74	-	-	74	
Total revenues	951,214	406	358,394	1,377,143	4,965,732	311,170	482,021	185,616	8,631,696
Expenditures									
Current:									
Public safety									
Police	-	-	-	784,094	3,212,784	-	-	-	3,996,878
Fire	-	-	-	172,265	3,175,842	-	-	-	3,348,107
Public works									
Streets	-	-	-	-	-	-	250,523	-	250,523
Traffic Control	-	-	-	167,136	-	-	-	-	167,136
Community services									
Parks and Recreation	-	-	-	11,083	-	-	-	-	11,083
Convention Center	-	-	-	-	-	1,166,186	-	-	1,166,186
Housing and Rehabilitation	951,192	-	358,394	-	-	311,170	-	-	1,620,756
Capital Outlay	-	-	-	246,499	-	-	26,066	-	272,565
Total expenditures	951,192	-	358,394	1,381,077	6,388,626	311,170	1,192,252	250,523	10,833,234
Excess (deficiency) of revenues over (under) expenditures	22	406	-	(3,934)	(1,422,894)	-	(710,231)	(64,907)	(2,201,538)
Other Financing Sources (Uses)									
Transfers in	-	-	-	-	-	-	-	-	-
Insurance proceeds from hail storm	-	-	-	-	-	-	-	-	-
Total Other Financing Sources and Uses	-	-	-	-	-	-	-	-	-
Net Change in Fund Balances	22	406	-	(3,934)	(1,422,894)	-	(710,231)	(64,907)	(2,201,538)
Fund Balances, January 1	4,009	9,432	-	118,787	11,493,821	-	1,071,899	508,840	13,206,788
Fund Balances, December 31	\$ 4,031	\$ 9,838	\$ -	\$ 114,853	\$ 10,070,927	\$ -	\$ 361,668	\$ 443,933	\$ 11,005,250

City of Fort Smith, Arkansas
Internal Service Funds
For the Fiscal Year Ended December 31, 2011

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, 2011

	Working Capital	Employee Insurance	Workers' Compensation	Total
Assets				
Current Assets				
Cash	\$ 46,004	\$ 1,946,518	\$ 42,165	\$ 2,034,687
Investments	-	2,631,045	636,374	3,267,419
Receivables, net of allowance for uncollectibles				
Accounts	-	85,832	147,199	233,031
Accrued interest	-	455	83	538
Inventory	56,865	-	-	56,865
Prepaid items & deposits	-	43,000	89,612	132,612
Due from other funds	1,757	-	-	1,757
	<u>104,626</u>	<u>4,706,850</u>	<u>915,433</u>	<u>5,726,909</u>
Total Current Assets	<u>104,626</u>	<u>4,706,850</u>	<u>915,433</u>	<u>5,726,909</u>
Total Assets	<u>104,626</u>	<u>4,706,850</u>	<u>915,433</u>	<u>5,726,909</u>
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	45,076	187,227	-	232,303
Claims and judgments	-	1,350,625	390,084	1,740,709
	<u>45,076</u>	<u>1,537,852</u>	<u>390,084</u>	<u>1,973,012</u>
Total Current Liabilities	<u>45,076</u>	<u>1,537,852</u>	<u>390,084</u>	<u>1,973,012</u>
Total Liabilities	<u>45,076</u>	<u>1,537,852</u>	<u>390,084</u>	<u>1,973,012</u>
Net Assets				
Unrestricted	<u>59,550</u>	<u>3,168,998</u>	<u>525,349</u>	<u>3,753,897</u>
Total Net Assets	<u>\$ 59,550</u>	<u>\$ 3,168,998</u>	<u>\$ 525,349</u>	<u>\$ 3,753,897</u>

City of Fort Smith, Arkansas
Combining Statement of Revenues, Expenses and
Changes in Fund Net Assets
Internal Service Funds
For the Year Ended December 31, 2011

	Working Capital	Employee Insurance	Workers' Compensation	Total
Operating Revenues				
Charges for services - internal	\$ 982,575	\$ 6,728,018	\$ 880,125	\$ 8,590,718
Charges for services - external	-	452,120	-	452,120
Total Operating Revenues	<u>982,575</u>	<u>7,180,138</u>	<u>880,125</u>	<u>9,042,838</u>
Operating Expenses				
Contractual services	-	554,960	155,816	710,776
Materials and supplies	973,448	-	-	973,448
Insurance claims and expenses	-	7,814,601	369,643	8,184,244
Total Operating Expenses	<u>973,448</u>	<u>8,369,561</u>	<u>525,459</u>	<u>9,868,468</u>
Operating Income (Loss)	<u>9,127</u>	<u>(1,189,423)</u>	<u>354,666</u>	<u>(825,630)</u>
Nonoperating Revenues				
Investment earnings	-	1,536	398	1,934
Total Nonoperating Revenues	<u>-</u>	<u>1,536</u>	<u>398</u>	<u>1,934</u>
Change in Net Assets	9,127	(1,187,887)	355,064	(823,696)
Total net assets, beginning	<u>50,423</u>	<u>4,356,885</u>	<u>170,285</u>	<u>4,577,593</u>
Total net assets, ending	<u>\$ 59,550</u>	<u>\$ 3,168,998</u>	<u>\$ 525,349</u>	<u>\$ 3,753,897</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows
Internal Service Funds
For the Year December 31, 2011

	Working Capital	Employee Insurance	Workers' Compensation	Total
Cash Flows from Operating Activities:				
Cash received from service users	\$ 981,252	\$ 407,380	\$ -	1,388,632
Cash received from city and employee contributions	-	6,728,018	963,085	7,691,103
Cash payments for goods and services	(945,112)	-	-	(945,112)
Cash payments for premiums and other operating expense	-	(7,951,879)	(543,364)	(8,495,243)
Cash payments for claims paid	-	(759,584)	(165,234)	(924,818)
Net cash provided by (used for) operating activities	<u>36,140</u>	<u>(1,576,065)</u>	<u>254,487</u>	<u>(1,285,438)</u>
Cash Flows from Investing Activities				
Proceeds from sales and maturities of investment securities	-	3,808,492	651,678	4,460,170
Outlays for purchases of investment securities	-	(5,813,471)	(903,643)	(6,717,114)
Interest on investments	-	1,352	331	1,683
Net cash used for investing activities	<u>-</u>	<u>(2,003,627)</u>	<u>(251,634)</u>	<u>(2,255,261)</u>
Net increase (decrease) in cash	36,140	(3,579,692)	2,853	(3,540,699)
Cash, January 1	<u>9,864</u>	<u>5,526,210</u>	<u>39,312</u>	<u>5,575,386</u>
Cash, December 31	<u>\$ 46,004</u>	<u>\$ 1,946,518</u>	<u>\$ 42,165</u>	<u>\$ 2,034,687</u>
Reconciliation of Operating Income (Loss) to Net Cash				
Provided by (Used for) Operating Activities				
Operating income (loss)	\$ 9,127	\$ (1,189,423)	\$ 354,666	\$ (825,630)
Change in assets and liabilities				
Accounts receivable	-	(44,740)	82,960	38,220
Due from other funds	(1,323)	-	-	(1,323)
Inventory	5,011	-	-	5,011
Prepaid items	-	(43,000)	(9,418)	(52,418)
Accounts payable and accrued liabilities	23,325	(250,511)	-	(227,186)
Liability for claims and judgments	-	(48,391)	(173,721)	(222,112)
Total adjustments	<u>27,013</u>	<u>(386,642)</u>	<u>(100,179)</u>	<u>(459,808)</u>
Net cash provided by (used for) operating activities	<u>\$ 36,140</u>	<u>\$ (1,576,065)</u>	<u>\$ 254,487</u>	<u>\$ (1,285,438)</u>

City of Fort Smith, Arkansas
Discretely Presented Component Units
For the Fiscal Year Ended December 31, 2011

Governmental Fund Types – Special Revenue Funds

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

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

Proprietary Fund Types – Enterprise Funds

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

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

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Governmental Component Units
December 31, 2011

	<u>Advertising and Promotion</u>	<u>Public Library</u>	<u>Total</u>
Assets			
Cash	\$ 39,841	\$ 1,011,615	\$ 1,051,456
Investments	70,220	300,988	371,208
Receivables, net of allowance for uncollectibles			
Taxes	50,178	-	50,178
Sales taxes	-	150,660	150,660
Accounts	-	9,380	9,380
Accrued interest	11	-	11
Prepaid items	4,914	49,525	54,439
Inventory, at cost	-	5,000	5,000
Capital assets			
Nondepreciable	-	422,132	422,132
Depreciable	-	403,197	403,197
	<u>165,164</u>	<u>2,352,497</u>	<u>2,517,661</u>
Total Assets			
Liabilities			
Accounts payable and accrued liabilities	<u>12,770</u>	<u>39,961</u>	<u>52,731</u>
Total Liabilities	<u>12,770</u>	<u>39,961</u>	<u>52,731</u>
Net Assets			
Invested in capital assets	-	825,329	825,329
Nonspendable:			
Inventory	-	5,000	5,000
Restricted for:			
Tourism & promotion	152,394	-	152,394
Assigned to:			
Library	-	1,482,207	1,482,207
	<u>152,394</u>	<u>2,312,536</u>	<u>2,464,930</u>
Total Net Assets			

City of Fort Smith, Arkansas
Combining Statement of Activities – Governmental Component Units
For the Year Ended December 31, 2011

	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	\$ 681,872	\$ -	\$ 3,825	\$ (678,047)	\$ -	\$ (678,047)
Public Library	2,743,760	167,123	279,620	-	(2,297,017)	(2,297,017)
Total	\$ 3,425,632	\$ 167,123	\$ 283,445	(678,047)	(2,297,017)	(2,975,064)
General revenues						
Property taxes				-	1,322,096	1,322,096
Sales taxes				-	909,302	909,302
Hospitality taxes				710,400	-	710,400
Unrestricted investment earnings				29	990	1,019
Other				-	22,469	22,469
Total general revenues				710,429	2,254,857	2,965,286
Change in net assets				32,382	(42,160)	(9,778)
Net assets, beginning				120,012	2,354,696	2,474,708
Net assets, ending				\$ 152,394	\$ 2,312,536	\$ 2,464,930

City of Fort Smith, Arkansas
Balance Sheet – Advertising and Promotion
Governmental Component Unit
December 31, 2011

Assets:

Cash	\$	39,841
Investments		70,220
Receivables, net of allowance for uncollectibles		
Taxes		50,178
Accrued interest		11
Prepaid items		4,914
		4,914
Total Assets	\$	165,164

Liabilities and Fund Balance:

Current:

Accounts payable and accrued liabilities	\$	12,770
		12,770
Total Liabilities		12,770

Fund Balance:

Restricted for:		
Tourism and promotion		152,394
		152,394
Total Liabilities and Fund Balance	\$	165,164

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, 2011

Revenues		
Taxes	\$	710,400
Interest		29
Contributions		3,825
		714,254
Total revenues		714,254
Expenditures		
Other		660,560
Total Expenditures		660,560
Excess of revenues over expenditures		53,694
Other Financing Uses:		
Transfers out to primary government		(21,312)
Total other financing uses		(21,312)
Net change in fund balance		32,382
Fund Balance, January 1		120,012
Fund Balance, December 31	\$	152,394

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Business-Type Component Units
December 31, 2011

	<u>Parking Authority</u>	<u>Airport</u>	<u>Total</u>
Assets			
Current Assets			
Cash	\$ 36,635	\$ 1,513,313	\$ 1,549,948
Investments	388,727	735,000	1,123,727
Receivables, net of allowance for uncollectibles			
Accounts	2,580	238,080	240,660
Accrued interest	42	472	514
Restricted			
Cash	-	382,499	382,499
Investments	92,308	206,307	298,615
Accounts receivable, net of allowances for uncollectibles	-	44,839	44,839
Interest receivable	-	208	208
Grants and other governments	-	651,621	651,621
Prepaid items and deposits	1,680	53,784	55,464
Inventory	-	10,721	10,721
	<u>521,972</u>	<u>3,836,844</u>	<u>4,358,816</u>
Total Current Assets			
Noncurrent Assets			
Deferred charges	10,875	98,624	109,499
Capital assets			
Nondepreciable	1,359,160	7,252,202	8,611,362
Depreciable	942,775	29,349,728	30,292,503
	<u>2,312,810</u>	<u>36,700,554</u>	<u>39,013,364</u>
Total Noncurrent Assets			
Total Assets	<u>2,834,782</u>	<u>40,537,398</u>	<u>43,372,180</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	38,562	774,067	812,629
Payable from restricted assets:			
Accrued interest	2,362	-	2,362
Revenue bonds payable, current	110,000	175,000	285,000
	<u>150,924</u>	<u>949,067</u>	<u>1,099,991</u>
Total Current Liabilities			
Noncurrent liabilities			
Due within one year	25	-	25
Due in more than one year	491,107	2,824,587	3,315,694
	<u>491,132</u>	<u>2,824,587</u>	<u>3,315,719</u>
Total Noncurrent Liabilities			
Total Liabilities	<u>642,056</u>	<u>3,773,654</u>	<u>4,415,710</u>
Net Assets			
Invested in capital assets, net of related debt	1,703,260	33,602,343	35,305,603
Restricted for bond retirement	69,620	382,707	452,327
Restricted for capital projects	-	698,059	698,059
Unrestricted	419,846	2,080,635	2,500,481
	<u>\$ 2,192,726</u>	<u>\$ 36,763,744</u>	<u>\$ 38,956,470</u>
Total Net Assets			

City of Fort Smith, Arkansas
Combining Statement of Activities – Business-Type Component Units
For the Year Ended December 31, 2011

	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	\$ 267,280	\$ 183,480	\$ -	\$ (83,800)	\$ -	\$ (83,800)
Airport	4,827,516	2,629,701	1,845,855	-	(351,960)	(351,960)
Total	\$ 5,094,796	\$ 2,813,181	\$ 1,845,855	(83,800)	(351,960)	(435,760)
General revenues						
Unrestricted investment earnings				354	37,334	37,688
Payment from City of Fort Smith				250,000	-	250,000
Total general revenues				250,354	37,334	287,688
Change in net assets				166,554	(314,626)	(148,072)
Net assets, beginning				2,026,172	37,078,370	39,104,542
Net assets, ending				<u>\$ 2,192,726</u>	<u>\$ 36,763,744</u>	<u>\$ 38,956,470</u>

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City of Fort Smith, Arkansas
Combining Statement of Cash Flows – Business-Type Component Units
For the Year Ended December 31, 2011

	Parking Authority	Airport	Total
Operating Activities			
Cash received from customers	\$ 181,949	\$ 2,654,525	\$ 2,836,474
Cash payments for goods and services	(25,579)	(1,456,845)	(1,482,424)
Cash paid to employees	(123,038)	(718,706)	(841,744)
	33,332	478,974	512,306
Noncapital Financing Activities			
Operating transfers in from primary government	250,000	-	250,000
	250,000	-	250,000
Capital and Related Financing Activities			
Proceeds from capital grants	-	1,267,942	1,267,942
Proceeds from bond issuances		3,205,000	3,205,000
Passenger facility charges received	-	361,936	361,936
Acquisition and construction of capital assets	(30,944)	(1,286,339)	(1,317,283)
Principal paid on bonds	(105,001)	(3,315,000)	(3,420,001)
Interest paid on bonds	(33,012)	(295,295)	(328,307)
	(168,957)	(61,756)	(230,713)
Investing Activities			
Proceeds from sales and maturities of investment securities	691,822	205,390	897,212
Outlays for purchases of investment securities	(820,548)	(941,923)	(1,762,471)
Interest on investments	355	36,936	37,291
	(128,371)	(699,597)	(827,968)
Net decrease in cash and restricted cash	(13,996)	(282,379)	(296,375)
Cash and restricted cash, January 1	50,631	2,178,191	2,228,822
Cash and restricted cash, December 31	\$ 36,635	\$ 1,895,812	\$ 1,932,447
Reconciliation of cash and restricted cash at December 31 to statement of net assets			
Cash	\$ 36,635	\$ 1,513,313	\$ 1,549,948
Restricted cash	-	382,499	382,499
	\$ 36,635	\$ 1,895,812	\$ 1,932,447

City of Fort Smith, Arkansas
Combining Statement of Cash Flows – Business-Type Component Units
(Continued)
For the Year Ended December 31, 2011

	Parking Authority	Airport	Total
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities			
Operating loss	\$ (47,477)	\$(2,088,027)	\$ (2,135,504)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities			
Depreciation	55,192	2,712,287	2,767,479
Change in assets and liabilities			
Accounts receivable	(1,531)	24,824	23,293
Inventory	-	6,877	6,877
Prepaid items	893	(11,306)	(10,413)
Accounts payable and accrued liabilities	25,870	(165,681)	(139,811)
Liabilities for accrued vacation and sick leave	385	-	385
 Total adjustments	 80,809	 2,567,001	 2,647,810
 Net cash provided by operating activities	 \$ 33,332	 \$ 478,974	 \$ 512,306

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STATISTICAL SECTION

City of Fort Smith, Arkansas

Statistical Section

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

Contents	Page
Financial Trends (Tables 1-5)	
These schedules contain trend information to assist the reader in understanding how the City’s financial performance and well-being have changed over time	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.

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Table 1

**City of Fort Smith, Arkansas
Net Assets by Component
Last Nine Years
(Accrual Basis of Accounting)
(Unaudited)**

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

Note: This is the ninth 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 Nine Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

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

Table 2 (Continued)

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

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

Note: This is the ninth 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
(Unaudited)

Fiscal Year	Ad Valorem Taxes	Sales Taxes (1)	Utility Franchise Fees	Total
2002	\$ 7,681,552	\$ 35,167,253	\$ 4,846,025	\$ 47,694,830
2003	7,909,748	35,748,841	5,530,957	49,189,546
2004	8,085,650	30,940,060	5,986,546	45,012,256
2005	8,624,431	31,236,465	6,833,462	46,694,358
2006	8,953,917	40,747,820	7,406,294	57,108,031
2007	8,736,124	53,014,309	6,760,463	68,510,896
2008	9,381,976	57,837,124	7,366,814	74,585,914
2009	10,884,313	52,601,763	5,990,452	69,476,528
2010	11,105,733	52,091,471	6,492,100	69,689,304
2011	11,458,396	53,838,552	6,571,993	71,868,941

(1) The City began collecting a 1% sales tax for street projects in November 1985, a 1/2% sales tax for bond retirement in January 1998 through June 2004, and the City share of the county 1% sales tax in August 1994. In May 2006, the City began collecting a 1% sales tax for bond retirement. The sales taxes for bond retirement were used for governmental activities from 1998 through 2004 and 2006 through 2011. The sales taxes for bond retirement were used for business-type activities from 2001 through 2006.

Table 4

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund										
Reserved	\$ 1,101,074	\$ 1,297,557	\$ 2,850,478	\$ 3,152,121	\$ 4,706,017	\$ 2,191,724	\$ 3,654,013	\$ 2,772,912	\$ 2,169,623	\$ -
Unreserved	4,431,214	5,260,425	5,911,270	7,423,514	7,607,076	6,257,328	7,052,220	5,772,601	6,272,987	-
Nonspendable	-	-	-	-	-	-	-	-	-	66,707
Restricted	-	-	-	-	-	-	-	-	-	283,616
Assigned	-	-	-	-	-	-	-	-	-	2,837,610
Unassigned	-	-	-	-	-	-	-	-	-	4,552,468
Total general fund	<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>8,545,513</u>	<u>8,442,610</u>	<u>7,740,401</u>
All other governmental funds										
Reserved	32,259,904	29,997,170	27,560,991	34,639,037	101,879,344	93,901,326	86,760,617	68,080,708	54,877,969	-
Unreserved, reported in:										
Special revenue funds	15,563,250	16,934,572	16,062,417	1,648,864	13,477,723	13,646,710	13,603,715	12,771,282	11,607,880	-
Debt service fund	-	-	-	-	3,634,024	-	-	-	-	-
Capital projects funds	966,281	549,288	367,067	394,212	457,785	457,547	516,855	709,966	508,840	-
Nonspendable	-	-	-	-	-	-	-	-	-	526,015
Restricted	-	-	-	-	-	-	-	-	-	51,037,382
Committed	-	-	-	-	-	-	-	-	-	443,933
Assigned	-	-	-	-	-	-	-	-	-	363,735
Total all other governmental funds	<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>	<u>66,994,689</u>	<u>52,371,065</u>
Total governmental fund balances	<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>\$ 90,107,469</u>	<u>\$ 75,437,299</u>	<u>\$ 60,111,466</u>

Note: The 2002 through 2010 fund balances are not comparable to 2011 due to the adoption of GASB Statement 54, therefore, future years will be presented in the classifications prescribed by GASB Statement 54 for comparison purposes.

Table 5

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

	2002	2003 (Restated)	2004 (Restated)	2005	2006	2007	2008	2009	2010	2011
Revenues										
Taxes (1)	\$ 47,694,830	\$ 49,189,546	\$ 45,012,256	\$ 46,694,358	\$ 57,108,031	\$ 68,510,896	\$ 74,585,914	\$ 69,476,528	\$ 69,689,304	\$ 71,868,941
Licenses and permits	1,343,203	1,338,949	1,271,411	1,499,151	1,473,234	1,501,022	2,126,151	1,559,950	1,489,526	1,628,157
Intergovernmental	11,900,040	16,638,318	16,120,435	12,952,988	12,734,833	13,395,035	13,608,213	13,117,444	12,881,250	12,552,267
Fines and forfeitures	1,744,309	2,081,628	1,888,668	2,064,332	2,063,755	2,858,829	2,188,504	2,098,901	2,299,274	2,356,809
Charges for services	786,492	881,942	941,582	978,987	1,099,840	1,088,811	1,215,016	1,172,312	1,237,853	1,108,213
Investment earnings	1,515,915	846,138	755,355	1,530,732	3,326,046	6,294,463	3,114,332	566,378	166,106	18,480
Contributions	831,586	785,030	774,010	808,149	2,166,420	1,027,818	3,926,800	1,511,328	1,338,330	1,341,458
Miscellaneous	590,805	858,521	696,478	250,361	470,606	316,373	274,696	189,946	341,329	470,997
Total revenues	66,407,180	72,620,072	67,460,195	66,779,058	80,442,765	94,993,247	101,039,626	89,692,787	89,442,972	91,345,322
Expenditures										
General government	5,215,541	5,741,344	5,908,918	6,879,247	7,522,720	8,190,325	8,317,788	8,226,444	7,879,961	7,969,047
Public safety	19,892,329	21,064,548	22,076,641	24,139,684	26,003,929	28,062,350	26,885,795	30,697,704	30,032,414	31,659,461
Public works	23,702,402	5,874,858	4,550,486	4,600,934	5,433,522	5,202,463	5,820,879	5,254,628	5,870,159	6,450,755
Community services	5,536,507	6,105,744	6,550,085	6,463,376	7,194,025	6,387,764	5,586,246	9,338,549	7,987,136	7,144,380
Other	1,739,626	1,763,635	2,113,409	2,334,916	3,245,313	3,776,800	3,550,903	1,830,124	2,335,524	2,368,766
Capital outlay	3,415,681	23,747,366	21,153,521	14,068,089	23,933,708	32,939,098	29,323,932	31,766,713	34,187,241	31,670,727
Debt service										
Principal	8,178,002	7,785,000	6,540,000	-	-	14,355,000	17,110,000	17,785,000	16,805,000	17,495,000
Interest	937,122	519,078	128,042	-	671,893	3,757,618	3,141,156	2,917,861	3,040,386	2,367,651
Issuance costs	-	-	-	-	-	-	-	259,839	75,892	-
Total expenditures	68,617,210	72,601,573	69,021,102	58,486,246	74,005,110	102,671,418	99,736,699	108,076,862	108,213,713	107,125,787
Excess (deficiency) of revenues over (under) expenditures	(2,210,030)	18,499	(1,560,907)	8,292,812	6,437,655	(7,678,171)	1,302,927	(18,384,075)	(18,770,741)	(15,780,465)
Other financing sources and (uses)										
Transfers in	2,263,625	1,939,996	2,459,809	4,101,090	63,067,680	2,602,260	17,313,147	29,689,472	6,809,336	3,531,999
Transfers out	(2,844,728)	(2,519,196)	(2,798,714)	(4,307,000)	(88,464,556)	(10,300,153)	(39,169,188)	(64,000,227)	(6,269,982)	(3,077,367)
Insurance proceeds from hail storm	-	-	-	-	-	-	-	1,778,572	-	-
Premiums on bond issuance	-	-	-	-	-	-	-	236,307	16,217	-
Proceeds from bond issuance	-	-	-	-	88,299,286	-	15,685,899	29,150,000	3,595,000	-
Capital leases	589,455	277,990	613,023	1,241,713	341,156	(58,278)	-	-	-	-
Total other financing sources (uses)	8,352	(301,210)	274,118	1,035,803	63,243,566	(7,756,171)	(6,170,142)	(3,145,876)	4,150,571	454,632
Net change in fund balances	\$ (2,201,678)	\$ (282,711)	\$ (1,286,789)	\$ 9,328,615	\$ 69,681,221	\$ (15,434,342)	\$ (4,867,215)	\$ (21,529,951)	\$ (14,620,170)	\$ (15,325,833)
Debt service as a % of noncapital expenditures (2)	14.0%	17.0%	13.9%	-	1.3%	35.1%	40.4%	27.1%	26.8%	26.3%

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

(2) Only principal and interest are included in the calculation of the ratio of debt service expenditures to noncapital expenditures.

Table 6

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

Fiscal Year	Total Tax Levy (1)	Current Tax Collections	Percent of Levy Collections	Delinquent Tax Collections	Total Tax Collections	Collection Percent of Current Levy	Outstanding Delinquent Taxes	Outstanding Delinquent Taxes as a Percent of Current Levy
2002	6,858,241	6,403,187	93.36%	208,685	6,611,872	96.41%	269,196	3.93%
2003	7,668,913	6,593,969	85.98%	286,387	6,880,356	89.72%	298,067	3.89%
2004	7,805,688	6,839,388	87.62%	268,913	7,108,301	91.07%	306,752	3.93%
2005	7,544,588	7,016,787	93.00%	270,725	7,287,512	96.59%	420,214	5.57%
2006	7,735,932	7,277,449	94.07%	397,572	7,675,021	99.21%	309,621	4.00%
2007	8,221,008	7,744,922	94.21%	337,687	8,082,609	98.32%	138,399	1.68%
2008	8,629,508	8,154,385	94.49%	434,209	8,588,594	99.53%	280,412	3.25%
2009	8,328,466	7,702,929	92.49%	305,640	8,008,569	96.16%	402,909	4.84%
2010	9,518,247	9,035,518	94.93%	411,376	9,446,894	99.25%	527,023	5.54%
2011	9,730,326	9,299,637	95.57%	344,396	9,644,033	99.11%	453,411	4.66%

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

Table 7

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

Fiscal Year (1)	Real Property		Personal Property		Total		Ratio of Total Assessed to Total Estimated Actual
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
2002	\$ 643,415,789	\$ 3,217,078,945	\$ 295,817,178	\$ 1,479,085,890	\$ 939,232,967	\$ 4,696,164,835	20.00%
2003	674,592,414	3,372,962,070	301,118,605	1,505,593,025	975,711,019	4,878,555,095	20.00%
2004	725,381,058	3,626,905,290	307,760,220	1,538,801,100	1,033,141,278	5,165,706,390	20.00%
2005	733,760,780	3,668,803,900	346,331,415	1,731,657,075	1,080,092,195	5,400,460,975	20.00%
2006	722,422,061	3,612,110,305	365,714,785	1,828,573,925	1,088,136,846	5,440,684,230	20.00%
2007	756,337,274	3,781,686,370	378,474,240	1,892,371,200	1,134,811,514	5,674,057,570	20.00%
2008	844,728,636	4,223,643,180	405,474,180	2,027,370,900	1,250,202,816	6,251,014,080	20.00%
2009	837,275,432	4,186,377,160	335,318,153	1,676,590,765	1,172,593,585	5,862,967,925	20.00%
2010	873,592,440	4,367,962,200	336,466,947	1,682,334,735	1,210,059,387	6,050,296,935	20.00%
2011	941,388,230	4,706,941,150	353,247,975	1,766,239,875	1,294,636,205	6,473,181,025	20.00%

(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. The direct rate for the City is \$.70 per \$100 of assessed valuation.

Table 8

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

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

Fiscal Year (1)	City of Fort Smith		Overlapping Rates				Total Direct & Overlapping Rates			
	Real Property	Personal Property	Sebastian County		FS School District		FS Public Library		Real Property	Personal Property
			Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property		
2002	\$ 0.70	\$ 0.70	\$ 0.80	\$ 0.80	\$ 3.65	\$ 3.65	\$ 0.10	\$ 0.10	\$ 5.25	\$ 5.25
2003	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2004	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2005	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2006	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2007	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2008	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2009	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2010	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2011	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25

Tax levies (millages):

Fiscal Year (1)	City of Fort Smith		Overlapping Rates				Total Direct & Overlapping Rates			
	Real Property	Personal Property	Sebastian County		Fort Smith School District		FS Public Library		Real Property	Personal Property
			Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property		
2002	\$ 7.00	\$ 7.00	\$ 8.00	\$ 8.00	\$ 36.50	\$ 36.50	\$ 1.00	\$ 1.00	\$ 52.50	\$ 52.50
2003	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2004	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2005	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2006	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2007	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2008	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2009	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2010	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2011	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50

(1) Fiscal year is year of levy.

Table 9

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

Name of Taxpayer (1)	2010			2001		
	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation
Oklahoma Gas & Electric	17,248,550	1	1.43%	12,673,137	1	1.46%
Fort Smith Health Management Assoc. LLC	16,395,252	2	1.35%			
AT&T Mobility/Southwestern Bell Telephone	12,922,261	3	1.07%	8,392,151	6	0.97%
Baldor Electric Company	12,485,106	4	1.03%			
Wal-Mart/Sam's Club	12,449,620	5	1.03%	9,606,115	4	1.10%
Quanex Corporation	12,971,163	6	1.07%			
Stephens Production Company	11,689,084	7	0.97%			
Cellco Partnership	10,975,591	8	0.91%			
Whirlpool Corporation	10,095,695	9	0.83%	11,736,275	3	1.35%
OK Foods, Inc.	9,218,488	10	0.76%			
Gerber Products Company				12,313,345	2	1.42%
Golden Living				9,532,310	5	1.10%
FS Mall Partners (Central Mall)				6,726,050	7	0.77%
Planters Peanuts				6,388,220	8	0.73%
Hiram Walker & Sons/Pernod Ricard USA				5,790,220	9	0.67%
Arkansas Best Corporation				5,216,855	10	0.60%
	\$ 126,450,810		10.45%	\$ 88,374,678		10.16%

(1) Sebastian County Assessor's Office.

(2) Property taxes collected in 2011 are based upon 2010 assessed valuation of \$1,210,059,387. Property taxes collected in 2001 were based upon the 2000 assessed valuation of \$869,619,409.

Table 10

City of Fort Smith, Arkansas
Computation of Direct and Estimated Overlapping Debt
December 31, 2011
(Unaudited)

Taxing Jurisdiction	Total Outstanding Bonded Debt (1)	Estimated Percent Applicable (2)	Direct and Estimated Overlapping Bonded Debt
Direct:			
City of Fort Smith	\$ 52,235,000	100%	\$ 52,235,000
Overlapping:			
Fort Smith Special School District	64,613,384	100%	64,613,384
Greenwood School District	39,734,156	5%	1,986,708
Sebastian County	-	76%	-
Total Overlapping	<u>104,347,540</u>		<u>66,600,092</u>
Total direct and estimated overlapping bonded debt	<u>\$ 156,582,540</u>		<u>\$ 118,835,092</u>
Ratio, direct and estimated overlapping debt to fiscal 2010 assessed valuation (3)			9.8%
Per capita direct and estimated overlapping bonded debt (4)			<u>\$ 1,378</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, \$1,210,059,387.

(4) Based on the estimated population for 2011 in Table 14.

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net assessed value (1)	\$ 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	\$ 872,593,585	\$ 1,210,059,387	\$ 1,294,636,205
Plus exempt property (2)	-	-	-	-	-	-	-	-	-	-
Total assessed value	<u>\$ 939,232,967</u>	<u>\$ 975,711,019</u>	<u>\$ 1,033,141,278</u>	<u>\$ 1,080,092,195</u>	<u>\$ 1,088,136,846</u>	<u>\$ 1,134,811,514</u>	<u>\$ 1,250,202,816</u>	<u>\$ 872,593,585</u>	<u>\$ 1,210,059,387</u>	<u>\$ 1,294,636,205</u>
Debt limit - 25% of total assessed value (3)	\$ 234,808,242	\$ 243,927,755	\$ 258,285,320	\$ 270,023,049	\$ 272,034,212	\$ 283,702,879	\$ 312,550,704	\$ 218,148,396	\$ 302,514,847	\$ 323,659,051
Amount of debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Debt Margin	<u>\$ 234,808,242</u>	<u>\$ 243,927,755</u>	<u>\$ 258,285,320</u>	<u>\$ 270,023,049</u>	<u>\$ 272,034,212</u>	<u>\$ 283,702,879</u>	<u>\$ 312,550,704</u>	<u>\$ 218,148,396</u>	<u>\$ 302,514,847</u>	<u>\$ 323,659,051</u>

(1) From Table 7.

(2) Not available

(3) Limitation is established by state statute.

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

Table 12

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

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	Sales Tax Bonds	Notes Payable	Capital Leases	Revenue Bonds	Sales Tax Bonds	Capital Leases			
2002	\$14,325,000	\$ -	\$ 576,453	\$ 154,200,000	\$73,680,000	\$ -	\$ 242,781,453	2.6%	3,025
2003	6,540,000	-	667,331	151,045,000	68,415,000	440,757	227,108,088	2.9%	2,829
2004	-	-	891,735	144,755,000	58,270,000	298,315	204,215,050	3.4%	2,544
2005	-	-	1,442,517	146,795,000	42,995,000	562,877	191,795,394	3.9%	2,389
2006	84,935,000	2,290,000	388,004	139,125,000	-	315,442	227,053,446	3.5%	2,722
2007	71,005,000	1,865,000	222,135	155,605,000	-	61,722	228,758,857	3.7%	2,742
2008	70,150,000	1,425,000	161,340	197,290,000	-	14,482	269,040,822	3.2%	3,189
2009	81,970,000	970,000	96,209	190,680,000	-	759,641	274,475,850	3.1%	3,253
2010	69,235,000	495,000	49,134	183,750,000	-	514,572	254,043,706	3.5%	2,947
2011	52,235,000	-	-	177,130,000	-	677,219	230,042,219	3.9%	2,668

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
(Unaudited)

	Fiscal Year	Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Services	Debt Service Requirements			Coverage
					Principal	Interest (3)	Total	
Water and Sewer System	2002	28,693,062	14,727,485	13,965,577	2,240,000	2,624,305	4,864,305	287%
	2003	30,461,180	15,104,962	15,356,218	2,370,000	3,990,161	6,360,161	241%
	2004	30,676,280	16,339,330	14,336,950	5,070,000	2,931,611	8,001,611	179%
	2005	32,668,644	17,116,764	15,551,880	5,700,000	3,016,704	8,716,704	178%
	2006	35,439,335	21,269,130	14,170,205	6,820,000	2,776,864	9,596,864	148%
	2007	35,181,555	19,365,972	15,815,583	7,115,000	6,245,962	13,360,962	118%
	2008	38,608,012	20,463,804	18,144,208	8,350,000	6,411,852	14,761,852	123%
	2009	37,118,841	21,489,095	15,629,746	5,665,000	9,335,000	15,000,000	104%
	2010	38,661,437	20,872,208	17,789,229	5,910,000	9,089,126	14,999,126	119%
	2011	40,820,838	20,759,793	20,061,045	6,170,000	8,828,313	14,998,313	134%
Solid Waste System	2002	9,803,303	7,054,152	2,749,151	975,000	302,660	1,277,660	215%
	2003	9,511,187	7,003,747	2,507,440	785,000	277,400	1,062,400	236%
	2004	10,622,644	8,069,676	2,553,268	805,000	260,782	1,065,782	240%
	2005	11,441,729	7,775,933	3,665,796	820,000	239,814	1,059,814	346%
	2006	12,216,101	9,108,943	3,107,158	850,000	214,021	1,064,021	292%
	2007	13,122,193	10,269,779	2,852,414	875,000	187,827	1,062,827	268%
	2008	14,650,900	10,346,750	4,304,150	910,000	153,320	1,063,320	405%
	2009	12,675,503	10,058,856	2,616,647	945,000	113,716	1,058,716	247%
	2010	13,390,293	10,476,471	2,913,822	1,020,000	83,220	1,103,220	264%
	2011	12,675,503	10,142,163	2,533,340	1,060,000	21,465	1,081,465	234%

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

(2) Excludes depreciation expense and amortization expense.

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

2011 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	\$ 8,828,313	\$ 21,465
Capitalized interest	-	-
Accrued interest - 12/31/10	(2,207,078)	(3,577)
Accrued interest - 12/31/11	2,032,797	-
Interest expense - statement of revenues, expenses, and changes in fund net assets	<u>\$ 8,654,032</u>	<u>\$ 17,888</u>

Table 14

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

Fiscal Year	City Population (1)	County Population (1)	Personal Income (2) (in thousands)	Per Capita Income (2)	Median Age (3)	Education Level in Years of Schooling (3)	School Enrollment (4)	Unemployment Rate (2)
2002	81,557	116,964	6,403,948	23,021	35.0	12	12,844	4.9%
2003	81,795	117,221	6,628,057	26,624	35.2	12	12,871	5.4%
2004	81,801	117,519	7,030,000	24,956	35.3	12	12,921	5.0%
2005	82,482	118,587	7,514,000	26,420	35.4	12	13,373	4.2%
2006	83,489	120,351	8,009,000	28,738	35.4	12	13,633	4.9%
2007	84,375	121,766	8,435,449	30,122	35.4	12	13,900	5.3%
2008	84,375	121,766	8,937,040	31,602	35.4	12	13,759	6.1%
2009	84,375	121,766	9,054,458	30,896	35.4	12	13,792	8.2%
2010	86,209	125,744	9,395,000	31,266 *	35.0	12	14,109	8.5%
2011	86,209	125,744	9,582,000 *	31,891 *	35.0	12	13,896	7.7%

Data Sources:

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

Table 15

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

Employer	2011			2002		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Sparks Health Systems	2,400	1	2.2%	2,800	4	2.8%
Baldor Electric Company	2,393	2	2.2%	1,531	8	1.6%
O. K. Industries	1,800	3	1.6%	4,500	2	4.6%
Fort Smith Public Schools	1,783	4	1.6%	1,598	7	1.6%
St. Edward Mercy Medical Center	1,487	5	1.4%	1,850	5	1.9%
188th Air National Guard	1,100	6	1.0%			
University of Arkansas at Fort Smith	951	7	0.9%			
Arkansas Best Corp.	936	8	0.9%			
City of Fort Smith	914	9	0.8%	853	10	0.9%
Rheem-Ruud	900	10	0.8%	1,660	6	1.7%
Whirlpool Corporation				4,575	1	4.7%
KMAC Enterprises	-			2,800	3	2.8%
Riverside Furniture	-			1,325	9	1.3%
Total	14,664		13.3%	23,492		23.9%

Data Sources:

Chamber of Commerce

U.S. Department of Labor, employment totals:

2011	109,900
2002	98,300

Table 16

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

Function	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government	118	122	123	124	124	128	125	125	127	127
Public safety:										
Police										
Officers	150	154	160	160	168	168	168	168	170	170
Civilians	47	46	47	47	46	46	46	52	59	59
Fire										
Firefighters and officers	125	125	125	126	126	129	129	129	129	129
Civilians	3	3	3	3	3	3	3	3	3	3
Public works:										
Operations	5	5	5	5	5	5	5	5	5	5
Streets	46	46	46	46	46	46	46	46	46	46
Traffic control	13	13	12	13	13	13	13	13	13	13
Parks and recreation	44	45	47	53	54	57	57	58	58	58
Transit	35	35	35	35	36	36	36	36	36	36
Water and sewer	181	182	183	185	191	191	191	191	192	189
Sanitation	83	79	75	76	77	78	78	78	78	78
Total	850	855	861	873	889	900	897	904	916	913

Table 17

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

Function	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Sub-stations (2)	-	-	-	-	8	8	8	8	8	8
Patrol units	12	12	12	12	12	12	12	12	12	12
Fire:										
Stations	10	10	10	10	10	10	10	10	10	10
Apparatus	22	22	22	22	21	21	21	21	21	21
Streets										
Streets (miles)	603	582	590	558	562	566	578	590	590	590
Streetlights	5,383	5,589	5,285	5,957	5,971	5,971	6,029	6,029	6,029	6,053
Traffic signals	123	123	133	136	135	135	142	146	146	149
Parks and recreation										
Parks acreage (square feet)	295	295	315	260	273	273	273	273	273	273
Parks	20	20	26	26	26	26	25	25	25	25
Swimming pools	1	1	1	1	1	1	1	1	1	1
Water splashpad	-	-	1	1	1	1	1	1	1	1
Tennis courts	14	14	14	14	14	14	14	14	14	14
Skatepark	-	1	1	1	1	1	1	1	1	1
Community centers	4	4	4	4	5	5	5	6	6	6
Convention center -										
Theater -seats	1,375	1,331	1,331	1,331	1,331	1,331	1,331	1,331	1,331	1,331
Theater -area (square feet)	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200
Exhibit Hall -area (square feet)	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Transit buses	18	18	17	20	20	20	20	20	20	20
Water mains (miles)	576	584	584	584	560	560	627	626	626	626
Average daily production capacity (thousands of gallons)	55,000	55,000	55,000	55,000	54,100	54,100	55,000	59,000	41,999	63,400
Average daily consumption (thousands of gallons)	29,511	27,384	26,986	28,876	28,097	29,197	28,876	37,004	26,473	30,532
Sanitary sewers (miles)	481	488	503	503	505	505	505	516	516	500
Storm sewers	NA	NA	7,900	7,900	7,900	7,900	7,900	7,900	7,900	7,900
Sanitation										
Collection trucks	52	52	52	52	52	52	52	52	53	53
Landfill capacity (in cubic yards) (1)	9,186,033	68,036,250	67,716,006	67,337,973	67,197,006	66,853,337	66,405,305	66,151,721	65,872,831	65,585,500

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
(Unaudited)**

Function	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police:										
Physical arrest	7,865	8,113	9,362	10,417	10,512	10,834	10,848	9,776	10,073	8,820
Parking violations	12,308	11,722	10,905	3,487	1,732	3,887	3,094	5,702	7,622	5,984
Traffic violations	16,191	18,466	19,287	19,289	20,442	21,129	24,191	19,593	16,296	14,841
Fire										
Number of calls answered	6,517	7,022	6,699	6,461	7,326	7,619	7,200	7,825	8,026	8,158
Transit										
Passenger trips	147,620	158,652	163,503	173,556	155,515	173,917	208,600	177,991	191,221	198,165
Water and sewer										
New connections	529	529	438	464	1,391	458	346	345	450	371
Average daily production (thousands of gallons)	29,511	27,384	26,986	28,876	28,097	29,197	23,567	23,934	26,473	30,532
Average daily sewage flow (thousands of gallons)	15,130	15,400	14,760	15,500	15,290	16,400	18,231	19,473	16,844	17,421
Sanitation										
Waste disposal (cubic yards/day)	2,586	2,401	3,011	3,475	3,848	3,657	3,620	3,710	3,929	3,634

Table 19

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

Fiscal Year	1% City Sales & Use Tax Allocated for Street (1)	City Share 1% County Sales & Use Tax (2)	1% City Sales & Use Tax Allocated for Bonds (3)	Total
2002	\$ 15,502,200	\$ 11,913,953	\$ 15,502,200	\$ 42,918,353
2003	15,635,325	12,295,853	15,635,326	43,566,504
2004	16,465,972	13,032,372	16,465,972	45,964,316
2005	17,372,140	13,864,325	17,372,140	48,608,605
2006	18,420,915	14,718,645	18,420,915	51,560,475
2007	18,929,527	15,155,255	18,929,527	53,014,309
2008	20,613,205	16,610,714	20,613,205	57,837,124
2009	18,777,493	15,046,777	18,777,493	52,601,763
2010	18,599,727	14,892,017	18,599,727	52,091,471
2011	19,341,760	15,155,032	19,341,760	53,838,552
Total	<u>\$ 179,658,264</u>	<u>\$ 142,684,943</u>	<u>\$ 83,396,553</u>	<u>\$ 502,001,472</u>

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

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

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

Table 20

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

Fiscal Year	Annual # Sanitation System Customers	Cubic Yardage of Waste at Landfill	Useful Life of Landfill Remaining	Remaining Storage Capacity at Landfill
2002	277,896	938,670	11 yrs	9,186,033 cubic yards
2003	277,896	871,647	42 yrs	68,036,250 cubic yards (1)
2004	299,412	1,092,855	41 yrs	67,716,006 cubic yards
2005	300,624	1,263,149	40.5 yrs	67,337,973 cubic yards
2006	304,620	1,404,524	40 yrs	67,197,006 cubic yards
2007	306,864	1,334,806	40 yrs	66,853,337 cubic yards
2008	310,224	1,129,422	40 yrs	66,405,305 cubic yards
2009	312,972	1,124,130	39 yrs	66,151,721 cubic yards
2010	317,124	1,229,905	39 yrs	65,872,831 cubic yards
2011	321,048	1,137,597	39 yrs	65,585,500 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
2007	29,197,000	39,956,000	9,196,894,000	16,400,000
2008	23,567,000	37,004,000	8,625,607,000	18,231,000
2009	23,934,000	37,616,000	8,735,804,000	19,473,000
2010	26,473,000	41,999,000	8,340,570,000	16,844,000
2011	30,532,000	43,500,000	8,503,902,000	17,421,000

Water Customers					
Fiscal Year	Residential	Commercial	Wholesale	Other	Total
2007	27,998	4,127	13	10	32,148
2008	28,386	4,142	13	10	32,551
2009	28,431	4,261	13	10	32,715
2010	28,877	4,108	13	10	33,008
2011	28,955	4,174	13	10	33,152

Sewer Customers				
Fiscal Year	Residential	Commercial	Government	Total
2007	25,790	3,661	10	29,461
2009	26,171	3,688	10	29,869
2010	26,699	3,618	10	30,327
2011	26,695	3,685	10	30,390

Table 21 (Continued)

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

For 2010:					% of Gross
Entity	Water	Sewer	Total	Revenues	
City of Van Buren	\$ 3,927,763	\$ -	\$ 3,927,763	10.41%	
OK Foods	1,963,290	133,837	2,097,127	5.56%	
Gerber Products	1,152,850	-	1,152,850	3.06%	
St. Edward Mercy Medical Center	347,632	266,794	614,426	1.63%	
Gerdau Macsteel	363,053	237,585	600,638	1.59%	
Sparks Medical Center	247,193	227,549	474,742	1.26%	
Whirlpool	117,569	107,010	224,579	0.60%	
Sebastian County Park/Jail	146,545	65,337	211,882	0.56%	
Twin Rivers Packaging	68,132	94,314	162,446	0.43%	
Mars Petcare US	83,767	62,150	145,917	0.39%	
The Links Fort Smith	60,621	83,916	144,537	0.38%	
James River Dixie	49,748	65,984	115,732	0.31%	
Top Ten Users	\$ 8,528,163	\$ 1,344,476	\$ 9,872,639	26.18%	

For 2011:					% of Gross
Entity	Water	Sewer	Total	Revenues	
City of Van Buren	\$ 4,049,362	\$ -	\$ 4,049,362	10.10%	
OK Foods	2,108,032	71,825	2,179,857	5.44%	
Gerber Products	1,211,974	-	1,211,974	3.02%	
St. Edward Mercy Medical Center	422,286	323,773	746,059	1.86%	
Gerdau Macsteel	438,485	231,732	670,217	1.67%	
Sparks Medical Center	237,393	299,127	536,520	1.34%	
Mars Petcare US	95,541	126,753	222,294	0.55%	
Sebastian County Park/Jail	126,077	79,824	205,901	0.51%	
The Links Fort Smith	84,682	106,160	190,842	0.48%	
Whirlpool	90,594	88,914	179,508	0.45%	
Henderson Properties	-	69,274	69,274	0.17%	
James River Dixie	-	68,352	68,352	0.17%	
Top Ten Users	\$ 8,864,426	\$ 1,465,734	\$ 10,330,160	25.78%	

Table 22

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

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

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

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, 2011:

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

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

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public 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, 2011.

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 14, 2012