

# **City of Fort Smith, Arkansas**

## **Comprehensive Annual Financial Report**

Year Ended December 31, 2014

**Prepared By the**

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

**City Board of Directors**

Sandy Sanders, Mayor

Keith Lau  
Andre' Good  
Mike Lorenz  
George Catsavis  
Tracy Pennartz  
Kevin Settle  
Don Hutchings

**City Administrator**  
Ray Gosack

**Director of Finance**  
Kara Bushkuhl

# City of Fort Smith, Arkansas

## Year Ended December 31, 2014

### Contents

#### Introductory Section

Letter of Transmittal.....	6
GFOA Certificate of Achievement for Excellence in Financial Reporting.....	12
Organizational Structure.....	13
List of Elected and Appointed Officials.....	14

#### Financial Section

<b>Independent Auditor's Report.....</b>	<b>16</b>
<b>Management's Discussion and Analysis .....</b>	<b>19</b>

#### Basic Financial Statements

##### Governmental-Wide Financial Statements:

Statement of Net Position.....	30
Statement of Activities .....	32

##### Fund Financial Statements:

###### Governmental Funds:

Balance Sheet.....	34
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Position .....	35
Statement of Revenues, Expenditures and Changes in Fund Balances.....	36
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	38

###### Proprietary Funds:

Statement of Fund Net Position .....	40
Statement of Revenues, Expenses and Changes in Fund Net Position .....	42
Statement of Cash Flows.....	44

###### Fiduciary Funds:

Statement of Fiduciary Net Position .....	46
Statement of Changes in Fiduciary Net Position .....	47

Notes to Financial Statements .....	48
-------------------------------------	----

# City of Fort Smith, Arkansas

## Year Ended December 31, 2014

### Contents (Continued)

#### Required Supplementary Information

Analysis of Funding Progress – Pension and OPEB Plans .....	102
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund .....	103
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Street Maintenance Fund .....	104
Notes to Required Supplementary Information.....	105

#### Supplementary Information

##### Nonmajor Governmental Funds:

Combining Balance Sheet .....	109
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	110

##### Internal Service Funds:

Combining Statement of Net Position .....	112
Combining Statement of Revenues, Expenses and Changes in Fund Net Position.....	113
Combining Statement of Cash Flows .....	114

##### Discretely Presented Component Units:

##### Governmental Activities:

Combining Statement of Net Position .....	116
Combining Statement of Activities .....	117
Balance Sheet – Advertising and Promotion.....	118
Statement of Revenues, Expenditures and Changes in Fund Balance – Advertising and Promotion.....	119

##### Business Type Activities:

Combining Statement of Net Position .....	120
Combining Statement of Activities .....	121
Combining Statement of Cash Flows .....	122

# City of Fort Smith, Arkansas

## Year Ended December 31, 2014

### Contents (Continued)

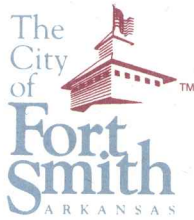
#### Statistical Section (Unaudited)

Net Position by Component – Table 1 .....	127
Changes in Net Position – Table 2 .....	128
Changes in Fund Balances of Governmental Funds – Table 3 .....	130
Fund Balances of Governmental Funds – Table 4 .....	131
General Fund Revenues, Expenditures and Fund Balance – Table 5.....	132
General Governmental Taxes by Source – Table 6.....	133
Local Sales and Use Tax Collections – Table 7 .....	134
Property Tax Levies and Collections – Table 8 .....	135
Assessed and Estimated Actual Value of Taxable Property – Table 9 .....	136
Property Tax Rates and Tax Levies – All Direct and Overlapping Governments – Table 10 .....	137
Principal Taxpayers – Table 11 .....	138
Computation of Direct and Estimated Overlapping Debt – Table 12 .....	139
Computation of Legal Debt Margin – Table 13 .....	140
Ratios of Outstanding Debt by Type – Table 14.....	141
Revenue Bonds Debt Service Coverage – Table 15.....	142
Demographic Statistics – Table 16.....	143
Principal Employers – Table 17 .....	144
Full-time Equivalent City Government Employees by Function – Table 18.....	145
Capital Asset Statistics by Function – Table 19.....	146
Operating Indicators by Function – Table 20.....	147
Solid Waste System Statistics – Table 21 .....	148
Water and Sewer Statistics – Table 22 .....	150

#### Other Required Reports

Independent Auditor’s Report on Compliance With Certain State Acts.....	152
---	-----

# **INTRODUCTORY SECTION**



DEPARTMENT OF FINANCE

Kara Bushkuhl, CPFO

Director of Finance

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, 2014.

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, 2014 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. **BKD, LLP** concluded, based upon the audit, that there was a reasonable basis for rendering unmodified ("clean") opinions on the financial statements of the governmental activities, business-type activities, fiduciary fund, aggregate discretely presented component units, each major fund and aggregate remaining fund information that collectively comprise the City's

basic financial statements as of and for the fiscal year ended December 31, 2014. 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 have been issued separately.

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

### **Profile of the City**

Fort Smith is located in western Arkansas on the border of Oklahoma and is the second largest city in the state. The City was incorporated in 1842 and is the county seat for Sebastian County. Fort Smith is 159 miles west of Little Rock and 145 miles southeast of Tulsa, Oklahoma. The City serves as the central focus for a six-county economic and trade region in the west central area of Arkansas and the east central area of Oklahoma. The City encompasses 68 square miles and has a population approximating 87,215. 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.** Total sales tax revenue in 2014 increased 2.8% over 2013 revenue. This was compared to a 0.4% decline in 2013 from 2012. The last two months sales tax revenue in 2014 was 8.5% above the same period in 2013. The local economy looks to be in rebound mode.

A Fortune Top 400 transportation and logistics company, ArcBest, formerly Arkansas Best Corporation, is headquartered in Fort Smith. Planters, a division of Kraft Foods, Gerber, and a number of other major companies have longstanding and growing interests in the region.

Baldor Electric Company, a member of the ABB Group, is a leading manufacturer of industrial electric motors and mechanical power transmission products and is headquartered in Fort Smith, Arkansas.

The City has seen significant industrial and residential development. Umarex USA, a manufacturer of air rifles and small caliber firearms, opened its 117,000 square foot manufacturing and distribution center at Chaffee Crossing in 2010, initially employing 60 persons. In November 2012, Umarex announced that it would be sharing its facility with the US operation of Walther Arms Inc., and that the two companies would invest \$7 million to expand manufacturing operations over the next five years and add 70 to 120 jobs in that time. The facility at Chaffee Crossing serves as both Walther and Umarex's corporate headquarters in North America.

In September 2013, approximately 96,000 square feet of a former exhibition hall/rental center was redeveloped into what is known today as the Fort Smith Shared Services Center (SSC). Since then, the SSC has grown from more than 350 jobs in the local

economy to over 500 at the end of 2014. The SSC today provides business office services to more than 30 hospitals affiliated with Community Health Systems in eight states.

Also in September 2013, Thermold Magazines, which makes magazines for firearms and weapons products, announced that it would move its U.S. headquarters to the City from North Carolina. Thermold will share facilities with River Bend Industries, a custom plastics manufacturer who makes product for Thermold. Together, the two companies will add 65 new jobs and invest more than \$7 million in the facility.

Phoenix Metals built a new facility at Chaffee Crossing adding 40 new jobs with a \$12 million investment in a metal processing center and warehouse, and Mars Petcare announced a \$50 million expansion of its pet food plant that will provide for 40 additional jobs.

In early 2014, it was announced that the Arkansas College of Osteopathic Medicine would be established at Chaffee Crossing in Fort Smith. The college anticipates its first class of medical students enrolling in fall 2016, and anticipates graduating 150 doctors of osteopathy annually beginning in 2020.

In May 2014, ArcBest Corporation, formerly Arkansas Best Corporation, announced that they are constructing a new corporate headquarters at Chaffee Crossing in Fort Smith that will be a \$30 million investment. They anticipate adding 975 new jobs to the local economy over the next seven years.

The City has seen large and small commercial developments continue in the City. Restaurant chains such as Five Guys Burgers & Fries, McAlister's Deli, Jimmy Johns, Taco Bueno, Buffalo Wild Wings and Texas Roadhouse have recently opened in the City. In 2014, Burlington Coat Factory announced plans to locate a store in Fort Smith during 2016.

The Arkansas Air National Guard 188th Fighter Wing learned in 2013 that it would receive a new mission and convert from the manned A-10 aircraft to a remotely piloted aircraft, targeting and intelligence unit. The 123<sup>rd</sup> Intelligence Squadron will be relocating from Little Rock to the City. The 188th will be the only organization in the world with RPA, intelligence and targeting at a combined facility, and all elements of the new missions should be fully operational out of the City by 2018 or 2019. This change preserves the 1,000 full and part-time jobs associated with the 188th with a mission that is sustainable for the long term as part of the modern Air Force.

In 2013, Propak Logistics announced that it would invest \$2 million to purchase and remodel an unused historic building in downtown Fort Smith as its corporate headquarters, helping to further the revitalization of the downtown district. The 24,000 square feet of the building on three floors would be used as a mixture of corporate office space and retail. This project, coupled with streetscape projects and other private investment in office, residential, and commercial redevelopment, is representative of the

successful resurgence of the downtown area.

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

**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. A referendum to extend the tax through 2025 was approved on May 12, 2015.

The City also levies an additional one-percent (1%) local sales and use tax which is pledged to redeem bonds issued for large construction projects as well as provide operating resources for the fire and parks departments. The current 2012 Sales and Use Tax Bonds fund an aquatics park in conjunction with Sebastian County that opened in May 2015; a new fire station, existing station upgrades and improvements, and apparatus additions and replacements; wastewater improvements; and water improvements. The 2014 Sales and Use Tax Bonds fund additional water and 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. Three-fourths of the existing 1% local sales tax supports the redemption of the 2012 and 2014 bonds. The remaining ¼% of the tax assessment is used to provide operating and capital costs for the fire department and the parks department.

The City's comprehensive plan includes development and planning in and around Fort Smith. Local developers of planned residential areas outside the City limits continue to request City services. This may provide for future annexation that would increase the City's tax base. The comprehensive plan was updated at the end of 2014.

At the end of 2014, the City entered into a consent decree with the Department of Justice regarding wet weather sewer rehabilitation and improvements. In May 2015, the Board of Directors approved multi-year sewer rate increases to provide for some of the required projects and upgrades to the sewer system.

### **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, 2013. The Certificate of Achievement is the highest form of recognition for excellence in local government financial reporting. This was the twenty-ninth 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.

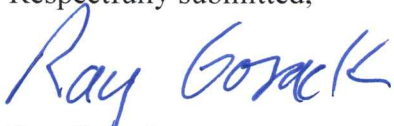
In addition, the City also received the GFOA Award for Distinguished Budget Presentation for its annual budget dated January 1, 2014. This was the twenty-sixth consecutive year that the City has received this award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget 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 Jennifer Walker, Deputy Director of Finance, Jackie Joyce, Controller, Jacinta Winstead, Accounting & Financial Reporting Manager, and Christy Deuster, Office and Budget 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**.

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

Respectfully submitted,



Ray Gosack  
City Administrator



Kara Bushkuhl  
Director of Finance



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

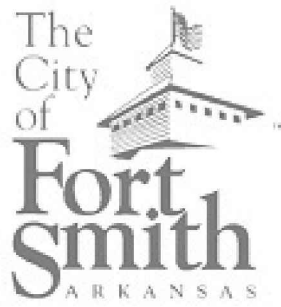
Presented to

**City of Fort Smith**  
**Arkansas**

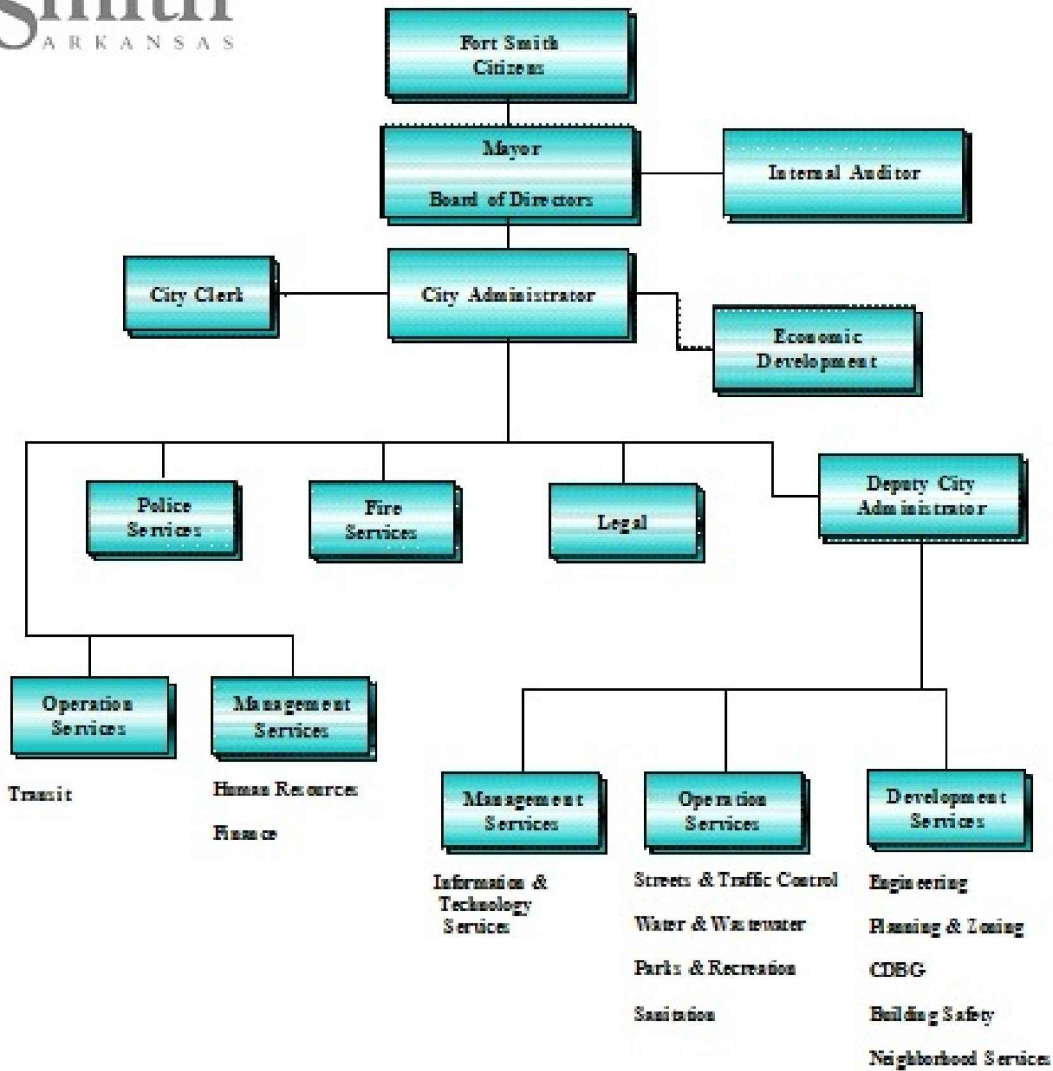
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2013**

Executive Director/CEO



# Organizational Structure



**City of Fort Smith, Arkansas**  
**List of Elected and Appointed Officials**  
**December 31, 2014**

**Elected Officials**

Mayor	Sandy Sanders
Director-Ward 1	Keith Lau
Director-Ward 2	Andre' Good
Director-Ward 3	Mike Lorenz
Director-Ward 4	George Catsavis
Director at Large	Tracy Pennartz
Director at Large/Vice Mayor	Kevin Settle
Director at Large	Don Hutchings
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	Sherri 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
Internal Audit	Tracey Shockley
Library	Jennifer Goodson
Parks and Recreation	Doug Reinert
Police	Kevin Lindsey
Sanitation	T. Baridi Nkokheli
Streets and Traffic Control	Greg Riley
Transit	Ken Savage
Utilities	Steve Parke

# **FINANCIAL SECTION**

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Fort Smith, Arkansas as of and for the year ended December 31, 2014, and the related notes to the financial statements which collectively comprise the City's basic financial statements listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fort Smith Public Library, a discretely presented component unit of the City, which statements reflect total assets and revenues of \$1,915,495 and \$2,730,416, respectively, and represents 90% and 78% of the aggregate discretely presented component units' (governmental activities) total assets and revenues at December 31, 2014, and for the year then ended, respectively. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fort Smith Public Library, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Fort Smith, Arkansas as of December 31, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund statements listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### *Other Information*

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2015, 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* in considering the City's internal control over financial reporting and compliance.

*BKD, LLP*

Fort Smith, Arkansas  
June 16, 2015

# **City of Fort Smith, Arkansas**

## **Management's Discussion and Analysis**

### **December 31, 2014**

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, 2014. 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 6-11 of this report.

#### **Financial Highlights**

- Primary Government total assets and deferred outflow of resources exceeded total liabilities and deferred inflows of resources at the close of 2014 by \$754.9 million (net position). Of this amount, \$679.6 million was invested in capital assets, net of related debt; \$65.7 million was restricted for debt service, police and fire retirement contributions, construction projects, and other purposes; and \$9.6 million was unrestricted and available for meeting the City's emergency and unexpected obligations. The City's governmental activities have unrestricted net position of \$8.9 million. The City's business-type activities have unrestricted net position of \$0.6 million.
- The City's total net position increased by \$4 million in 2014. Net position of the governmental activities decreased by \$10.8 million in 2014 compared to a net increase of \$11.8 million in 2013. The City's net position of the business-type activities increased by \$14.7 million in 2014 compared to a net increase of \$28 million in 2013.
- As of the close of 2014, the City's governmental funds reported combined ending fund balances of \$109 million that was an increase of \$14.8 million from the prior year. The restricted portion of the fund balances is \$95 million. The remaining fund balances is classified as nonspendable of \$0.4 million; assigned of \$3.3 million; and unassigned of \$10.2 million.
- At the end of 2014, the unassigned fund balance for the General Fund was \$10.2 million or 22.5% of total General Fund expenditures. The General Fund balance between 2013 and 2014 was stable.
- The City's total bonded indebtedness increased by \$17.110 million during the current year. The City issued \$34.295 million in Sales and Use Tax Construction Bonds, Series 2014 in February 2014. This was offset by decreases due to the maturity of outstanding bonds during 2014 and the call of \$3.110 million in Sales and Use Tax bonds during the year.
- The City's governmental component units reported net position of \$2.1 million at December 31, 2014 which was a decrease of \$0.2 million from 2013.
- The City's business-type component units reported net position of \$38.9 million at December 31, 2014 which was a \$1.1 million increase from 2013.

#### **Overview of the Financial Statements**

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

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

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

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

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

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

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

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

The government-wide financial statements can be found on pages 30-33 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 34-38 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 allocated between the *governmental activities* and the *business type activities* in the government-wide financial statements. 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 40-45 of this report.

**Fiduciary fund.** The City maintains a fiduciary 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 46-47 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 48-99 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 102-105 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 109-123 of this report.

## Government-Wide Financial Analysis

### City of Fort Smith Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 131,181,646	\$ 116,191,210	\$ 38,982,300	\$ 44,138,578	\$ 170,163,946	\$ 160,329,788
Capital assets	379,375,639	378,442,460	539,924,935	526,030,250	919,300,574	904,472,710
Total assets	510,557,285	494,633,670	578,907,235	570,168,828	1,089,464,520	1,064,802,498
Total deferred outflows of resources	-	-	232,494	261,556	232,494	261,556
Long-term liabilities	135,832,802	108,302,932	169,327,277	174,690,985	305,160,079	282,993,917
Other liabilities	17,761,991	18,596,672	11,689,207	12,319,413	29,451,198	30,916,085
Total liabilities	153,594,793	126,899,604	181,016,484	187,010,398	334,611,277	313,910,002
Total deferred inflows of resources	-	-	214,069	259,784	214,069	259,784
Net position:						
Net investment in capital assets	301,383,411	315,027,429	378,186,724	359,247,688	679,570,135	674,275,117
Restricted	46,649,301	41,087,435	19,073,298	18,623,298	65,722,599	59,710,733
Unrestricted	8,929,780	11,619,202	649,154	5,289,216	9,578,934	16,908,418
Total net position	\$ 356,962,492	\$ 367,734,066	\$ 397,909,176	\$ 383,160,202	\$ 754,871,668	\$ 750,894,268

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets and deferred outflow of resources exceeded liabilities and deferred inflows of resources by \$754.9 million at the close of 2014.

The largest portion of the City's net position (90%) 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 position (8.7%) represents resources that are subject to restrictions as to how they may be used. Of the total \$65.7 million restricted net position, \$33.5 million is restricted for bond retirement, \$25.6 million is restricted for construction projects, \$6.6 million is restricted for police and fire retirement contribution, and a very small amount is restricted for other purposes. The remaining balance of net position is \$9.6 million and is unrestricted.

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

The City's net position increased by \$4.0 million during 2014. Total revenues decreased 5% between years. Revenues generated by fees, fines, and charges for services decreased by 9.8%. Sales tax revenue on a government-wide basis increased by 2.8%.

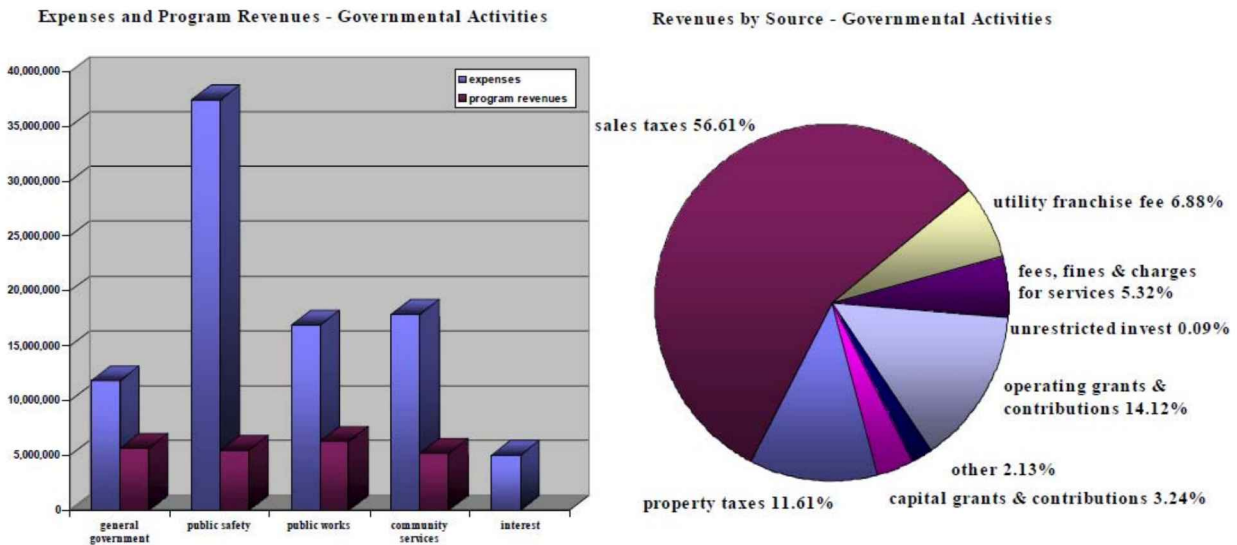
**City of Fort Smith  
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
Program revenues						
Fees, fines, and charges for services	\$ 5,250,480	\$ 7,520,952	\$ 49,209,453	\$ 52,874,071	\$ 54,459,933	\$ 60,395,023
Operating grants and contributions	13,925,772	12,914,448	-	-	13,925,772	12,914,448
Capital grants and contributions	3,197,429	3,388,287	-	1,968,216	3,197,429	5,356,503
	<u>22,373,681</u>	<u>23,823,687</u>	<u>49,209,453</u>	<u>54,842,287</u>	<u>71,583,134</u>	<u>78,665,974</u>
General revenues						
Property taxes	11,447,651	11,514,707	-	-	11,447,651	11,514,707
Sales taxes	55,823,661	54,291,940	-	-	55,823,661	54,291,940
Utility franchise fees	6,780,156	6,478,637	-	-	6,780,156	6,478,637
Unrestricted investment earnings	85,627	364,291	87,230	68,600	172,857	432,891
Other	2,108,585	3,462,503	1,070,760	(197,453)	3,179,345	3,265,050
	<u>98,619,361</u>	<u>99,935,765</u>	<u>50,367,443</u>	<u>54,713,434</u>	<u>148,986,804</u>	<u>154,649,199</u>
<b>Expenses</b>						
General government	11,782,229	10,566,809	-	-	11,782,229	10,566,809
Public safety	37,468,682	40,463,203	-	-	37,468,682	40,463,203
Public works	16,828,138	16,688,875	-	-	16,828,138	16,688,875
Community services	17,875,559	11,431,562	-	-	17,875,559	11,431,562
Interest on long-term debt	4,948,763	4,958,960	-	-	4,948,763	4,958,960
Water and sewer	-	-	42,807,102	42,203,035	42,807,102	42,203,035
Sanitation	-	-	13,298,931	12,185,883	13,298,931	12,185,883
	<u>88,903,371</u>	<u>84,109,410</u>	<u>56,106,033</u>	<u>54,388,918</u>	<u>145,009,404</u>	<u>138,498,328</u>
Change in net position before transfers and capital contributions	9,715,990	15,826,355	(5,738,590)	324,516	3,977,400	16,150,871
Transfers	(20,487,564)	(27,638,513)	20,487,564	27,638,513	-	-
Increase (decrease) in net position	(10,771,574)	(11,812,158)	14,748,974	27,963,029	3,977,400	16,150,871
<b>Net Position – January 1</b>	<u>367,734,066</u>	<u>379,546,224</u>	<u>383,160,202</u>	<u>355,197,173</u>	<u>750,894,268</u>	<u>734,743,397</u>
<b>Net Position – December 31</b>	<u>\$ 356,962,492</u>	<u>\$ 367,734,066</u>	<u>\$ 397,909,176</u>	<u>\$ 383,160,202</u>	<u>\$ 754,871,668</u>	<u>\$ 750,894,268</u>

**Governmental Activities.** Governmental activities decreased the City’s net position by \$10.8 million. Key elements of the net decrease are as follows:

- Total revenues for 2014 exceeded total expenses by \$9.7 million.
- Net capital asset acquisition exceeded depreciation by \$21.4 million. This was offset by the \$20.4 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 2.8% increase between years. The City’s share of the county sales tax, accounted for in the General Fund, increased 1.8% in 2014 over 2013. The City’s sales tax that is allocated for street projects and accounted for in the Sales Tax Fund increased 3.2% between 2013 and 2014, as did the city sales tax allocated for redemption of the Sales and Use Tax Bonds, Series 2012 and 2014, and fire and parks operations.
- Utility franchise fee revenues increased by \$0.3 million or 4.7% during 2014 due to increased natural gas and electric usage between years.

The reported 2014 expenses were approximately \$4.8 million more than in 2013. The increase resulted from higher spending for general government and parks.

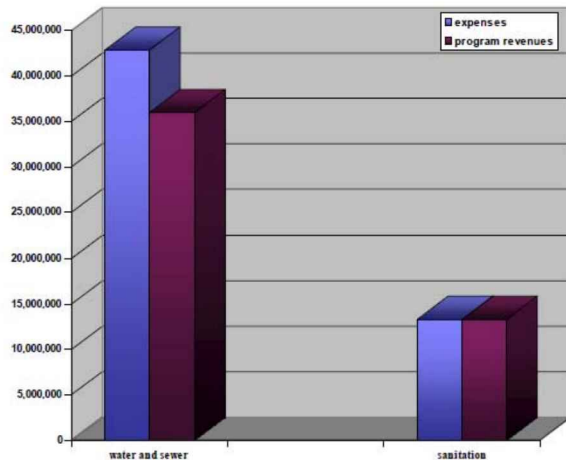


**Business-Type Activities.** Business-type activities increased the City’s net position by \$14.7 million. Key elements of the increase are as follows:

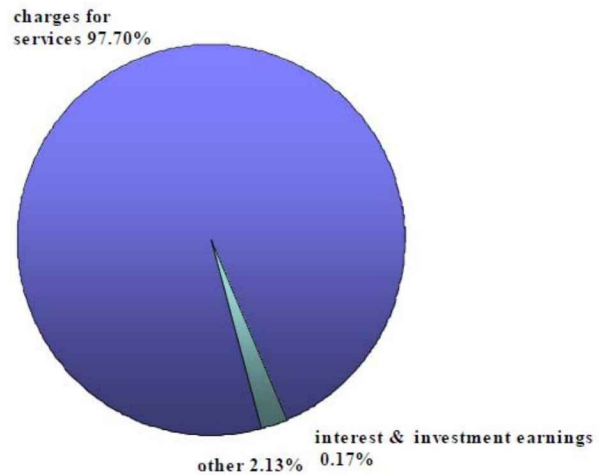
- The water and sewer system contributed \$14.4 million to the increase in total net position. The most significant increase in net position was the \$20.4 million capital contribution from the Sales & Use Tax Construction Fund, a capital projects fund in the governmental activities, for wastewater improvements during the year. The operating income for the system totaled \$1 million in 2014.
- The solid waste system added \$0.2 million to the increase in total net position. The operating income for the system in 2014 totaled \$29,000.
- Water and sewer system service charges contribute 73% of the operating revenue to business-type activities.

- The solid waste system service charges accounted for 27% of the revenue to business-type activities.
- Current year operating expenses for the business-type activities exceeded current revenues by \$5.7 million.

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, 2014, the City's governmental funds reported combined ending fund balances of \$109 million, an increase of \$14.8 million in comparison with the prior year. Of this amount, \$95 million represents restricted fund balance for construction projects, debt service coverage, police and fire retirement contributions, and other purposes. Approximately \$0.4 million of the fund balances is non-spendable. A portion of the fund balance, \$3.3 million, is assigned for specific uses by the City. The remainder of the balance, \$10.2 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, 2014, unassigned fund balance of the General Fund was \$10.2 million, while the total fund balance was \$11.7 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balances and total fund balances to total fund expenditures, including transfers out. Unassigned fund balances represent 21.9% of total General Fund expenditures, including transfers out, while total fund balances represents 25% of that same amount. The fund balances of the City's General Fund were stable between years.

Key factors during the year are as follows:

- Revenues decreased \$0.3 million in 2014 as compared to 2013. The most significant decreases occurred in court fines and forfeitures (\$0.4 million) and in other revenue sources (\$0.5 million). These decreases were offset by increases in sales taxes (\$0.4 million) and franchise fees (\$0.3 million).
- Total expenditures increased \$2.8 million between 2013 and 2014. The increase was due to additional fire operations (\$0.2 million); additional parks operations (\$0.3 million); and higher capital acquisitions particularly for fire and parks (\$2.9 million). These increases were offset by decreases in the police operations (\$0.1 million) and transit operations (\$0.1 million).

The Street Maintenance Fund and the Sales Tax Fund, both special revenue funds, are presented as major funds and account for 27.4% of the total governmental fund balances. Revenues include a one-percent (1%) local sales tax dedicated to streets, bridges and associated drainage, as well as gasoline tax and highway sales tax turnback from the state and federal transportation grants. The increase in fund balances for these two funds was \$5.8 million between years.

The Sales & Use Tax Construction Fund is also presented as a major fund and accounts for 40.8% of the total governmental fund balances. This fund accounts for the capital projects approved by voters that include the new aquatics center; construction of a new fire station, purchase and replacement of fire apparatus, and improvements to existing fire stations; water improvements; and wastewater improvements. The fund balance increased by \$8.8 million due to the Sales and Use Tax Bonds issued during 2014 offset by expenditures for projects during the year.

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

Net position at the end of the year amounted to \$366.2 million and \$31.5 million for the Water and Sewer Fund and the Sanitation Fund, respectively. The increase in net position was \$14.4 million for the Water and Sewer Fund and \$0.2 million for the Sanitation Fund. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

## **Budgetary Highlights**

**General Fund.** The final amended General Fund budget had total appropriations of \$52.7 million (total expenditures plus transfers out) compared to the original budget total of \$51.1 million. The increase in appropriations of \$1.6 million is summarized briefly as follows:

- Supplemental appropriations included \$0.95 million for additional capital assets for the fire department from its allocation of the ¼% sales tax.
- Additional appropriations of \$0.7 million were approved for the parks department capital improvement projects funded by its share of the ¼% sales tax.

Revenue estimates for the General Fund were increased from an original budget of \$45.7 million (total revenues plus transfers in) to the final estimate of \$46.3 million. The \$0.6 million increase was due to expected higher franchise fees of \$364,000 and additional intergovernmental revenues of \$533,000 for the fire department SCBA federal grant. These increases were offset by an expected \$215,000 decrease in property taxes.

Total actual revenue, including, “other financing sources”, for the General Fund was \$46.6 million or \$0.3 million more than the final budget estimates. The increased revenues were due to increases in sales taxes of \$308,000; further increases in franchise fee revenue of \$116,000; higher property tax revenues of \$74,000; and additional licenses and permits of \$98,000. These increases were offset by a decrease in intergovernmental revenue of \$126,000 in transit reimbursements and an unexpected decrease of \$270,000 in court fines and forfeitures. Total actual expenditures were \$6 million less than the final appropriated budget of the General Fund. Actual expenditures were approximately \$2.5 million lower for personnel and operating expenditures during the year primarily in the police, fire and parks departments. The actual capital outlay in 2014 was \$3.6 million less than the budget due to the multi-year projects within the fire and parks departments.

The budget and actual schedule for the General Fund may be found on page 103 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, 2014 amounts to \$919.3 million, net of accumulated depreciation. This investment in capital assets includes land, buildings, water and sewer systems, improvements other than buildings, machinery and equipment, park and library facilities, streets, and drainage systems. The total increase in the City’s investment in capital assets was 1.6%, a 0.2% increase for governmental activities and a 2.6% increase for business-type activities.

#### City of Fort Smith

#### Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 27,046,523	\$ 26,609,256	\$ 12,966,220	\$ 12,833,692	\$ 40,012,743	\$ 39,442,948
Buildings	55,548,646	53,197,648	973,623	1,039,340	56,522,269	54,236,988
Water System	-	-	285,282,849	286,180,209	285,282,849	286,180,209
Sewer System	-	-	176,757,484	169,371,752	176,757,484	169,371,752
Improvement other than buildings	4,591,845	5,474,514	11,103,776	11,036,502	15,695,621	16,511,016
Infrastructure	252,767,250	248,615,786	-	-	252,767,250	248,615,786
Machinery and equipment	19,290,666	23,869,556	15,098,724	14,885,871	34,389,390	38,755,427
Construction in progress	20,130,709	20,675,700	37,742,259	30,682,884	57,872,968	51,358,584
Total	<u>\$ 379,375,639</u>	<u>\$ 378,442,460</u>	<u>\$ 539,924,935</u>	<u>\$ 526,030,250</u>	<u>\$ 919,300,574</u>	<u>\$ 904,472,710</u>

Major capital asset events during 2014 included the following:

- Net additions to construction in progress totaled \$6.5 million. Of this amount, water and wastewater improvements accounted for an increase of \$7.1 million and the general government and streets decreased by \$0.6 million.
- Net additions to infrastructure totaled \$12.9 million due to the completion of several street projects during 2014.
- Net additions to the sewer system totaled \$11.9 million and to the water system totaled \$5.8 million in 2014.
- Depreciation expense totaled \$33.8 million.

Additional information on the City’s capital assets can be found in *Note 3* on pages 64-71 of this report.

**Long-term debt.** At December 31, 2014, the City had \$279.7 million of long-term bonds outstanding, including \$160.3 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**

	Governmental Activities		Business-Type Activities	
	2014	2013	2014	2013
Sales and Use Tax Bonds	\$ 119,385,000	\$ 96,405,000	\$ -	\$ -
Revenue Bonds	-	-	160,305,000	166,175,000
Total	<u>\$ 119,385,000</u>	<u>\$ 96,405,000</u>	<u>\$ 160,305,000</u>	<u>\$ 166,175,000</u>

The City’s total bonded debt increased by \$17.110 million or 7% during 2014. The key factor in this increase was the issuance of \$34.295 million in Sales and Use Tax Bonds, Series 2014 during February 2014. This increase was offset by scheduled bond maturities during 2014 as well as the call of \$3.110 million in Sales and Use Tax bonds during 2014. The City maintains bond ratings as follows: an “A” rating from Standard & Poor’s on its water and sewer revenue bonds series 2005B, 2007, 2008, 2011 and 2012; and an “AA” rating from Standard & Poor’s on its sales and use tax bonds series 2012 and 2014.

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 \$337.7 million. The City has no general obligation debt at December 31, 2014. Sales and use tax bonds are special debt of the City and are not considered general obligation bonds.

Additional information regarding the City’s long-term debt can be found in *Note 4* on pages 72-84 of this report.

**Economic Factors and the Next Year’s Budget and Rates**

- The year-end unemployment rate for the City was 5.5%, which was lower than the 8.1% rate for 2013. The state unemployment rate for 2014 was 5.2% and the national was 6.2%. The City is recovering from a down economy over the past few years.
- The City expects a 1.25% increase in its tax revenue for the coming year.

These factors were considered when the City prepared its 2015 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 2015 was approved at \$48.1 million and includes a projected year-end fund balance approximating 7.5%. It should be noted that the actual General Fund year-end balance for the past 10 years has always exceeded the projected year-end balance. The Board and management are aware of the declining balance and are working towards other funding options and reducing expenditures even further.

## **Request for Information**

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

**City of Fort Smith, Arkansas**  
**Statement of Net Position**  
**December 31, 2014**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
<b>Assets</b>					
Cash	\$ 3,012,263	\$ 1,561,436	\$ 4,573,699	\$ 749,239	\$ 2,488,588
Investments	44,455,857	18,672,205	63,128,062	381,658	375,845
Receivables, net					
Taxes	13,816,604	-	13,816,604	53,179	-
Sales taxes	3,370,862	-	3,370,862	157,245	-
Accounts	550,726	5,204,454	5,755,180	25,740	355,229
Interest	9,973	3,409	13,382	38	2,248
Due from other governments	1,149,578	-	1,149,578	-	168,678
Internal balances	(414)	414	-	-	-
Inventories	-	941,530	941,530	-	57,631
Prepays and deposits	423,748	5,138	428,886	51,508	63,849
Restricted assets					
Cash	230,621	130,300	360,921	-	1,057,018
Investments	62,861,497	12,087,068	74,948,565	-	304,349
Accounts receivable, net	-	196,301	196,301	-	-
Sales tax receivable	1,247,169	-	1,247,169	-	-
Interest receivable	53,162	2,600	55,762	-	-
Prepaid items and deposits	-	177,445	177,445	-	-
Capital assets, net					
Nondepreciable	47,177,232	50,708,479	97,885,711	427,132	8,843,916
Depreciable	332,198,407	489,216,456	821,414,863	289,308	28,103,975
Total Assets	<u>510,557,285</u>	<u>578,907,235</u>	<u>1,089,464,520</u>	<u>2,135,047</u>	<u>41,821,326</u>
<b>Deferred Outflows of Resources</b>					
Deferred amounts on refunding	-	232,494	232,494	-	143,727
Total deferred outflows of resources	<u>-</u>	<u>232,494</u>	<u>232,494</u>	<u>-</u>	<u>143,727</u>

**City of Fort Smith, Arkansas**  
**Statement of Net Position (Continued)**  
**December 31, 2014**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
<b>Liabilities</b>					
Accounts payable and accrued expenses	\$ 7,714,817	\$ 1,987,708	\$ 9,702,525	\$ 73,062	\$ 386,142
Other	185,023	2,548	187,571	-	-
Accrued interest	731,527	1,878,185	2,609,712	-	-
Deposits	-	533,090	533,090	-	-
Unearned revenue	448,952	-	448,952	-	-
Noncurrent liabilities					
Other long-term liabilities due within one year	1,911,672	1,202,676	3,114,348	-	6
Current portion of long-term debt	6,770,000	6,085,000	12,855,000	-	180,000
Due in more than one year	135,832,802	169,327,277	305,160,079	-	2,495,622
<b>Total liabilities</b>	<b>153,594,793</b>	<b>181,016,484</b>	<b>334,611,277</b>	<b>73,062</b>	<b>3,061,770</b>
<b>Deferred Inflows of Resources</b>					
Deferred amounts on refunding	-	214,069	214,069	-	-
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>214,069</b>	<b>214,069</b>	<b>-</b>	<b>-</b>
<b>Net Position</b>					
Net investment in capital assets	301,383,411	378,186,724	679,570,135	716,440	34,346,636
Restricted for:					
Construction projects	24,044,282	1,525,471	25,569,753	-	61,804
Debt service	15,959,206	17,547,827	33,507,033	-	380,141
Parks & recreation	10,718	-	10,718	-	-
Housing and rehabilitation	3,912	-	3,912	-	-
Police & fire retirement contributions	6,631,183	-	6,631,183	-	-
Other purposes	-	-	-	194,354	-
Unrestricted	8,929,780	649,154	9,578,934	1,151,191	4,114,702
<b>Total net position</b>	<b>\$ 356,962,492</b>	<b>\$ 397,909,176</b>	<b>\$ 754,871,668</b>	<b>\$ 2,061,985</b>	<b>\$ 38,903,283</b>

**City of Fort Smith, Arkansas**  
**Statement of Activities**  
**For the Year Ended December 31, 2014**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Governmental Activities	Business-Type Activities
					Governmental Activities	Business-Type Activities	Total		
<b>Functions/Programs</b>									
<b>Primary Government:</b>									
Governmental Activities									
General Government									
Administration	\$ 7,257,210	\$ 739,487	\$ 1,538,723	\$ -	\$ (4,979,000)		\$ (4,979,000)		
Legal and courts	2,081,772	2,157,266	450,156	-	525,650		525,650		
Finance	2,443,247	693,884	-	-	(1,749,363)		(1,749,363)		
Public safety									
Police	20,353,025	110,894	2,105,600	109,513	(18,027,018)		(18,027,018)		
Fire	17,115,657	72,137	2,266,021	715,966	(14,061,533)		(14,061,533)		
Public works									
Operations	552,245	-	-	-	(552,245)		(552,245)		
Streets	14,211,342	266,627	4,094,862	1,895,325	(7,954,528)		(7,954,528)		
Traffic Control	2,064,551	-	-	-	(2,064,551)		(2,064,551)		
Community services									
Health and Social Services	110,333	-	59,504	-	(50,829)		(50,829)		
Parks and Recreation	10,861,744	272,034	-	12,128	(10,577,582)		(10,577,582)		
Convention Center	2,082,660	715,099	-	-	(1,367,561)		(1,367,561)		
Transit	2,416,535	223,052	1,104,069	464,497	(624,917)		(624,917)		
Housing and Rehabilitation	2,404,287	-	2,306,837	-	(97,450)		(97,450)		
Debt service									
Interest	4,948,763	-	-	-	(4,948,763)		(4,948,763)		
Total Governmental Activities	88,903,371	5,250,480	13,925,772	3,197,429	(66,529,690)		(66,529,690)		
Business-Type Activities:									
Water and Sewer	42,807,102	35,918,255	-	-		\$ (6,888,847)	(6,888,847)		
Sanitation	13,298,931	13,291,198	-	-		(7,733)	(7,733)		
Total Business-Type Activities	56,106,033	49,209,453	-	-		(6,896,580)	(6,896,580)		
Total Primary Government	\$ 145,009,404	\$ 54,459,933	\$ 13,925,772	\$ 3,197,429	\$ (66,529,690)	\$ (6,896,580)	\$ (73,426,270)		
<b>Component Units:</b>									
Governmental									
Advertising & Promotion	\$ 722,904	\$ -	\$ 3,624	\$ -			\$ (719,280)		
Public Library	2,974,746	158,530	168,049	-			(2,648,167)		
Subtotal	3,697,650	158,530	171,673	-			(3,367,447)		
Business-Type									
Parking Authority	298,141	180,587	-	-				\$ (117,554)	
Airport	4,872,992	2,738,468	-	3,114,388				979,864	
Subtotal	5,171,133	2,919,055	-	3,114,388				862,310	
Total Component Units	\$ 8,868,783	\$ 3,077,585	\$ 171,673	\$ 3,114,388			(3,367,447)	862,310	

**City of Fort Smith, Arkansas**  
**Statement of Activities (Continued)**  
**For the Year Ended December 31, 2014**

	Net (Expense) Revenue and Changes in Net Position				
	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
General revenues					
Property taxes	\$ 11,447,651	\$ -	\$ 11,447,651	\$ 1,335,311	\$ -
Sales taxes	55,823,661	-	55,823,661	937,538	-
Gross receipts utility franchise fees	6,780,156	-	6,780,156	-	-
Hospitality taxes	-	-	-	762,728	-
Unrestricted investment earnings	85,627	87,230	172,857	1,189	11,818
Payment from City of Fort Smith	-	-	-	-	200,000
Other	2,108,585	1,070,760	3,179,345	130,226	-
Transfers	(20,487,564)	20,487,564	-	-	-
Total general revenues and transfers	55,758,116	21,645,554	77,403,670	3,166,992	211,818
Change in net position	(10,771,574)	14,748,974	3,977,400	(200,455)	1,074,128
Net position, beginning of year	367,734,066	383,160,202	750,894,268	2,262,440	37,829,155
Net position, end of year	<u>\$ 356,962,492</u>	<u>\$ 397,909,176</u>	<u>\$ 754,871,668</u>	<u>\$ 2,061,985</u>	<u>\$ 38,903,283</u>

**City of Fort Smith, Arkansas**  
**Balance Sheet – Governmental Funds**  
**December 31, 2014**

	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Cash	\$ 717,362	\$ 343,619	\$ 630,399	\$ -	\$ -	\$ 443,220	\$ 2,134,600
Investments	8,538,266	1,160,468	26,611,694	-	-	7,075,152	43,385,580
Receivables, net of allowance for uncollectibles							
Taxes	8,832,355	2,136,061	-	-	-	2,848,188	13,816,604
Sales taxes	1,707,970	-	1,662,892	-	-	-	3,370,862
Accounts	411,797	216	67,120	-	-	53,716	532,849
Accrued interest	1,797	332	5,765	-	-	1,678	9,572
Due from other funds	5,036	-	-	-	-	-	5,036
Due from other governments	427,059	468,893	-	-	-	253,626	1,149,578
Restricted assets:							
Cash	-	-	-	-	230,621	-	230,621
Investments	-	-	-	48,381,622	14,479,875	-	62,861,497
Sales taxes receivable	-	-	-	-	1,247,169	-	1,247,169
Interest receivable	-	-	-	49,121	4,041	-	53,162
Prepaid items	48,829	833	-	-	-	119	49,781
Deposits	24,511	-	136,995	202,005	-	-	363,511
	<u>\$ 20,714,982</u>	<u>\$ 4,110,422</u>	<u>\$ 29,114,865</u>	<u>\$ 48,632,748</u>	<u>\$ 15,961,706</u>	<u>\$ 10,675,699</u>	<u>\$ 129,210,422</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$ 1,698,910	\$ 309,227	\$ 636,785	\$ 3,070,948	\$ 2,500	367,688	\$ 6,086,058
Retainage payable	51,139	-	324,578	1,147,013	-	-	1,522,730
Due to other funds	50,000	-	-	-	-	5,450	55,450
Unearned revenue	-	-	-	-	-	448,952	448,952
Other	182,331	-	-	-	-	2,692	185,023
	<u>1,982,380</u>	<u>309,227</u>	<u>961,363</u>	<u>4,217,961</u>	<u>2,500</u>	<u>824,782</u>	<u>8,298,213</u>
<b>Deferred Inflows of Resources</b>							
Unavailable property taxes	7,055,550	2,095,034	-	-	-	2,793,472	11,944,056
	<u>7,055,550</u>	<u>2,095,034</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,793,472</u>	<u>11,944,056</u>
<b>Fund Balances:</b>							
Nonspendable	73,340	833	136,995	202,005	-	119	413,292
Restricted for:							
Construction projects	-	92,665	28,016,507	44,212,782	-	103,950	72,425,904
Debt service	-	-	-	-	15,959,206	-	15,959,206
Parks & recreation	-	-	-	-	-	10,718	10,718
Housing and rehabilitation	-	-	-	-	-	3,912	3,912
Police & fire retirement contributions	-	-	-	-	-	6,631,183	6,631,183
Assigned to:							
Convention center	-	-	-	-	-	307,563	307,563
Construction projects	1,194,638	-	-	-	-	-	1,194,638
Other purposes	211,993	1,612,663	-	-	-	-	1,824,656
Unassigned	10,197,081	-	-	-	-	-	10,197,081
	<u>11,677,052</u>	<u>1,706,161</u>	<u>28,153,502</u>	<u>44,414,787</u>	<u>15,959,206</u>	<u>7,057,445</u>	<u>108,968,153</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 20,714,982</u>	<u>\$ 4,110,422</u>	<u>\$ 29,114,865</u>	<u>\$ 48,632,748</u>	<u>\$ 15,961,706</u>	<u>\$ 10,675,699</u>	<u>\$ 129,210,422</u>

**City of Fort Smith, Arkansas**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
**December 31, 2014**

Total fund balances – governmental funds \$ 108,968,153

Amounts reported for governmental activities in the statement of net position 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	\$ 27,046,523	
Buildings	78,449,766	
Improvements other than buildings	13,654,274	
Machinery and equipment	49,718,742	
Infrastructure	350,673,444	
Accumulated depreciation	<u>(160,297,819)</u>	
	359,244,930	
Construction in progress	<u>20,130,709</u>	
 Total	 <u><u>\$ 379,375,639</u></u>	 379,375,639

Some revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year end and are not considered available. On the accrual basis, however, those revenues would be recognized regardless of when they are collected. 11,944,056

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 position. 223,616

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	\$ 2,406,749	
Claims payable	82,500	
Sales tax bonds payable, net	125,361,084	
Interest payable	731,527	
Capital leases payable	281,239	
OPEB liabilities	<u>14,685,873</u>	
	<u><u>\$ 143,548,972</u></u>	<u>(143,548,972)</u>

Net position of governmental activities \$ 356,962,492

**City of Fort Smith, Arkansas**  
**Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds**  
**For the Year Ended December 31, 2014**

	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Taxes	\$ 6,940,284	\$ 2,054,001	\$ -	\$ -	\$ -	\$ 2,739,054	\$ 11,733,339
Sales taxes	20,650,389	-	20,099,013	-	15,074,259	-	55,823,661
Licenses and permits	1,433,372	189,689	-	-	-	-	1,623,061
Utility franchise fees	6,780,156	-	-	-	-	-	6,780,156
Intergovernmental	5,029,051	5,691,420	166,028	-	-	4,132,182	15,018,681
Fines and forfeitures	1,999,935	-	-	-	-	121,711	2,121,646
Fees for services	625,314	-	-	-	-	715,099	1,340,413
Interest	22,945	3,240	76,937	97,872	9,906	22,092	232,992
Decrease in fair value of investments	-	-	-	(44,283)	(3,120)	-	(47,403)
Contributions	-	-	132,739	-	-	1,913,850	2,046,589
Miscellaneous	221,117	50,948	-	-	93,610	1,795	367,470
<b>Total Revenues</b>	<b>43,702,563</b>	<b>7,989,298</b>	<b>20,474,717</b>	<b>53,589</b>	<b>15,174,655</b>	<b>9,645,783</b>	<b>97,040,605</b>
<b>Expenditures</b>							
<b>Current:</b>							
<b>General government</b>							
Administration	3,995,545	213,976	-	-	-	-	4,209,521
Legal and courts	1,902,427	70,327	-	-	-	-	1,972,754
Finance	2,034,426	327,468	-	-	-	-	2,361,894
<b>Public safety</b>							
Police	15,113,769	-	-	-	-	3,368,508	18,482,277
Fire	11,503,024	-	-	-	-	3,999,734	15,502,758
<b>Public works</b>							
Operations	-	462,657	-	-	-	76,080	538,737
Streets	-	3,711,087	1,060,623	-	-	55,147	4,826,857
Traffic Control	-	1,975,445	-	-	-	-	1,975,445
<b>Community services</b>							
Health and Social Services	103,255	-	-	-	-	-	103,255
Parks and Recreation	2,232,256	233,125	-	-	-	23,140	2,488,521
Convention Center	-	-	-	-	-	1,447,715	1,447,715
Transit	1,993,135	-	-	-	-	-	1,993,135
Housing and Rehabilitation	-	-	-	-	-	2,371,684	2,371,684
Other	1,557,725	18,978	-	9,428	50,395	-	1,636,526
Capital Outlay	5,207,486	851,524	10,970,746	24,502,660	-	106,228	41,638,644
<b>Debt Service:</b>							
Principal	-	-	-	-	11,315,000	-	11,315,000
Interest	-	-	-	-	4,217,236	-	4,217,236
Issuance costs	-	-	-	-	400,062	-	400,062
<b>Total Expenditures</b>	<b>45,643,048</b>	<b>7,864,587</b>	<b>12,031,369</b>	<b>24,512,088</b>	<b>15,982,693</b>	<b>11,448,236</b>	<b>117,482,021</b>
Excess (deficiency) in revenues over (under) expenditures	(1,940,485)	124,711	8,443,348	(24,458,499)	(808,038)	(1,802,453)	(20,441,416)

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, 2014**

	General	Street Maintenance	Sales Tax	Sales & Use Tax Construction	Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
<b>Other Financing Sources (Uses)</b>							
Transfers in	\$ 2,899,200	\$ -	\$ -	\$ 33,208,929	\$ -	\$ 777,000	\$ 36,885,129
Transfers out	(967,000)	(129,000)	(2,632,200)	-	(33,208,929)	-	(36,937,129)
Bond issuance	-	-	-	-	34,295,000	-	34,295,000
Bond premium	-	-	-	-	1,028,741	-	1,028,741
Total Other Financing Sources and Uses	<u>1,932,200</u>	<u>(129,000)</u>	<u>(2,632,200)</u>	<u>33,208,929</u>	<u>2,114,812</u>	<u>777,000</u>	<u>35,271,741</u>
Net Change in Fund Balances	(8,285)	(4,289)	5,811,148	8,750,430	1,306,774	(1,025,453)	14,830,325
Fund Balances, January 1	<u>11,685,337</u>	<u>1,710,450</u>	<u>22,342,354</u>	<u>35,664,357</u>	<u>14,652,432</u>	<u>8,082,898</u>	<u>94,137,828</u>
Fund Balances, December 31	<u>\$ 11,677,052</u>	<u>\$ 1,706,161</u>	<u>\$ 28,153,502</u>	<u>\$ 44,414,787</u>	<u>\$ 15,959,206</u>	<u>\$ 7,057,445</u>	<u>\$ 108,968,153</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, 2014**

Net change in fund balances – total governmental funds	\$ 14,830,325
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	41,638,644
Capital contributions to the Water and Sewer Fund are recognized as transfers out on the government-wide statement of activities	(20,435,564)
The net effect of various miscellaneous transactions increases net position	1,570,267
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(20,252,713)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources of governmental funds. This transaction does not have any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(24,008,741)
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.	(285,688)
Some expenses, <i>i.e.</i> , the increase in compensated absences liability and OPEB liabilities, reported in the statement of activities and changes in net position do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental funds.	(2,631,438)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and fuel, to individual funds. The net loss of the internal service funds is reported with governmental activities [net of the amount allocated to business-type activities of \$107,610 and the external activities adjustment of \$606,435].	<u>(1,196,666)</u>
Change in net position of governmental activities	<u><u>\$(10,771,574)</u></u>

(This Page Intentionally Left Blank)

**City of Fort Smith, Arkansas**  
**Statement of Fund Net Position –**  
**Proprietary Funds**  
**December 31, 2014**

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
<b>Current Assets</b>				
Cash	\$ 207,855	\$ 870,302	\$ 1,078,157	\$ 1,360,942
Investments	10,869,298	7,268,055	18,137,353	1,605,129
Receivables				
Accounts, net of uncollectibles of \$126,924; \$33,589 and \$0-	4,109,853	1,086,031	5,195,884	26,446
Accrued interest	516	2,685	3,201	609
Restricted				
Cash	130,300	-	130,300	
Investments	7,487,473	-	7,487,473	-
Accounts receivable, net of uncollectibles of \$588,905	-	196,301	196,301	-
Interest receivable	2,600	-	2,600	-
Inventories	876,751	40,689	917,440	24,090
Prepaid items	-	127	127	15,467
Due from other funds	-	-	-	50,414
	<u>23,684,646</u>	<u>9,464,190</u>	<u>33,148,836</u>	<u>3,083,097</u>
<b>Total Current Assets</b>				
	<u>23,684,646</u>	<u>9,464,190</u>	<u>33,148,836</u>	<u>3,083,097</u>
<b>Noncurrent Assets</b>				
Restricted				
Investments	-	4,599,595	4,599,595	-
Prepaid items and deposits	177,445	-	177,445	-
Capital assets				
Land	12,592,448	373,772	12,966,220	-
Buildings	-	1,999,645	1,999,645	-
Improvements other than buildings	-	21,206,087	21,206,087	-
Leasehold improvements	-	709,952	709,952	-
Machinery and equipment	12,942,311	23,505,228	36,447,539	-
Water system	384,529,748	-	384,529,748	-
Sewer system	250,899,994	-	250,899,994	-
Construction in progress	34,036,575	3,705,684	37,742,259	-
Less accumulated depreciation	(180,560,839)	(26,015,670)	(206,576,509)	-
	<u>514,617,682</u>	<u>30,084,293</u>	<u>544,701,975</u>	<u>-</u>
<b>Total Noncurrent Assets</b>				
	<u>514,617,682</u>	<u>30,084,293</u>	<u>544,701,975</u>	<u>-</u>
<b>Total Assets</b>	<u>538,302,328</u>	<u>39,548,483</u>	<u>577,850,811</u>	<u>3,083,097</u>
<b>Deferred outflows of resources</b>				
Deferred amount on refunding	232,494	-	232,494	-
<b>Total deferred outflows of resources</b>	<u>232,494</u>	<u>-</u>	<u>232,494</u>	<u>-</u>

**City of Fort Smith, Arkansas**  
**Statement of Fund Net Position –**  
**Proprietary Funds (Continued)**  
**December 31, 2014**

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	\$ 1,090,741	\$ 641,384	\$ 1,732,125	\$ 172,777
Retainage payable	148,438	40,396	188,834	-
Accrued vacation and sick leave	9,524	2,173	11,697	-
Accrued interest	1,878,185	-	1,878,185	-
Claims and judgments	-	-	-	2,532,820
Revenue bonds payable	6,085,000	-	6,085,000	-
Capital leases payable	54,271	300,920	355,191	-
Deposits	533,090	-	533,090	-
Other	2,548	-	2,548	-
<b>Total Current Liabilities</b>	<u>9,801,797</u>	<u>984,873</u>	<u>10,786,670</u>	<u>2,705,597</u>
<b>Noncurrent liabilities</b>				
Accrued vacation and sick leave	932,447	215,103	1,147,550	-
Landfill closure and postclosure care	-	4,599,595	4,599,595	-
Revenue bonds, net	156,541,341	-	156,541,341	-
OPEB liabilities	4,801,151	2,237,640	7,038,791	-
<b>Total Noncurrent Liabilities</b>	<u>162,274,939</u>	<u>7,052,338</u>	<u>169,327,277</u>	<u>-</u>
<b>Total Liabilities</b>	<u>172,076,736</u>	<u>8,037,211</u>	<u>180,113,947</u>	<u>2,705,597</u>
<b>Deferred inflows of resources</b>				
Deferred amount on refunding	214,069	-	214,069	-
<b>Total deferred inflows of resources</b>	<u>214,069</u>	<u>-</u>	<u>214,069</u>	<u>-</u>
<b>Net Position</b>				
Net investment in capital assets	353,002,946	25,183,778	378,186,724	-
Restricted for bond retirement	17,547,827	-	17,547,827	-
Restricted for asset replacement	1,400,000	125,471	1,525,471	-
Unrestricted (deficit)	(5,706,756)	6,202,023	495,267	377,500
<b>Total Net Position</b>	<u>\$ 366,244,017</u>	<u>\$ 31,511,272</u>	<u>397,755,289</u>	<u>\$ 377,500</u>

Reconciliation to government - wide statement of net position:

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

153,887

Net position of business type activities

\$ 397,909,176

**City of Fort Smith, Arkansas**  
**Statement of Revenues, Expenses and Changes in**  
**Fund Net Position – Proprietary Funds**  
**For the Year Ended December 31, 2014**

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
<b>Operating Revenues</b>				
Water service	\$ 23,697,905	\$ -	\$ 23,697,905	\$ -
Sewer service	11,363,532	-	11,363,532	-
Charges for services	821,148	13,291,198	14,112,346	11,195,168
Other	35,670	-	35,670	-
<b>Total Operating Revenues</b>	<u>35,918,255</u>	<u>13,291,198</u>	<u>49,209,453</u>	<u>11,195,168</u>
<b>Operating Expenses</b>				
Personnel services	13,309,239	6,252,851	19,562,090	-
Contractual services	3,264,695	1,648,406	4,913,101	878,016
Materials and supplies	4,648,653	3,594,069	8,242,722	958,430
Heat, light, and power	1,814,762	103,282	1,918,044	-
Depreciation	11,861,667	1,663,234	13,524,901	-
Insurance claims and expenses	-	-	-	9,465,883
<b>Total Operating Expenses</b>	<u>34,899,016</u>	<u>13,261,842</u>	<u>48,160,858</u>	<u>11,302,329</u>
<b>Operating Income (Loss)</b>	<u>1,019,239</u>	<u>29,356</u>	<u>1,048,595</u>	<u>(107,161)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest revenue	46,145	41,085	87,230	8,350
Interest expense and fiscal charges	(7,674,723)	-	(7,674,723)	-
Other nonoperating revenues, net	399,005	306,639	705,644	-
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(7,229,573)</u>	<u>347,724</u>	<u>(6,881,849)</u>	<u>8,350</u>
<b>Income Before Contributions and Transfers</b>	<u>(6,210,334)</u>	<u>377,080</u>	<u>(5,833,254)</u>	<u>(98,811)</u>
Capital contributions	20,801,276	-	20,801,276	-
Transfers in	-	90,000	90,000	349,000
Transfers out	(168,000)	(219,000)	(387,000)	-
<b>Change in Net Position</b>	<u>14,422,942</u>	<u>248,080</u>	<u>14,671,022</u>	<u>250,189</u>
Net position, beginning of year	<u>351,821,075</u>	<u>31,263,192</u>		<u>127,311</u>
Net position, ending	<u>\$ 366,244,017</u>	<u>\$ 31,511,272</u>		<u>\$ 377,500</u>
Reconciliation to government - wide statement of activities:				
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds			<u>77,952</u>	
Change in net position of business type activities for government - wide statement of activities			<u>\$ 14,748,974</u>	

(This Page Intentionally Left Blank)

**City of Fort Smith, Arkansas**  
**Statement of Cash Flows – Proprietary Funds**  
**For the Year Ended December 31, 2014**

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
<b>Operating Activities</b>				
Cash received from customers	\$ 36,434,665	\$ 13,387,291	\$ 49,821,956	\$ -
Cash received from service users	-	-	-	1,475,356
Cash received from city and employee contributions	-	-	-	9,686,540
Cash payments for goods and services	(8,932,731)	(4,648,665)	(13,581,396)	(991,918)
Cash paid to employees	(12,418,269)	(5,868,487)	(18,286,756)	-
Cash payments for premiums and other operating expenses	-	-	-	(826,124)
Cash payments for claims paid	-	-	-	(9,162,534)
Cash received from other operating revenues	247,838	367,410	615,248	-
	15,331,503	3,237,549	18,569,052	181,320
<b>Noncapital Financing Activities</b>				
Transfers in from other funds	-	90,000	90,000	349,000
Transfers out to other funds	(168,000)	(219,000)	(387,000)	-
	(168,000)	(129,000)	(297,000)	349,000
<b>Capital and Related Financing Activities</b>				
Proceeds from sale of capital assets	136,719	20,466	157,185	-
Acquisition and construction of capital assets	(5,164,370)	(4,044,579)	(9,208,949)	-
Principal paid on bonds	(5,700,715)	-	(5,700,715)	-
Interest paid on bonds	(7,728,716)	-	(7,728,716)	-
	(18,457,082)	(4,024,113)	(22,481,195)	-
<b>Investing Activities</b>				
Proceeds from sales and maturities of investment securities	24,973,942	4,056,836	29,030,778	1,291,050
Outlays for purchases of investment securities	(22,064,595)	(3,750,500)	(25,815,095)	(977,021)
Interest on investments	98,033	80,865	178,898	7,741
	3,007,380	387,201	3,394,581	321,770
<b>Net Increase (Decrease) in Cash</b>	(286,199)	(528,363)	(814,562)	852,090
Cash, January 1	624,354	1,398,665	2,023,019	508,852
Cash, December 31	\$ 338,155	\$ 870,302	\$ 1,208,457	\$ 1,360,942

**City of Fort Smith, Arkansas**  
**Statement of Cash Flows – Proprietary Funds (Continued)**  
**For the Year Ended December 31, 2014**

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
<b>Reconciliation of cash and restricted cash at December 31 to statement of net position</b>				
Cash	\$ 207,855	\$ 870,302	\$ 1,078,157	\$ 1,360,942
Restricted cash	130,300	-	130,300	-
Total	<u>\$ 338,155</u>	<u>\$ 870,302</u>	<u>\$ 1,208,457</u>	<u>\$ 1,360,942</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating income (loss)	<u>\$ 1,019,239</u>	<u>\$ 29,356</u>	<u>\$ 1,048,595</u>	<u>\$ (107,161)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	11,861,667	1,663,234	13,524,901	-
Miscellaneous revenue (expense)	(245,779)	286,173	40,394	-
Change in assets and liabilities				
Accounts receivable	547,776	96,093	643,869	16,805
Due from other funds	-	603,367	603,367	(50,077)
Inventory	14,968	4,761	19,729	22,414
Prepaid items	(49,693)	(53)	(49,746)	219,429
Accounts payable and accrued liabilities	1,323,803	185,483	1,509,286	(72,757)
Deposits	4,304	-	4,304	-
Accrued vacation and sick leave	(7,512)	(31,808)	(39,320)	-
Liability for claims and judgments	-	-	-	152,667
OPEB liabilities	860,278	400,943	1,261,221	-
Other liabilities	2,452	-	2,452	-
Total adjustments	<u>14,312,264</u>	<u>3,208,193</u>	<u>17,520,457</u>	<u>288,481</u>
Net cash provided by operating activities	<u>\$ 15,331,503</u>	<u>\$ 3,237,549</u>	<u>\$ 18,569,052</u>	<u>\$ 181,320</u>

Noncash investing, capital and financing activities:

Enterprise funds:

The Water and Sewer Fund received contributions of capital assets of \$20,118,505 for 2014. The 2005 advance refunding and the 2011 advance refunding for water and sewer revenue bonds resulted in cash flow savings of \$26,005, and \$4,628 respectively, for 2014.

**City of Fort Smith, Arkansas**  
**Statement of Fiduciary Net Position**  
**OPEB Trust Fund**  
**December 31, 2014**

**Assets**

**Current Assets**

Cash	\$	1,072
Investments:		
Government money market funds		406,452
Equities - agency bonds		180,960
US government bonds		748,414
Certificates of deposit		150,380
Total Investments		1,486,206
Total Current Assets		1,487,278
Total Assets		1,487,278

**Liabilities**

**Current Liabilities**

Accounts payable		3,747
Total Current Liabilities		3,747
Total Liabilities		3,747

**Net Position**

Held in trust for OPEB		1,483,531
Total Net Position		\$ 1,483,531

**City of Fort Smith, Arkansas**  
**Statement of Changes in Fiduciary Net Position**  
**OPEB Trust Fund**  
**For the Year Ended December 31, 2014**

**Additions:**

Investment Earnings		
Interest	\$	23,193
Net increase in fair value of investments		15,184
Total additions		<u>38,377</u>

**Deductions:**

Investment expenses:		
Management fees		<u>14,430</u>

Change in Net Position		23,947
------------------------	--	--------

Net position, beginning		<u>1,459,584</u>
-------------------------	--	------------------

Net position, ending		<u><u>\$ 1,483,531</u></u>
----------------------	--	----------------------------

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

**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.

***Adoption of Accounting Principles***

***GASB Statement No. 66 - Technical Corrections***

Effective January 1, 2014, the city implemented GASB Statement 66, *Technical Corrections*. 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*.

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

Effective January 1, 2014, the city implemented GASB Statement 67, *Financial Reporting for Pension Plans*. The objective of GASB Statement 67 is to establish financial reporting standards for state and local government pension plans that are administered through trusts or equivalent arrangements. GASB 67 amends GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

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

Effective January 1, 2014, the city implemented GASB Statement 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards for government combinations and disposals of government operations.

***GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees***

Effective January 1, 2014, the city implemented GASB Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

The adoption of these standards did not have a material effect on the financial statements in the current year.

# City of Fort Smith, Arkansas

## Notes to Basic Financial Statements

### December 31, 2014

#### ***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*, as amended by GASB Statement 61, *The Financial Reporting Entity: Omnibus*. Generally, GASB Statements 14, 39 and 61 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, and that 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

#### **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 97-98 of these notes for condensed financial statements.

# City of Fort Smith, Arkansas

## Notes to Basic Financial Statements

### December 31, 2014

***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 97-98 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 97-98 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 97-98 of these notes for condensed financial statements.

#### **Related Organizations**

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

#### **Government-Wide and Fund Financial Statements**

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

# City of Fort Smith, Arkansas

## Notes to Basic Financial Statements

### December 31, 2014

#### Government-Wide Financial Statements

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

#### Fund Financial Statements

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

The City reports the following major governmental funds:

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

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

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

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

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

# City of Fort Smith, Arkansas

## Notes to Basic Financial Statements

### December 31, 2014

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.

*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.

# **City of Fort Smith, Arkansas**

## **Notes to Basic Financial Statements**

### **December 31, 2014**

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 unavailable revenues. Grants and similar aid to other organizations are recognized as expenses as soon as recipients have met all eligibility requirements. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

#### **Governmental Fund Financial Statements**

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

General government fund inventories are accounted for on the purchase method.

#### ***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.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

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

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

<b>Capital Assets</b>	<b>Useful Life (Years)</b>
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.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

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 2014.

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 November 1 and are due and payable at that time. Property taxes attach an enforceable lien on property the first following Monday in February (the lien date). All unpaid taxes levied November 1 become delinquent October 16 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 2013 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 \$6.8 million of additional taxes could be raised per year based on the current year's assessed value of \$989,630,922 for real property and \$361,225,320 for personal property before the limit is reached.

***Compensated Absences***

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

# City of Fort Smith, Arkansas

## Notes to Basic Financial Statements

### December 31, 2014

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.

#### **Risk Management**

The City maintains a medical self-insurance plan funded by the City and administered by a third party. The plan provides certain healthcare benefits to active and retired City employees. Substantially all regular, full-time City employees are eligible for these benefits. The City's costs of providing these benefits, including premiums, totaled \$9,803,658 in 2014, and are included in operating expenses in the Employee Insurance Fund. The City contributes fully for each employee and shares in the contribution for any dependents. Retired employees may continue coverage under the City's policy, but must bear the entire cost of these contributions. See *Note 8* on pages 90-92.

The City also makes contributions to fund a self-insured workers' compensation program. The City contributed \$540,241 in 2014 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 \$20,099,013 for fiscal year 2014, 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 2025.

In August 1994, Sebastian County began assessing a 1% sales and use tax on retail sales in the county. Each city within Sebastian County receives a portion of the tax based upon population of the city. Currently, the City receives approximately 68% of the county tax. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes totaled \$15,625,636 for fiscal year 2014. These taxes are included in the General Fund's sales tax revenues. The County refers the tax to the voters every ten years for reapproval. The tax is currently in place through August 2024.

In March 2012, the citizens approved a referendum to continue the 1% sales and use tax on retail sales in the city to refund the Sales and Use Tax Construction Bonds, Series 2006, 2008 and 2009, to fund a new aquatics center, construct a new fire station, purchase and replace fire apparatus, improve existing fire stations, water improvements and wastewater improvements. The 1% sales tax revenue is split at  $\frac{3}{4}$ % for the repayment of the Sales and Use Tax Refunding and Construction Bonds, Series 2012 and 2014, and  $\frac{1}{4}$ % for fire and parks departments operating and capital asset costs. These taxes are collected by the state and remitted to the City net of a collection fee. The taxes for this purpose totaled \$20,099,013 for fiscal year 2014.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

**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 fund net position.

**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

In the fund financial statements, governmental fund types recognize debt discounts and premiums 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 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 bond covenants. The balance of the restricted asset accounts in the general government activities are as follows:

Cash	\$	230,621
Investments		62,861,497
Interest receivable		53,162
Sales taxes receivable		1,247,169
		1,247,169
Total restricted assets - general government	\$	64,392,449

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

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

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

Current Assets:

Cash - water and sewer depreciation account	\$ 112,500
Cash - water and sewer meter deposit account	17,800
Investments - water and sewer depreciation account	1,287,230
Investments - water and sewer meter deposit account	414,203
Investments - water and sewer bond account	4,542,719
Investments - water and sewer bond construction account	1,243,321
Accounts receivable - solid waste cleanup program account	196,301
Interest receivable - water and sewer depreciation account	270
Interest receivable - water and sewer meter deposit account	87
Interest receivable - water and sewer bond construction account	2,204
Interest receivable - water and sewer bond account	39
Total current assets - restricted	7,816,674

Noncurrent assets:

Investments - solid waste landfill construction/closure and postclosure care account	4,599,595
Prepaid items and deposits - water and sewer operating account	59,918
Prepaid items and deposits - water and sewer bond construction account	117,527
Total noncurrent assets	4,777,040
Total restricted assets - enterprise funds	\$ 12,593,714

***Unearned Revenue***

Unearned revenue consists mainly of grant receipts and convention center rentals.

***Estimates***

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

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

***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 ordinance of the Board of Directors (BOD). Commitments may be changed by issuance of an ordinance by the BOD.

**Assigned** – Assigned fund balances are intended to be used by the City for specific purposes as determined by management. In governmental funds other than the General Fund, assigned fund balances represent the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. The Board of Directors (BOD) has by resolution authorized the City Administrator to assign fund balance. The BOD may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

**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.

***Deferred Outflows of Resources and Deferred Inflows of Resources***

A deferred inflow of resources is an acquisition of net position or fund balance by the city that is applicable to a future reporting period and a deferred outflow of resources is a consumption of net position or fund balance by the city that is applicable to a future period. Both deferred inflows and outflows are reported in the statement of position and in the governmental funds balance sheet but are not recognized in the financial statements as revenues and expenditures/expenses until the period(s) to which they relate. Deferred outflows of resources and deferred inflows of resources on the statement of net position consist of deferred charges on bond refunding. The deferred inflows of resources on the governmental funds balance sheet are for property taxes.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

**Note 2: Cash and Investments**

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

The City follows GASB Statement 3, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement 40, *Deposit and Investment Risk Disclosure*. The investments and deposits of the primary government are stated at quoted fair values. As a result, a net unrealized loss of \$47,403 is recorded as a decrease in fair value of investments for the primary government in 2014 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, 2014, all the City's deposits were fully collateralized and, therefore, were not exposed to custodial credit risk. Independent third parties held securities in the City's name as collateral at December 31, 2014. The bank balances and carrying amount of the City's deposits held as of December 31, 2014 were as follows:

**Pooled and Nonpooled Funds**

Description	Bank Balance	Carrying Amount
Demand deposits	\$ 53,203,184	\$ 53,426,205
Certificates of deposit	7,727,095	7,727,095
	<u>\$ 60,930,279</u>	<u>\$ 61,153,300</u>

**Component Units**

At year-end, the carrying amount and the bank balance of the Advertising and Promotion Commission deposits was \$82,166. At December 31, 2014, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Public Library's deposits was \$667,073 and the bank balance was \$725,403. At December 31, 2014, 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 \$55,801. At December 31, 2014, none of the balances were exposed to custodial credit risk.

At year-end, the carrying amount of the Airport Commission's deposits was \$3,414,013 and the bank balance was \$3,701,440. At December 31, 2014, none of the balances were exposed to custodial credit risk.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

**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, 2014 were as follows:

**Pooled and Nonpooled funds**

<u>Description</u>	<u>Fair Value</u>	<u>Investment Maturities Less than 1 Year</u>	<u>Investment Maturities 1-5 Years</u>
U.S. Treasury Bills	\$ 33,278,916	\$ 33,278,916	\$ -
U.S. Treasury Notes	48,648,175	-	48,648,175
	<u>\$ 81,927,091</u>	<u>\$ 33,278,916</u>	<u>\$ 48,648,175</u>

**Component Units**

At year-end, the Advertising & Promotion Commission held \$80,812 in U.S. Treasury Bills. The Advertising & Promotion Commission reports investments at fair value and the maturity dates of the bills are less than one year.

At year-end, the Public Library held \$300,884 in money market funds. The Public Library reports investments at fair value.

At year-end, the Parking Authority fund held \$375,924 in U.S. Treasury Bills. The Parking Authority reports investments at fair value and the maturity dates of the bills are less than one year.

At year-end, the Airport Commission held \$76,163 in money market mutual funds and \$306,147 in U.S. Treasury Bills. 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, 2014 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, 2014**

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

**Primary Government:**

Carrying value of deposits -	
Pooled and nonpooled funds	\$ 61,153,300
Deposits classified as investments	<u>(56,218,680)</u>
	<u>\$ 4,934,620</u>
Cash as reported on the government-wide statement of net assets	\$ 4,573,699
Restricted cash as reported on the government-wide statement of net assets	<u>360,921</u>
	<u>\$ 4,934,620</u>
Carrying value of investments -	
Pooled and nonpooled funds	\$ 81,927,091
Deposits classified as investments	<u>56,218,680</u>
	<u>\$ 138,145,771</u>
As reported on the government-wide statement of net assets:	
Investments	\$ 63,128,062
Interest receivable	13,382
Restricted investments	74,948,565
Restricted interest receivable	<u>55,762</u>
	<u>\$ 138,145,771</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

**Component Units:**

Governmental type-

Carrying value of deposits -	
Advertising and Promotion	
Commission	\$ 82,166
Public Library	667,073
Carrying value of investments -	
Advertising and Promotion	
Commission	80,812
Public Library	300,884
	\$ 1,130,935

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

Cash	\$ 749,239
Investments	381,658
Interest receivable	38
	\$ 1,130,935

Business type-

Carrying value of deposits -	
Parking Authority	\$ 55,801
Airport Commission	3,414,013
Carrying value of investments -	
Parking Authority	375,924
Airport Commission	382,310
	\$ 4,228,048

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

Cash	\$ 2,488,588
Investments	375,845
Interest receivable	2,248
Restricted cash	1,057,018
Restricted investments	304,349
	\$ 4,228,048

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

**Note 3: Capital Assets**

Capital assets activity for the year ended December 31, 2014 was as follows:

**Primary Government:**

	<u>December 31, 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2014</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 26,609,256	\$ 437,267	\$ -	\$ 27,046,523
Construction in progress	20,675,700	17,143,422	(17,688,413)	20,130,709
Total capital assets not being depreciated	<u>47,284,956</u>	<u>17,580,689</u>	<u>(17,688,413)</u>	<u>47,177,232</u>
Capital assets being depreciated				
Buildings	74,133,647	-	4,316,119	78,449,766
Improvements other than buildings	13,517,226	137,048	-	13,654,274
Infrastructure	337,769,674	-	12,903,770	350,673,444
Machinery and equipment	<u>46,365,937</u>	<u>3,485,343</u>	<u>(132,538)</u>	<u>49,718,742</u>
Total depreciable capital assets at historical cost	<u>471,786,484</u>	<u>3,622,391</u>	<u>17,087,351</u>	<u>492,496,226</u>
Less accumulated depreciation for				
Buildings	20,935,999	1,965,121	-	22,901,120
Improvements other than buildings	8,042,712	1,019,717	-	9,062,429
Infrastructure	89,153,888	8,752,306	-	97,906,194
Machinery and equipment	<u>22,496,381</u>	<u>8,515,569</u>	<u>(583,874)</u>	<u>30,428,076</u>
Total accumulated depreciation	<u>140,628,980</u>	<u>20,252,713</u>	<u>(583,874)</u>	<u>160,297,819</u>
Capital assets being depreciated, net	<u>331,157,504</u>	<u>(16,630,322)</u>	<u>17,671,225</u>	<u>332,198,407</u>
Governmental activities capital assets, net	<u>\$ 378,442,460</u>	<u>\$ 950,367</u>	<u>\$ (17,188)</u>	<u>\$ 379,375,639</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

**Primary Government:**

	<u>December 31, 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2014</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 12,833,692	\$ 132,528	\$ -	\$ 12,966,220
Construction in progress	30,682,884	23,865,769	(16,806,394)	37,742,259
	<u>43,516,576</u>	<u>23,998,297</u>	<u>(16,806,394)</u>	<u>50,708,479</u>
Total capital assets not being depreciated				
Capital assets being depreciated:				
Water system	378,717,673	191,139	5,620,936	384,529,748
Sewer system	239,016,652	800,162	11,083,180	250,899,994
Buildings	1,999,645	-	-	1,999,645
Improvements other than buildings	21,103,809	-	102,278	21,206,087
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	34,327,564	2,429,988	(310,013)	36,447,539
	<u>675,875,295</u>	<u>3,421,289</u>	<u>16,496,381</u>	<u>695,792,965</u>
Total depreciable capital assets at historical cost				
Less accumulated depreciation for:				
Water system	92,537,464	6,709,435	-	99,246,899
Sewer system	69,644,900	4,497,610	-	74,142,510
Buildings	960,305	65,717	-	1,026,022
Improvements other than buildings	10,067,307	35,004	-	10,102,311
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	19,441,693	2,217,135	(310,013)	21,348,815
	<u>193,361,621</u>	<u>13,524,901</u>	<u>(310,013)</u>	<u>206,576,509</u>
Total accumulated depreciation				
Capital assets being depreciated, net	<u>482,513,674</u>	<u>(10,103,612)</u>	<u>16,806,394</u>	<u>489,216,456</u>
Business-type activities capital assets, net	<u>\$ 526,030,250</u>	<u>\$ 13,894,685</u>	<u>\$ -</u>	<u>\$ 539,924,935</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

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

Governmental activities:	
General government -	
Administration	\$ 17,233
Legal	108,388
Finance	130,285
Public safety -	
Police	1,027,803
Fire	1,006,310
Public works -	
Operations	5,919
Streets	9,063,760
Traffic Control	19,935
Community services -	
Health and social services	7,078
Parks and recreation	7,891,221
Convention center	675,455
Transit	286,234
Housing and rehabilitation	<u>13,092</u>
Total governmental activities depreciation expense	<u>20,252,713</u>
Business type activities:	
Water and Sewer	11,861,667
Sanitation	<u>1,663,234</u>
Total business-type activities depreciation expense	<u>13,524,901</u>
Total depreciation expense	<u><u>\$ 33,777,614</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 66):	
Additions for capital assets not being depreciated	\$ 17,580,689
Additions for capital assets being depreciated	<u>3,622,391</u>
	<u><u>\$ 21,203,080</u></u>
Capital outlay reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	
	\$ 41,638,644
Less: capital contributions to the water and sewer fund	<u>(20,435,564)</u>
	<u><u>\$ 21,203,080</u></u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

Capital asset activity for the year ended December 31, 2014 for the major enterprise funds was as follows:

**Primary Government:**

	<u>December 31, 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2014</u>
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 12,459,920	\$ 132,528	\$ -	\$ 12,592,448
Construction in progress	<u>28,788,566</u>	<u>21,952,125</u>	<u>(16,704,116)</u>	<u>34,036,575</u>
Total capital assets not being depreciated:	<u>41,248,486</u>	<u>22,084,653</u>	<u>(16,704,116)</u>	<u>46,629,023</u>
Capital assets being depreciated:				
Water system	378,717,673	191,139	5,620,936	384,529,748
Sewer system	239,016,652	800,162	11,083,180	250,899,994
Machinery and equipment	<u>11,663,439</u>	<u>1,570,041</u>	<u>(291,169)</u>	<u>12,942,311</u>
Total depreciable capital assets at historical cost	<u>629,397,764</u>	<u>2,561,342</u>	<u>16,412,947</u>	<u>648,372,053</u>
Less accumulated depreciation for:				
Water system	92,537,464	6,709,435	-	99,246,899
Sewer system	69,644,900	4,497,610	-	74,142,510
Machinery and equipment	<u>6,807,977</u>	<u>654,622</u>	<u>(291,169)</u>	<u>7,171,430</u>
Total accumulated depreciation	<u>168,990,341</u>	<u>11,861,667</u>	<u>(291,169)</u>	<u>180,560,839</u>
Capital assets being depreciated, net	<u>460,407,423</u>	<u>(9,300,325)</u>	<u>16,704,116</u>	<u>467,811,214</u>
Total water and sewer fund capital assets, net	<u>\$ 501,655,909</u>	<u>\$ 12,784,328</u>	<u>\$ -</u>	<u>\$ 514,440,237</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

	<u>December 31, 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2014</u>
Sanitation Fund:				
Capital assets not being depreciated:				
Land	\$ 373,772	\$ -	\$ -	\$ 373,772
Construction in progress	1,894,318	1,913,644	(102,278)	3,705,684
Total capital assets not being depreciated:	<u>2,268,090</u>	<u>1,913,644</u>	<u>(102,278)</u>	<u>4,079,456</u>
Capital assets being depreciated:				
Buildings	1,999,645	-	-	1,999,645
Improvements other than buildings	21,103,809	-	102,278	21,206,087
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	22,664,125	859,947	(18,844)	23,505,228
Total depreciable capital assets at historical cost	<u>46,477,531</u>	<u>859,947</u>	<u>83,434</u>	<u>47,420,912</u>
Less accumulated depreciation for:				
Buildings	960,305	65,717	-	1,026,022
Improvements other than buildings	10,067,307	35,004	-	10,102,311
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	12,633,716	1,562,513	(18,844)	14,177,385
Total accumulated depreciation	<u>24,371,280</u>	<u>1,663,234</u>	<u>(18,844)</u>	<u>26,015,670</u>
Capital assets being depreciated, net	<u>22,106,251</u>	<u>(803,287)</u>	<u>102,278</u>	<u>21,405,242</u>
Total sanitation fund capital assets, net	<u>\$ 24,374,341</u>	<u>\$ 1,110,357</u>	<u>\$ -</u>	<u>\$ 25,484,698</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

**Component Units-**

	<u>December 31, 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2014</u>
Governmental Activities:				
Public Library				
Capital assets not being depreciated:				
Land	\$ 422,132	\$ -	\$ -	\$ 422,132
Rare book collection	5,000	-	-	5,000
Capital assets not being depreciated	<u>427,132</u>	<u>-</u>	<u>-</u>	<u>427,132</u>
Capital assets being depreciated:				
Equipment	1,110,290	33,630	-	1,143,920
Transportation equipment	139,952	-	-	139,952
Total depreciable capital assets at historical cost	1,250,242	33,630	-	1,283,872
Less accumulated depreciation	<u>931,509</u>	<u>63,055</u>	<u>-</u>	<u>994,564</u>
Capital assets being depreciated, net	<u>318,733</u>	<u>(29,425)</u>	<u>-</u>	<u>289,308</u>
Governmental activities capital assets, net Public Library	<u>\$ 745,865</u>	<u>\$ (29,425)</u>	<u>\$ -</u>	<u>\$ 716,440</u>
	<u>December 31, 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2014</u>
Business-type activities:				
Parking Authority				
Capital assets not being depreciated:				
Land	\$ 1,359,160	\$ -	\$ -	\$ 1,359,160
Capital assets being depreciated:				
Improvements other than buildings	2,488,223	2,215	-	2,490,438
Machinery and equipment	73,525	-	-	73,525
Total depreciable capital assets at historical cost	2,561,748	2,215	-	2,563,963
Less accumulated depreciation for:				
Improvements other than buildings	2,074,145	113,516	-	2,187,661
Machinery and equipment	66,485	7,040	-	73,525
Total accumulated depreciation	<u>2,140,630</u>	<u>120,556</u>	<u>-</u>	<u>2,261,186</u>
Capital assets being depreciated, net	<u>421,118</u>	<u>(118,341)</u>	<u>-</u>	<u>302,777</u>
Business-type activities capital assets, net Parking Authority	<u>\$ 1,780,278</u>	<u>\$ (118,341)</u>	<u>\$ -</u>	<u>\$ 1,661,937</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

	<u>December 31, 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2014</u>
Airport Commission:				
Capital assets				
not being depreciated:				
Land	\$ 6,195,295	\$ -	\$ -	\$ 6,195,295
Construction in progress	1,902,880	2,812,550	(3,425,969)	1,289,461
Total capital assets not being depreciated	<u>8,098,175</u>	<u>2,812,550</u>	<u>(3,425,969)</u>	<u>7,484,756</u>
Capital assets being depreciated:				
Buildings	21,598,856	24,960	-	21,623,816
Runways & other airport infrastructure	45,125,369	3,425,969	-	48,551,338
Equipment, furniture & fixtures, and other	<u>10,958,824</u>	<u>195,275</u>	<u>(60,889)</u>	<u>11,093,210</u>
Total depreciable capital assets at historical cost	<u>77,683,049</u>	<u>3,646,204</u>	<u>(60,889)</u>	<u>81,268,364</u>
Less accumulated depreciation for:				
Buildings	11,043,147	678,802	-	11,721,949
Runways & other airport infrastructure	31,819,028	1,412,912	-	33,231,940
Equipment, furniture & fixtures, and other	<u>8,045,184</u>	<u>528,808</u>	<u>(60,715)</u>	<u>8,513,277</u>
Total accumulated depreciation	<u>50,907,359</u>	<u>2,620,522</u>	<u>(60,715)</u>	<u>53,467,166</u>
Capital assets being depreciated, net	<u>26,775,690</u>	<u>1,025,682</u>	<u>(174)</u>	<u>27,801,198</u>
Business-type activities capital assets, net				
Airport Commission	<u>\$ 34,873,865</u>	<u>\$ 3,838,232</u>	<u>\$ (3,426,143)</u>	<u>\$ 35,285,954</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

Construction-in-progress is composed of the following:

	<b>Primary Appropriation</b>	<b>Expended to December 31, 2014</b>	<b>Committed</b>
Primary government:			
Governmental activities	\$ 31,741,143	\$ 20,130,709	\$ 11,610,434
Business-type activities			
Sanitation capital improvements	13,034,184	3,705,684	9,328,500
Water and sewer capital improvements	94,058,874	34,036,575	60,022,299
Total	<u>\$ 138,834,201</u>	<u>\$ 57,872,968</u>	<u>\$ 80,961,233</u>

The City's governmental construction projects include major street and drainage improvements, a new aquatics park, a new sports complex, additional trails and greenways, and a new fire training center. Funding is in place for these projects. The water and sewer capital improvement projects include the water and wastewater projects that are being funded by the Sales and Use Tax Refunding and Construction Bonds, Series 2012 and 2014. 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 neighborhood waterline improvements, wet weather wastewater improvements, and plant designs that are funded by the 2008 water and sewer system revenue bonds and utility operating revenues. The sanitation project currently includes construction of a new and expanded scale house for operations at the landfill. Funds are in place for the scale house project.

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

	<b>Governmental</b>	<b>Business-Type</b>		<b>Total</b>
		<b>Water and Sewer</b>	<b>Sanitation</b>	
Primary Government:				
Net book value	\$ 379,375,639	\$ 514,440,237	\$ 25,484,698	\$ 539,924,935
Current and noncurrent debt	(125,642,323)	(162,680,612)	(300,920)	(162,981,532)
Restricted assets - unspent bond/net proceeds	48,381,622	1,243,321	-	1,243,321
Invested in capital assets, net of related debt	<u>\$ 302,114,938</u>	<u>\$ 353,002,946</u>	<u>\$ 25,183,778</u>	<u>\$ 378,186,724</u>
Component Units:				
Net book value	\$ 716,440	\$ 36,947,891		
Current and noncurrent debt	-	(2,675,628)		
Invested in capital assets, net of related debt	<u>\$ 716,440</u>	<u>\$ 34,272,263</u>		

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

**Note 4: Long-Term Liabilities**

Changes in long-term liabilities for the year ended December 31, 2014 were as follows:

**Primary Government-**

	Balance December 31, 2013	Increases	Decreases	Balance December 31, 2014	Amount Due in One Year
Governmental Activities:					
Bonds Payable -					
Sales tax bonds	\$ 96,405,000	\$ 34,295,000	\$ 11,315,000	\$ 119,385,000	\$ 6,770,000
Add issuance premium	5,433,920	1,028,741	486,577	5,976,084	-
Sales tax bonds payable, net	<u>101,838,920</u>	<u>35,323,741</u>	<u>11,801,577</u>	<u>125,361,084</u>	<u>6,770,000</u>
Capital leases payable	160,439	255,559	134,759	281,239	108,076
Compensated Absences	2,410,572	128,899	132,722	2,406,749	24,067
Claims Payable - General Fund					
Legal	82,500	-	-	82,500	82,500
Employee insurance/workers' compensation	1,710,630	-	13,601	1,697,029	1,697,029
OPEB liabilities	<u>12,054,435</u>	<u>2,631,438</u>	<u>-</u>	<u>14,685,873</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 118,257,496</u>	<u>\$ 38,339,637</u>	<u>\$ 12,082,659</u>	<u>\$ 144,514,474</u>	<u>\$ 8,681,672</u>
Business-Type Activities					
Bonds Payable -					
Revenue bonds	\$ 166,175,000	\$ -	\$ 5,870,000	\$ 160,305,000	\$ 6,085,000
Less issuance discounts	(27,022)	-	(2,457)	(24,565)	-
Add issuance premium	2,618,157	-	272,251	2,345,906	-
Revenue bonds payable, net	<u>168,766,135</u>	<u>-</u>	<u>6,139,794</u>	<u>162,626,341</u>	<u>6,085,000</u>
Capital leases payable	1,066,494	-	711,303	355,191	355,191
Compensated absences	1,198,569	48,924	88,246	1,159,247	11,697
Claims Payable-Employee insurance and worker's compensation					
	669,523	166,268	-	835,791	835,791
OPEB liabilities	5,777,570	1,261,221	-	7,038,791	-
Closure/postclosure landfill costs	<u>4,475,504</u>	<u>124,091</u>	<u>-</u>	<u>4,599,595</u>	<u>-</u>
Total other long-term liabilities	<u>13,187,660</u>	<u>1,600,504</u>	<u>799,549</u>	<u>13,988,615</u>	<u>1,202,679</u>
Total business-type activities long-term liabilities	<u>\$ 181,953,795</u>	<u>\$ 1,600,504</u>	<u>\$ 6,939,343</u>	<u>\$ 176,614,956</u>	<u>\$ 7,287,679</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

Reconciliation of governmental activities to the government-wide statement of net position:

Current Liabilities:	
Current portion of long-term debt	\$ 6,770,000
Noncurrent liabilities:	
Due within one year	1,911,672
Due in more than one year	<u>135,832,802</u>
Total governmental activities long-term liabilities	<u><u>\$ 144,514,474</u></u>

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

Current Liabilities:	
Current portion of long-term debt	\$ 6,085,000
Noncurrent liabilities:	
Due within one year	1,202,676
Due in more than one year	<u>169,327,277</u>
Total business-type activities long-term liabilities	<u><u>\$ 176,614,953</u></u>

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

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

Changes in long-term liabilities for the year ended December 31, 2014 for the major enterprise funds were as follows:

	Balance December 31, 2013	Increases	Decreases	Balance December 31, 2014	Amount Due in One Year
<b>Water and Sewer Fund:</b>					
Bonds Payable -					
Revenue bonds	\$ 166,175,000	\$ -	\$ 5,870,000	\$ 160,305,000	\$ 6,085,000
Less issuance discounts	(27,022)	-	(2,457)	(24,565)	-
Add issuance premium	2,618,157	-	272,251	2,345,906	-
Revenue bonds payable, net	<u>168,766,135</u>	<u>-</u>	<u>6,139,794</u>	<u>162,626,341</u>	<u>6,085,000</u>
Capital leases payable	106,696	-	52,425	54,271	54,271
Compensated absences	949,483	36,228	43,740	941,971	9,524
OPEB liabilities	3,940,873	860,278	-	4,801,151	-
Other long-term liabilities	4,997,052	896,506	96,165	5,797,393	63,795
Total water and sewer fund	<u>\$ 173,763,187</u>	<u>\$ 896,506</u>	<u>\$ 6,235,959</u>	<u>\$ 168,423,734</u>	<u>\$ 6,148,795</u>
<b>Sanitation Fund:</b>					
Capital leases payable	\$ 959,798	\$ -	\$ 658,878	\$ 300,920	\$ 300,920
Compensated absences	249,086	12,696	44,506	217,276	2,173
OPEB liabilities	1,836,697	400,943	-	2,237,640	-
Closure/postclosure landfill costs	4,475,504	124,091	-	4,599,595	-
Other long-term liabilities	7,521,085	537,730	703,384	7,355,431	303,093
Total sanitation fund	<u>\$ 7,521,085</u>	<u>\$ 537,730</u>	<u>\$ 703,384</u>	<u>\$ 7,355,431</u>	<u>\$ 303,093</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

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

	Water and Sewer Fund	Sanitation Fund
Current Liabilities		
Revenue bonds payable	\$ 6,085,000	\$ -
Capital leases payable	54,271	300,920
Accrued vacation and sick leave	9,524	2,173
Noncurrent Liabilities:		
Landfill closure and postclosure care	-	4,599,595
Revenue bonds, net	156,541,341	-
Accrued vacation and sick leave	932,447	215,103
OPEB liabilities	4,801,151	2,237,640
Total long-term liabilities for major enterprise funds	<u>\$ 168,423,734</u>	<u>\$ 7,355,431</u>

Changes in long-term liabilities for the year ended December 31, 2014, for the component units were as follows:

	Balance December 31, 2013	Increases	Decreases	Balance December 31, 2014	Amount Due in One Year
Component Units:					
Business-type activities-					
Parking Authority:					
Bonds Payable -					
Revenue bonds payable, net	\$ 385,000	\$ -	\$ 385,000	\$ -	\$ -
Less issuance discounts	(7,549)	-	(7,549)	-	-
Bonds payable, net	377,451	-	377,451	-	-
Compensated Absences	715	-	87	628	6
Total	378,166	-	377,538	628	6
Airport Commission:					
Bonds payable - Revenue Bonds	2,855,000	-	180,000	2,675,000	180,000
Total Component Units	<u>\$ 3,233,166</u>	<u>\$ -</u>	<u>\$ 557,538</u>	<u>\$ 2,675,628</u>	<u>\$ 180,006</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

**Operating Leases**

The City leases office space under a noncancelable-operating lease. Total costs for the lease to the General Fund were \$250,000 for the year ended December 31, 2014. The future minimum lease payments for the lease are as follows:

2015	\$ 272,000
2016	286,000
2017	<u>298,000</u>
Total	<u><u>\$ 856,000</u></u>

**Capital Leases**

The City has entered into lease agreements for the acquisition of capital assets in 2009 through 2014. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date in the statement of net position.

The assets acquired through capital lease are as follows:

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business - Type Activities</b>	
	<b>Activities</b>	<b>Water &amp; Sewer</b>	<b>Sanitation</b>
Machinery and Equipment	\$ 659,870	\$ 315,724	\$ 2,009,877
Less accumulated depreciation	<u>(47,876)</u>	<u>(189,853)</u>	<u>(404,909)</u>
Total	<u><u>\$ 611,994</u></u>	<u><u>\$ 125,871</u></u>	<u><u>\$ 1,604,968</u></u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2014 were as follows:

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business - Type Activities</b>	
		<b>Water &amp; Sewer</b>	<b>Sanitation</b>
2015	\$ 117,829	\$ 56,181	\$ 309,556
2016	91,245	-	-
2017	91,245	-	-
Total future minimum lease payments	300,319	56,181	309,556
Less interest	(19,080)	(1,910)	(8,636)
Net present value of future minimum lease payments	<u>\$ 281,239</u>	<u>\$ 54,271</u>	<u>\$ 300,920</u>

In accordance with Amendment 78 of the Arkansas Constitution, Arkansas state statutes limit the amount of short-term financing, including capital leases, the City may have in any fiscal year to five percent (5%) of the assessed valuation of property within the City. The limit applies to the reporting entity governmental activities. The governmental activities had capital leases payable of \$281,239 that is considered short-term financing as of December 31, 2014. The limit as of December 31, 2014 was \$67.5 million; therefore, management believes the City is in compliance with state statutes for short-term financing at December 31, 2014.

**Sales and Use Tax Bonds- Governmental Activities**

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 advance refund the outstanding Sales and Use Tax Refunding and Improvement Bonds, Series 2006, Sales and Use Tax Bonds, Series 2008, and Sales and Use Tax & Water and Sewer Revenue Bonds, Series 2009. The 2006 and 2008 Bonds were redeemed on September 1, 2013 and the 2009 Bonds were redeemed 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. The effective interest rate on the 2012 bonds is 3.05%. 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. During 2014, \$1,555,000 of the 2012 bonds was called. The remaining .25% sales and use tax is used for fire and park operations.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

On February 27, 2014, the city issued \$34.295 million in Sales and Use Tax Bonds, Series 2014. Citizens approved the bonds in a referendum on March 13, 2012. These are additional bonds for water and wastewater improvements. A total of \$6 million is allocated to water improvements including transmission lines, water storage and pump stations. A total of \$28 million is allocated to wastewater improvements including wet weather sewer improvements. The 2014 Bonds are supported by the ¾% local sales and use tax that supports the 2012 Sales and Use Tax Bonds and were issued on parity with the 2012 Bonds. The 2014 Bonds carry interest ranging from 2% to 5% through May 1, 2029. The bonds are subject to mandatory redemption in inverse order on any interest payment date from the collection of excess sales taxes. During 2014, \$1,555,000 of the 2012 bonds was called.

**Bond Retirement** - The City is required to maintain a debt service reserve equal to \$5,533,000 during the life of the 2012 Bonds and \$1,714,750 during the life of the 2014 Bonds. The City held U.S. Treasury Bills at a carrying amount of \$5,534,120 at December 31, 2014 for the 2012 Bonds and \$1,713,410 for the 2014 Bonds.

**Maturity Schedule** – The debt service requirements for the Sales Tax Bonds at December 31, 2014 is as follows:

**Sales Tax Bonds Maturity Schedule**

	<b>Principal</b>	<b>Interest</b>
2015	\$ 6,770,000	\$ 4,304,187
2016	6,965,000	4,109,586
2017	7,170,000	3,882,986
2018	7,415,000	3,634,161
2019	7,670,000	3,364,511
2020-2024	43,125,000	11,890,457
2025-2029	40,270,000	2,897,023
Total	119,385,000	\$ 34,082,911
Add unamortized bond premium	5,976,084	
Net bonds outstanding at December 31, 2014	\$ 125,361,084	

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

Revenue Bonds - Business-Type Activities

Revenue bonds outstanding at December 31, 2014, are comprised of the following individual issues:

Water and Sewer:

\$7,330,000 of Series 2005B Water and Sewer Revenue Bonds; due in annual installments of varying amounts through October 1, 2025 with interest ranging from 4% to 4.375% payable semiannually	\$ 6,260,000
\$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	18,045,000
\$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	112,445,000
\$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	13,870,000
\$13,250,000 of Series 2012 Water and Sewer Refunding Revenue Bonds; due in varying amounts through October 1, 2019 with interest ranging from 2% to 3.807% payable semiannually	<u>9,685,000</u>
Bonds outstanding, December 31, 2014	160,305,000
Unamortized bond discount	(24,567)
Unamortized bond premium	<u>2,345,904</u>
Net bonds outstanding, December 31, 2014	<u><u>\$ 162,626,337</u></u>

***Water and Sewer-***

On December 21, 2005, the City issued \$7,330,000 Water and Sewer Revenue Bonds, Series 2005B. The 2005B Bonds were issued to fund the purchase a portion of the South Sebastian County Water Users Association water system and to provide water services to the southern areas of Fort Smith.

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 2005B bonds.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

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 \$232,494 as of December 31, 2014. The 2008 Bonds were issued as additional bonds on a parity of security with the 2005B and 2007 bonds.

On November 10, 2011, the City issued \$18,920,000 Water and Sewer Refunding Revenue Bonds, Series 2011, to refund the outstanding \$2,325,000 of 2002B Series Bonds and to refund the outstanding \$16,595,000 of 2002C Series Bonds. The reacquisition price exceeded the carrying amount of the old debt by \$93,625. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method. The deferred amount on refunding was \$62,417 as of December 31, 2014. The City completed the refunding to obtain an economic gain of \$1,372,849 over the remaining life of the bonds.

On February 23, 2012, the City issued \$13,250,000 Water and Sewer Revenue Refunding Bonds, Series 2012, to refund 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 deferred amount on refunding was \$151,562 as of December 31, 2014. 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.

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

# City of Fort Smith, Arkansas

## Notes to Basic Financial Statements

### December 31, 2014

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, 2014, the City is in compliance with all applicable requirements except for the debt service coverage requirement of 110%. At December 31, 2014, the debt service coverage is 97%. The city's bondholders have been notified regarding this matter. However, the City may not authorize or issue any such additional bonds ranking on a parity of security with outstanding Bonds, unless and until either: (1) there shall have been procured and filed with the Trustee a statement by an Accountant reciting that, based upon necessary investigation, the net revenues of the System for the fiscal year immediately preceding the fiscal year in which it is proposed to issue such additional bonds shall equal not less than 125% of the average annual principal and interest requirements on the System Bonds then outstanding and the additional bonds proposed to be issued; or (2) there shall have been procured and filed with the Trustee a statement by an Accountant reciting, based upon necessary investigation, that the net revenues of the system for the next ensuing fiscal year as reflected by a certificate of a duly qualified consulting engineer not in the regular employ of the City and approved by the Trustee, and taking into consideration any rate increase, shall be equal to not less than 130% of the average annual principal and interest requirements on all of the System Bonds then outstanding and the additional bonds then proposed to be issued. See *Note 14* for increase in sewer rate approved after year-end.

Restricted accounts required by the bond ordinances are as follows:

**Bond Retirement** - The City is required to restrict funds for the payment of principal, interest, and trustee and paying agents' fees up to a maximum of \$727,354 related to the 2005B Bonds, \$1,891,369 related to the 2007 Bonds, \$11,712,104, related to the 2008 Bonds, \$1,892,000 related to the 2011 Bonds and \$1,325,000 related to the 2012 Bonds. The City held surety bonds valued at \$727,354, \$1,891,369, \$11,712,104, \$1,892,000 and \$1,325,000 at December 31, 2014 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 \$1,400,000 for asset replacement as of December 31, 2014.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

***Maturity Schedule***

Aggregate debt service requirements at December 31, 2014 for business-type activity related bonds were as follows:

	<b>Total Business-Type Activities Water and Sewer</b>	
	<b>Principal</b>	<b>Interest</b>
2015	\$ 6,085,000	\$ 7,512,744
2016	6,320,000	7,287,218
2017	6,525,000	7,073,983
2018	6,755,000	6,850,504
2019	6,990,000	6,610,029
2020-2024	39,850,000	28,178,670
2025-2029	50,725,000	17,311,123
2030-2032	37,055,000	3,765,750
Total	<u>\$ 160,305,000</u>	<u>\$ 84,590,021</u>

***Component Units Revenue Bonds-Business-Type Activities***

***Airport Commission-***

On August 2, 2011, the Airport Commission issued \$3,205,000 of City of Fort Smith, Arkansas Airport Refunding and Improvement Revenue Bonds, Series 2011, to refund the remaining outstanding Series 1999 Bonds. The 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, 2014, bonds payable were \$2,675,000.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

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

	<b>Principal</b>	<b>Interest</b>
2015	\$ 180,000	\$ 120,967
2016	190,000	115,658
2017	195,000	109,387
2018	200,000	102,368
2019	210,000	94,567
2020-2024	1,190,000	318,229
2025-2026	510,000	39,582
Total Payments	\$ 2,675,000	\$ 900,758

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 \$380,141, which are classified as restricted assets on the balance sheet, as of December 31, 2014. The Airport Commission held cash and investments equal to this amount at December 31, 2014.

**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 Parking Facilities Bonds were redeemed prior to maturity on October 1, 2014. The bonds are considered defeased.

***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, 2014, the City has no arbitrage payable.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

**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, 2014, there were fifteen series of Industrial Development Revenue Bonds outstanding with an aggregate principal amount payable of \$282,600,000, two series of Fair and Exhibition Facilities Bonds outstanding with an aggregate principal amount payable of \$5,865,000, and two series of Residential Housing Facilities Board Multi-Family Housing Revenue Bonds outstanding with an aggregate principal payable of \$6,375,000.

**Note 5: Risk Management**

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

All funds of the City participate in the City's insurance programs and make payments to the respective self-insurance funds based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for future claims. The Airport Commission and the Fort Smith Public Library participate in the City's health plans by making contributions as required by the City. At December 31, 2014, the net position was \$18,004 and \$297,635 in the Employee Insurance and Workers' Compensation Funds, respectively. The claims liability balances of \$1,775,092 and \$757,728 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 2014 are detailed below:

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

	<b>Employee Insurance</b>	<b>Workers' Compensation</b>
Self-insurance liability, December 31, 2012	\$ 1,577,600	\$ 392,013
Current year claims and changes in estimate	8,180,374	1,617,461
Claim payments	(8,197,550)	(1,189,745)
Self-insurance liability, December 31, 2013	1,560,424	819,729
Current year claims and changes in estimate	9,467,377	151,173
Claim payments	(9,252,709)	(213,174)
Self-insurance liability, December 31, 2014	\$ 1,775,092	\$ 757,728

**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 \$17,500. 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

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

which the contributions are made and each participant manages their account by selecting various investments options offered by ICMARC. Plan benefits are based upon the total amount of money in an individual's account at retirement. Plan provisions and contribution rates are established by the 401(a) Plan agreement between the Board and ICMARC. Approval from both the Board and ICMARC is required for 401(a) Plan amendments. Employees make no contributions to the 401(a) Plan; however, the City makes contributions equal to 10% of each covered employees' earnings. Employer contributions to the PERS plan totaled \$2,505,292 for 2014.

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 2014 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 14.88% from January 1 through June 30, 2014 and it was 14.76% from July 1 through December 31, 2014 of covered payroll. The Clerk's contribution rate was 5% of covered payroll for 2014.

Covered payroll for the clerk was \$89,533 for the fiscal year ended December 31, 2014. 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 an agent multiple-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

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

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, 620 West 3<sup>rd</sup> Street, Little Rock, Arkansas, 72201.

Members and participants of the old plans at December 31, 2014 are:

	<b>Fire</b>	<b>Police</b>
Active Members:		
Vested	2	0
Retirees and beneficiaries	119	92
Total	121	92

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

*Funding Policy and Funded Status*

Arkansas state statutes require yearly contributions at a level percentage of covered payroll sufficient to cover the costs of benefit commitments made to participants for their service rendered in that year and, over a reasonable period of time, to fully cover the unfunded costs of benefit commitments for services previously rendered. The City is required to contribute the actuarially required normal costs and amortized costs of the unfunded actuarial accrued liability. In addition, active employees are required to make contributions equal to 6% of their gross salary to the Old Plans. The contributions for the 2014 plan year were based upon the December 31, 2013, actuarial report.

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

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

The actuarially required contributions rate as of December 31, 2014, 2013, and 2012, and amounts required by the City and active participants of the Old Plans for 2014, 2013, and 2012 were as follows:

	<u>Fire Plan</u>			<u>Police Plan</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Employer actuarially required contribution rates	38.94%	40.16%	40.68%	31.36%	30.36%	28.74%
Employer contributions as a percentage of annual covered payroll	38.94%	40.16%	40.68%	31.36%	30.36%	28.74%
Employer contributions to LOPFI	\$ 68,060	\$ 163,405	\$ 217,033	\$ 16,963	\$ 56,259	\$ 55,323
Annual Pension Cost (APC)	\$ 68,060	\$ 163,405	\$ 217,033	\$ 16,963	\$ 56,259	\$ 55,323
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	-	-	-	-	-	-

The Fire portion of the Old Plan, as of December 31, 2013, the most recent actuarial valuation date, was 42% funded. The actuarial accrued liability for benefits was \$34,879,595, and the actuarial value of assets was \$14,543,880, resulting in an unfunded actuarial accrued liability (UAAL) of \$20,335,715. The covered payroll (annual payroll of active employees covered by the plan) was \$8,400,715 and the ratio of the UAAL to the covered payroll was 242.1%.

The Police portion of the Old Plan, as of December 31, 2013, the most recent actuarial valuation date, was 34% funded. The actuarial accrued liability for benefits was \$25,426,159, and the actuarial value of assets was \$8,557,300, resulting in an unfunded actuarial accrued liability (UAAL) of \$16,868,859. The covered payroll (annual payroll of active employees covered by the plan) was \$8,186,136 and the ratio of the UAAL to the covered payroll was 206.1%.

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

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to compute the contribution rates for the year ended December 31, 2014, for the Old Plans:

	<b>Old Fire and Police Plans</b>
Valuation date	December 31, 2013
Cost method	Entry age
Asset valuation method	Smooth market over a period of 5 years
Amortization method	Level percentage
Amortization period	23 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

The Arkansas Local Police and Fire Retirement System (LOPFI) is a statewide cost-sharing multiple employer defined benefit retirement program administered by the LOPFI Board of Trustees. LOPFI provides retirement, disability and survivor benefits to police and fire employees of political subdivisions of the State of Arkansas. LOPFI was created by Act 364 of the 1981 General Assembly. Employees hired after January 1, 1983, whose political subdivision had a retirement system in effect at July 1, 1981, are eligible to participate in the plan. LOPFI issues a publicly available report, which may be obtained by writing to LOPFI, 620 West 3<sup>rd</sup> Street, Little Rock, Arkansas 72201, or by calling (501) 682-1745.

Funding Policy and Funded Status

The City contributes 38.94% of covered employee salaries' to the new plan for firefighters and 31.36% of covered employee salaries' to the new plan for police officers. Employees contributed \$1,394,347 to the contributory plan for the year ended December 31, 2014. City contributions to the new plans for the years ended December 31, 2014, 2013, and 2012, were approximately \$5,753,389, \$5,599,856, and \$5,162,533, respectively, and were equal to 100% of the required contributions for each year. The contribution provisions applicable to the City are established by the LOPFI Board of Trustees and shall be based on the actuary's determination of the rate required to fund the New Plans.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

**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 876 active participants and 26 retirees and beneficiaries receiving benefits who pay monthly premiums between \$459 for single coverage and \$1,289 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:

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

Annual required contribution (ARC)	\$ 4,182,987
Adjustment to ARC	(1,127,151)
Interest on net OPEB obligation	<u>847,020</u>
Annual OPEB cost	3,902,856
Total annual employer contribution	<u>10,197</u>
Increase in net OPEB obligation	3,892,659
Net OPEB obligation - beginning of year	<u>17,832,005</u>
Net OPEB obligation - end of year	<u><u>\$ 21,724,664</u></u>

The net OPEB obligation is recorded in the government-wide statement of net position as non-current liabilities due in more than one year for governmental activities at \$14,685,873 and for business-type activities at \$7,038,791. Furthermore, the obligation for business-type activities is reflected on the statement of fund net position for proprietary funds as non-current liabilities for the Water and Sewer Fund (\$4,801,151) and for the Sanitation Fund (\$2,237,640).

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

Normal cost	\$ 2,000,193
Amortization of transition obligation	<u>2,182,794</u>
Annual required contribution	<u><u>\$ 4,182,987</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2013, and 2012 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	\$ 3,902,856	0.00%	\$ 21,724,664
12/31/2013	4,807,529	1.90%	17,832,005
12/31/2012	4,437,022	1.98%	13,115,718
12/31/2011	3,450,496	35.15%	8,766,762

*Funded Status and Funding Progress:* As of January 1, 2014, the most recent actuarial valuation date, the plan was 4.1% funded. The actuarial accrued liability for benefits was \$35,992,306, and the actuarial value of assets was \$1,483,531, resulting in an unfunded actuarial accrued liability (UAAL) of \$34,508,775. The covered payroll (annual payroll of active employees covered by the plan) was \$42,608,739, and the ratio of the UAAL to the covered payroll was 81.0%.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

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

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

In the January 1, 2014, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.75% investment rate of return based upon funding the plan in the future, a 4.75% inflation rate, and an annual healthcare cost trend rate of 10% for 2014 and then reduced by decrements of 0.5% to 1.0% annually to an ultimate rate of 4.5% 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, 2014, was twenty-four 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, 2014, 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.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

For the past several years, the City previously was 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. The City negotiated with the Department of Justice and a Consent Decree was entered April 6, 2015. A \$300,000 civil penalty has been paid by the City. In the event that the City does not comply with certain requirements of the Consent Decree, the City would be subject to the stipulated penalties provided for in the Consent Decree.

**Note 10: Individual Fund Disclosures**

Interfund receivables and payables as of December 31, 2014 are as follows:

<b>Fund</b>	<b>Receivables</b>	<b>Payables</b>
Governmental Funds:		
General Fund	\$ 5,036	\$ 50,000
Special Revenue Funds	-	5,450
Proprietary Funds:		
Internal Service Funds	<u>50,414</u>	<u>-</u>
Total	<u>\$ 55,450</u>	<u>\$ 55,450</u>

The \$5,036 receivable in the General Fund represents amounts paid for expenditures incurred by the Community Development Block Grant Fund. The \$50,000 payable in the General Fund is due to the Employee Health & Wellness Fund for claims expenses. The \$414 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, 2014**

Interfund transfers in (out) for the year ended December 31, 2014, is as follows:

Fund	Transfers	
	In	Out
<b>Primary Government -</b>		
Governmental Funds:		
Major funds:		
General Fund	\$ 2,899,200	\$ 967,000
Special revenue -		
Street Maintenance Fund	-	129,000
Sales Tax Fund	-	2,632,200
Capital projects -		
Sales and Use Tax Construction Fund	33,208,929	-
Debt service -		
Sales and Use Tax Bond Fund	-	33,208,929
Non-major funds:		
Special revenue	777,000	-
Total governmental funds	36,885,129	36,937,129
Proprietary Funds:		
Water and Sewer Fund	-	168,000
Sanitation Fund	90,000	219,000
Internal Service Funds	349,000	-
Total proprietary funds	439,000	387,000
Total primary government	\$ 37,324,129	\$ 37,324,129

The transfer out of \$2,632,000 from the Sales Tax Fund is to the General Fund and represents the allocation of overhead costs provided by General Fund programs during 2014. The transfers out from the General Fund include \$777,000 to the Convention Center Fund. The \$33,208,929 transfer into the Sales Tax construction Fund is for the 2014 Sales and Use Tax 2014 Bond proceeds from the Sales and Use Tax Bond Fund. Of the \$349,000, transferred in to the Employee Insurance Fund, \$100,000 was from the General Fund, \$79,000 was from the Water and Sewer Fund, \$130,000 was from the Sanitation Fund, and \$40,000 was from the Street Maintenance Fund.

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

**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 is 72,607,000 cubic yards. The life of the landfill is projected to last for 203.5 years. The landfill was opened on October 9, 1993. The City's reported landfill closure and postclosure care liability at December 31, 2014, is \$4,599,595. The remaining estimated closure and postclosure care costs of approximately \$33.6 million will be recognized as the remaining capacity is filled. The percentage of landfill capacity used to date was approximately 10.5% at December 31, 2014. 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, 2014. 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, 2014, is \$7,805,038. 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 \$7,727,000 at December 31, 2014. 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 2015.

**Note 12: New Applicable GASB Standards**

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

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

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

***GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date***

This statement is to address an issue regarding application of the transition provisions of Statement 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of GASB 71 are required to be applied simultaneously with the provisions of GASB Statement 68. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

***GASB Statement No. 72 – Fair Value Measurement and Application***

This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The provisions of GASB 72 are effective for periods beginning after June 15, 2015, 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, 2014**

**Note 13: Condensed Financial Statements-Discretely Presented Component Units**

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

**Statement of Net Position**  
**December 31, 2014**

	Governmental			Business-Type		
	Advertising and Promotion	Public Library	Total	Parking Authority	Airport Commission	Total
<b>Assets</b>						
Current assets	\$ 219,552	\$ 1,041,810	\$ 1,261,362	\$ 437,533	\$ 3,150,327	\$ 3,587,860
Sales taxes receivable from the City	-	157,245	157,245	-	-	-
Capital Assets, net of accumulated depreciation, as applicable	-	716,440	716,440	1,661,937	35,285,954	36,947,891
Noncurrent assets	-	-	-	-	1,285,575	1,285,575
Total Assets	<u>219,552</u>	<u>1,915,495</u>	<u>2,135,047</u>	<u>2,099,470</u>	<u>39,721,856</u>	<u>41,821,326</u>
<b>Deferred Outflows of Resources</b>						
Deferred amount on refunding	-	-	-	-	143,727	143,727
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>143,727</u>	<u>143,727</u>
<b>Liabilities</b>						
Current liabilities	25,198	47,864	73,062	2,109	564,033	566,142
Noncurrent liabilities	-	-	-	628	2,495,000	2,495,628
Total liabilities	<u>25,198</u>	<u>47,864</u>	<u>73,062</u>	<u>2,737</u>	<u>3,059,033</u>	<u>3,061,770</u>
<b>Net Position</b>						
Net investment in capital assets	-	716,440	716,440	1,661,309	32,685,327	34,346,636
Restricted	194,354	-	194,354	-	441,945	441,945
Unrestricted	-	1,151,191	1,151,191	435,424	3,679,278	4,114,702
Total net position	<u>\$ 194,354</u>	<u>\$ 1,867,631</u>	<u>\$ 2,061,985</u>	<u>\$ 2,096,733</u>	<u>\$ 36,806,550</u>	<u>\$ 38,903,283</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

**Statement of Activities**  
**For the Year Ended December 31, 2014**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines, and Charges for Services		Governmental Activities		
			Operating Grants and Contributions	Advertising and Promotion	Public Library	Total
Advertising/Promotion	\$ 722,904	\$ -	\$ 3,624	\$ (719,280)	\$ -	\$ (719,280)
Public Library	2,974,746	158,530	168,049	-	(2,648,167)	(2,648,167)
Total	<u>\$ 3,697,650</u>	<u>\$ 158,530</u>	<u>\$ 171,673</u>	(719,280)	(2,648,167)	(3,367,447)
General revenues						
Property taxes				-	1,335,311	1,335,311
Sales taxes				-	937,538	937,538
Hospitality hotel/motel taxes				762,728	-	762,728
Unrestricted investments earnings				427	762	1,189
Other				-	130,226	130,226
Total general revenues				763,155	2,403,837	3,166,992
Change in net position				43,875	(244,330)	(200,455)
Net position, beginning				150,479	2,111,961	2,262,440
Net position, ending				<u>\$ 194,354</u>	<u>\$ 1,867,631</u>	<u>\$ 2,061,985</u>

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines, and Charges for Services		Business-Type Activities		
			Capital Grants and Contributions	Parking Authority	Airport Commission	Total
Parking Authority	\$ 298,141	\$ 180,587	\$ -	\$ (117,554)	\$ -	\$ (117,554)
Airport Commission	4,872,992	2,738,468	3,114,388	-	979,864	979,864
Total	<u>\$ 5,171,133</u>	<u>\$ 2,919,055</u>	<u>\$ 3,114,388</u>	(117,554)	979,864	862,310
General revenues						
Unrestricted investment earnings				1,471	10,347	11,818
Payment from City of Fort Smith				200,000	-	200,000
Other				-	-	-
Total general revenues				201,471	10,347	211,818
Change in net position				83,917	990,211	1,074,128
Net position, beginning				2,012,816	35,816,339	37,829,155
Net position, ending				<u>\$ 2,096,733</u>	<u>\$ 36,806,550</u>	<u>\$ 38,903,283</u>

**City of Fort Smith, Arkansas**  
**Notes to Basic Financial Statements**  
**December 31, 2014**

**Note 14: Subsequent Events**

**Sales Taxes:**

On May 12, 2015, the 1% local sales and use tax assessed by the City was reapproved for an additional 10 years. The tax is authorized through 2025. The tax is allocated for streets, bridges and associated drainage.

**Rate Increases:**

On April 7, 2015, the Board of Directors adopted sewer rate increases to provide for the wastewater system improvements and management plans required by the consent decree with the Department of Justice. The first rate increase was effective May 1, 2015 and approximates an average 30% increase. Additional rate increases were approved and become effective January 1, 2016 and January 1, 2017.

(This Page Intentionally Left Blank)

**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:						
2013	\$ 14,543,880	\$ 34,879,595	41.7%	\$(20,335,715)	\$ 8,400,715	-242.1%
2012	15,942,926	34,902,373	45.7%	(18,959,447)	8,146,011	-232.7%
2011	16,540,360	33,089,514	50.0%	(16,549,154)	7,532,651	-219.7%
Police Plan:						
2013	\$ 8,557,300	\$ 25,426,159	33.7%	\$(16,868,859)	\$ 8,186,136	-206.1%
2012	7,641,672	24,681,528	31.0%	(17,039,856)	8,392,891	-203.0%
2011	7,749,397	23,537,921	32.9%	(15,788,524)	8,248,459	-191.4%
Other Post Employment Benefit Plan (OPEB)						
2014	\$ 1,483,531	\$ 35,992,306	4.1%	\$(34,508,775)	\$ 42,608,739	-81.0%
2013	1,459,584	27,401,372	5.3%	(25,941,788)	42,584,483	-60.9%
2012	1,499,451	34,363,100	4.4%	(32,863,649)	40,638,488	-80.9%
Employer Contributions - OPEB						
2014	\$ 10,197					
2013	91,242					
2012	88,066					

**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, 2014**

	Budgeted Amounts		Actual	Adjustments	Actual	Variance with Final Budget
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	
<b>Revenues</b>						
Taxes	\$ 7,081,600	\$ 6,866,602	\$ 6,940,284	\$ -	\$ 6,940,284	\$ 73,682
Sales taxes	20,412,072	20,342,116	20,650,389	-	20,650,389	308,273
Licenses and permits	1,336,000	1,335,120	1,433,372	-	1,433,372	98,252
Utility franchise fees	6,300,000	6,664,378	6,780,156	-	6,780,156	115,778
Intergovernmental	4,622,482	5,155,335	5,029,051	-	5,029,051	(126,284)
Fines and forfeitures	2,225,000	2,270,000	1,999,935	-	1,999,935	(270,065)
Fees for services	641,900	639,851	625,314	-	625,314	(14,537)
Interest	12,000	23,501	22,945	-	22,945	(556)
Miscellaneous	163,163	98,283	221,117	-	221,117	122,834
Total revenues	42,794,217	43,395,186	43,702,563	-	43,702,563	307,377
<b>Expenditures</b>						
Current:						
General government						
Administration	4,145,708	4,145,711	3,995,545	25,254	4,020,799	124,912
Legal	2,055,390	2,055,390	1,902,427	9,935	1,912,362	143,028
Finance	2,179,703	2,179,704	2,034,426	23,528	2,057,954	121,750
Public safety						
Police	16,198,578	15,939,169	15,113,769	8,408	15,122,177	816,992
Fire	12,826,219	11,946,928	11,503,024	7,931	11,510,955	435,973
Community services						
Health and social services	110,030	119,060	103,255	-	103,255	15,805
Parks and recreation	2,602,154	2,610,762	2,232,256	75,000	2,307,256	303,506
Transit	2,442,077	2,191,967	1,993,135	1,900	1,995,035	196,932
Other	1,560,290	1,568,945	1,557,725	-	1,557,725	11,220
Capital outlay	5,862,827	8,769,830	5,207,486	3,373,749	8,581,235	188,595
Total expenditures	49,982,976	51,527,466	45,643,048	3,525,705	49,168,753	2,358,713
Excess (deficiency) of revenues over (under) expenditures	(7,188,759)	(8,132,280)	(1,940,485)	(3,525,705)	(5,466,190)	2,666,090
<b>Other Financing Sources (Uses):</b>						
Transfers in	2,922,000	2,918,633	2,899,200	-	2,899,200	(19,433)
Transfers out	(1,067,000)	(1,167,000)	(967,000)	-	(967,000)	200,000
Total other financing sources and uses	1,855,000	1,751,633	1,932,200	-	1,932,200	180,567
Net change in fund balances	(5,333,759)	(6,380,647)	(8,285)	(3,525,705)	(3,533,990)	2,846,657
Fund Balances, January 1	8,759,446	11,992,419	11,685,337	-	11,685,337	-
Fund Balances, December 31	\$ 3,425,687	\$ 5,611,772	\$ 11,677,052	\$ (3,525,705)	\$ 8,151,347	\$ 2,846,657

**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, 2014**

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
<b>Revenues</b>						
Taxes	\$ 2,027,000	\$ 2,056,000	\$ 2,054,001	\$ -	\$ 2,054,001	\$ (1,999)
Licenses and permits	160,000	170,448	189,689	-	189,689	19,241
Intergovernmental	5,344,966	5,603,585	5,691,420	-	5,691,420	87,835
Interest	5,000	3,355	3,240	-	3,240	(115)
Miscellaneous	5,000	5,000	50,948	-	50,948	45,948
Total revenues	<u>7,541,966</u>	<u>7,838,388</u>	<u>7,989,298</u>	<u>-</u>	<u>7,989,298</u>	<u>150,910</u>
<b>Expenditures</b>						
Current:						
General government						
Administration	244,512	244,511	213,976	1,999	215,975	28,536
Legal	80,565	80,565	70,327	-	70,327	10,238
Finance	361,140	361,140	327,468	11,300	338,768	22,372
Public works						
Operations	465,428	476,658	462,657	2,149	464,806	11,852
Streets	3,828,734	3,759,144	3,711,087	-	3,711,087	48,057
Traffic control	2,131,284	2,030,850	1,975,445	-	1,975,445	55,405
Community services						
Parks and recreation	246,119	243,515	233,125	6,828	239,953	3,562
Other	40,000	145,769	18,978	129,317	148,295	(2,526)
Capital Outlay	791,353	834,378	851,524	-	851,524	(17,146)
Total expenditures	<u>8,189,135</u>	<u>8,176,530</u>	<u>7,864,587</u>	<u>151,593</u>	<u>8,016,180</u>	<u>160,350</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(647,169)</u>	<u>(338,142)</u>	<u>124,711</u>	<u>(151,593)</u>	<u>(26,882)</u>	<u>311,260</u>
<b>Other Financing Uses:</b>						
Transfers in	60,000	-	-	-	-	-
Transfers out	<u>(89,000)</u>	<u>(129,000)</u>	<u>(129,000)</u>	<u>-</u>	<u>(129,000)</u>	<u>-</u>
Total Other Financing Uses	<u>(29,000)</u>	<u>(129,000)</u>	<u>(129,000)</u>	<u>-</u>	<u>(129,000)</u>	<u>-</u>
Net Change in Fund Balances	<u>(676,169)</u>	<u>(467,142)</u>	<u>(4,289)</u>	<u>(151,593)</u>	<u>(155,882)</u>	<u>311,260</u>
Fund Balances, January 1	<u>1,241,186</u>	<u>1,899,943</u>	<u>1,710,450</u>	<u>-</u>	<u>1,710,450</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 565,017</u>	<u>\$ 1,432,801</u>	<u>\$ 1,706,161</u>	<u>\$ (151,593)</u>	<u>\$ 1,554,568</u>	<u>\$ 311,260</u>

**City of Fort Smith, Arkansas**  
**Notes to Required Supplementary Information**  
**December 31, 2014**

**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. The General Fund appropriations increased by \$1,644,490 for 2014. The supplemental appropriations (expenditures and transfers out) included \$950,180 for the fire department capital projects provided by the ¼% sales tax; \$685,700 for the parks department additional personnel and capital projects funded by the ¼% sales tax; and to provide \$8,610 in payments to Chaffee Crossing for economic development. During 2014, the Board adopted supplemental appropriations for the Street Maintenance Fund totaling \$27,395 to provide additional replacement capital acquisitions. 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.

(This Page Intentionally Left Blank)

# **SUPPLEMENTARY INFORMATION SECTION**

**City of Fort Smith, Arkansas**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended December 31, 2014**

**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, 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.

**City of Fort Smith, Arkansas**  
**Combining Balance Sheet – Nonmajor Governmental Funds**  
**December 31, 2014**

	Special Revenue							Total Nonmajor Governmental Funds
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Economic Development	Convention Center	
<b>Assets</b>								
Cash	\$ 12,482	\$ -	\$ 8,674	\$ 4,230	\$ 234,470	\$ -	\$ 183,364	\$ 443,220
Investments	-	10,716	-	485,050	6,340,472	-	238,914	7,075,152
Receivables, net of allowance for uncollectibles								
Taxes	-	-	-	-	2,848,188	-	-	2,848,188
Accounts	-	-	-	-	-	-	53,716	53,716
Accrued interest	-	2	-	101	1,525	-	50	1,678
Due from other governments	17,876	-	201,236	34,514	-	-	-	253,626
Prepaid items	119	-	-	-	-	-	-	119
<b>Total assets</b>	<b>\$ 30,477</b>	<b>\$ 10,718</b>	<b>\$ 209,910</b>	<b>\$ 523,895</b>	<b>\$ 9,424,655</b>	<b>\$ -</b>	<b>\$ 476,044</b>	<b>\$ 10,675,699</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>								
<b>Liabilities:</b>								
Accounts payable and accrued liabilities	\$ 18,673	\$ -	\$ 204,737	\$ 12,973	\$ -	\$ -	\$ 131,305	\$ 367,688
Due to other funds	5,450	-	-	-	-	-	-	5,450
Unearned revenues	-	-	5,173	406,972	-	-	36,807	448,952
Other	2,323	-	-	-	-	-	369	2,692
<b>Total liabilities</b>	<b>26,446</b>	<b>-</b>	<b>209,910</b>	<b>419,945</b>	<b>-</b>	<b>-</b>	<b>168,481</b>	<b>824,782</b>
Deferred Inflows of Resources								
Unavailable property taxes	-	-	-	-	2,793,472	-	-	2,793,472
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,793,472</b>	<b>-</b>	<b>-</b>	<b>2,793,472</b>
<b>Fund Balances:</b>								
Nonspendable	119	-	-	-	-	-	-	119
Restricted for:								
Construction projects	-	-	-	103,950	-	-	-	103,950
Parks & recreation	-	10,718	-	-	-	-	-	10,718
Housing and rehabilitation	3,912	-	-	-	-	-	-	3,912
Police & fire retirement contributions	-	-	-	-	6,631,183	-	-	6,631,183
Assigned to:								
Convention center	-	-	-	-	-	-	307,563	307,563
<b>Total Fund Balances</b>	<b>4,031</b>	<b>10,718</b>	<b>-</b>	<b>103,950</b>	<b>6,631,183</b>	<b>-</b>	<b>307,563</b>	<b>7,057,445</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 30,477</b>	<b>\$ 10,718</b>	<b>\$ 209,910</b>	<b>\$ 523,895</b>	<b>\$ 9,424,655</b>	<b>\$ -</b>	<b>\$ 476,044</b>	<b>\$ 10,675,699</b>

**City of Fort Smith, Arkansas**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance –**  
**Nonmajor Governmental Funds**  
**For the Year Ended December 31, 2014**

	Special Revenue						Total Nonmajor Governmental Funds	
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Economic Development		Convention Center
<b>Revenues</b>								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,739,054	\$ -	\$ -	\$ 2,739,054
Intergovernmental	712,613	-	1,594,224	321,236	1,439,262	64,847	-	4,132,182
Fines and forfeitures	-	-	-	-	121,711	-	-	121,711
Fees for services	-	-	-	-	-	-	715,099	715,099
Interest	-	33	-	-	20,999	-	1,060	22,092
Contributions	-	-	-	-	1,913,850	-	-	1,913,850
Miscellaneous	-	-	-	-	1,795	-	-	1,795
Total revenues	<u>712,613</u>	<u>33</u>	<u>1,594,224</u>	<u>321,236</u>	<u>6,236,671</u>	<u>64,847</u>	<u>716,159</u>	<u>9,645,783</u>
<b>Expenditures</b>								
Current:								
Public safety								
Police	-	-	-	170,805	3,197,703	-	-	3,368,508
Fire	-	-	-	-	3,999,734	-	-	3,999,734
Public works								
Operations	-	-	-	76,080	-	-	-	76,080
Streets	-	-	-	55,147	-	-	-	55,147
Community services								
Parks and Recreation	-	-	-	23,140	-	-	-	23,140
Convention Center	-	-	-	-	-	-	1,447,715	1,447,715
Housing and Rehabilitation	712,613	-	1,594,224	-	-	64,847	-	2,371,684
Capital Outlay	-	-	-	-	-	-	106,228	106,228
Total expenditures	<u>712,613</u>	<u>-</u>	<u>1,594,224</u>	<u>325,172</u>	<u>7,197,437</u>	<u>64,847</u>	<u>1,553,943</u>	<u>11,448,236</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>33</u>	<u>-</u>	<u>(3,936)</u>	<u>(960,766)</u>	<u>-</u>	<u>(837,784)</u>	<u>(1,802,453)</u>
<b>Other Financing Sources (Uses)</b>								
Transfers in	-	-	-	-	-	-	777,000	777,000
Transfers out	-	-	-	-	-	-	-	-
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>777,000</u>	<u>777,000</u>
Net Change in Fund Balances	-	33	-	(3,936)	(960,766)	-	(60,784)	(1,025,453)
Fund Balances, January 1	<u>4,031</u>	<u>10,685</u>	<u>-</u>	<u>107,886</u>	<u>7,591,949</u>	<u>-</u>	<u>368,347</u>	<u>8,082,898</u>
Fund Balances, December 31	<u>\$ 4,031</u>	<u>\$ 10,718</u>	<u>\$ -</u>	<u>\$ 103,950</u>	<u>\$ 6,631,183</u>	<u>\$ -</u>	<u>\$ 307,563</u>	<u>\$ 7,057,445</u>

**City of Fort Smith, Arkansas**  
**Internal Service Funds**  
**For the Fiscal Year Ended December 31, 2014**

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

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

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

**City of Fort Smith, Arkansas**  
**Combining Statement of Net Position**  
**Internal Service Funds**  
**December 31, 2014**

	<u>Working Capital</u>	<u>Employee Insurance</u>	<u>Workers' Compensation</u>	<u>Total</u>
<b>Assets</b>				
<b>Current Assets</b>				
Cash	\$ 53,286	\$ 992,034	\$ 315,622	\$ 1,360,942
Investments	-	865,626	739,503	1,605,129
Receivables, net of allowance for uncollectibles				
Accounts	-	26,446	-	26,446
Accrued interest	-	371	238	609
Inventory	24,090	-	-	24,090
Prepaid items & deposits	-	15,467	-	15,467
Due from other funds	414	50,000	-	50,414
	<u>77,790</u>	<u>1,949,944</u>	<u>1,055,363</u>	<u>3,083,097</u>
Total Current Assets				
	<u>77,790</u>	<u>1,949,944</u>	<u>1,055,363</u>	<u>3,083,097</u>
Total Assets	<u>77,790</u>	<u>1,949,944</u>	<u>1,055,363</u>	<u>3,083,097</u>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	15,929	156,848	-	172,777
Claims and judgments	-	1,775,092	757,728	2,532,820
	<u>15,929</u>	<u>1,931,940</u>	<u>757,728</u>	<u>2,705,597</u>
Total Current Liabilities				
	<u>15,929</u>	<u>1,931,940</u>	<u>757,728</u>	<u>2,705,597</u>
Total Liabilities				
	<u>15,929</u>	<u>1,931,940</u>	<u>757,728</u>	<u>2,705,597</u>
<b>Net Position</b>				
Unrestricted	<u>61,861</u>	<u>18,004</u>	<u>297,635</u>	<u>377,500</u>
Total Net Position	<u>\$ 61,861</u>	<u>\$ 18,004</u>	<u>\$ 297,635</u>	<u>\$ 377,500</u>

**City of Fort Smith, Arkansas**  
**Combining Statement of Revenues, Expenses and**  
**Changes in Fund Net Position**  
**Internal Service Funds**  
**For the Year Ended December 31, 2014**

	<b>Working Capital</b>	<b>Employee Insurance</b>	<b>Workers' Compensation</b>	<b>Total</b>
<b>Operating Revenues</b>				
Charges for services - internal	\$ 965,801	\$ 8,919,540	\$ 817,000	\$ 10,702,341
Charges for services - external	-	492,827	-	492,827
Total Operating Revenues	<u>965,801</u>	<u>9,412,367</u>	<u>817,000</u>	<u>11,195,168</u>
<b>Operating Expenses</b>				
Contractual services	-	550,949	327,067	878,016
Materials and supplies	958,430	-	-	958,430
Insurance claims and expenses	-	9,252,709	213,174	9,465,883
Total Operating Expenses	<u>958,430</u>	<u>9,803,658</u>	<u>540,241</u>	<u>11,302,329</u>
Operating Income (Loss)	<u>7,371</u>	<u>(391,291)</u>	<u>276,759</u>	<u>(107,161)</u>
<b>Nonoperating Revenues</b>				
Investment earnings	-	4,679	3,671	8,350
Total Nonoperating Revenues	<u>-</u>	<u>4,679</u>	<u>3,671</u>	<u>8,350</u>
Income before transfers	7,371	(386,612)	280,430	(98,811)
Transfers in	-	349,000	-	349,000
Change in Net Position	7,371	(37,612)	280,430	250,189
Total net position, beginning	<u>54,490</u>	<u>55,616</u>	<u>17,205</u>	<u>127,311</u>
Total net position, ending	<u>\$ 61,861</u>	<u>\$ 18,004</u>	<u>\$ 297,635</u>	<u>\$ 377,500</u>

**City of Fort Smith, Arkansas**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year December 31, 2014**

	<b>Working Capital</b>	<b>Employee Insurance</b>	<b>Workers' Compensation</b>	<b>Total</b>
<b>Cash Flows from Operating Activities:</b>				
Cash received from service users	\$ 965,724	\$ 509,632	\$ -	\$ 1,475,356
Cash received from city and employee contributions	-	8,869,540	817,000	9,686,540
Cash payments for goods and services	(991,918)	-	-	(991,918)
Cash payments for premiums and other operating expenses	-	(550,949)	(275,175)	(826,124)
Cash payments for claims paid	-	(8,948,586)	(213,948)	(9,162,534)
Net cash provided by (used for) operating activities	<u>(26,194)</u>	<u>(120,363)</u>	<u>327,877</u>	<u>181,320</u>
<b>Noncapital Financing Activities</b>				
Transfers in from other funds	-	349,000	-	349,000
Net cash provided by (used by) noncapital financing activities	<u>-</u>	<u>349,000</u>	<u>-</u>	<u>349,000</u>
<b>Cash Flows from Investing Activities</b>				
Proceeds from sales and maturities of investment securities	-	1,291,050	-	1,291,050
Outlays for purchases of investment securities	-	(900,760)	(76,261)	(977,021)
Interest on investments	-	4,308	3,433	7,741
Net cash provided by (used for) investing activities	<u>-</u>	<u>394,598</u>	<u>(72,828)</u>	<u>321,770</u>
<b>Net increase (decrease) in cash</b>	<b>(26,194)</b>	<b>623,235</b>	<b>255,049</b>	<b>852,090</b>
Cash, January 1	<u>79,480</u>	<u>368,799</u>	<u>60,573</u>	<u>508,852</u>
Cash, December 31	<u><u>\$ 53,286</u></u>	<u><u>\$ 992,034</u></u>	<u><u>\$ 315,622</u></u>	<u><u>\$ 1,360,942</u></u>
-				
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>				
Operating income (loss)	\$ 7,371	\$ (391,291)	\$ 276,759	\$ (107,161)
Change in assets and liabilities				
Accounts receivable	-	16,805	-	16,805
Due from other funds	(77)	(50,000)	-	(50,077)
Inventory	22,414	-	-	22,414
Prepaid items	-	106,310	113,119	219,429
Accounts payable and accrued liabilities	(55,902)	(16,855)	-	(72,757)
Liability for claims and judgments	-	214,668	(62,001)	152,667
Total adjustments	<u>(33,565)</u>	<u>270,928</u>	<u>51,118</u>	<u>288,481</u>
Net cash provided by (used for) operating activities	<u><u>\$ (26,194)</u></u>	<u><u>\$ (120,363)</u></u>	<u><u>\$ 327,877</u></u>	<u><u>\$ 181,320</u></u>

**City of Fort Smith, Arkansas**  
**Discretely Presented Component Units**  
**For the Fiscal Year Ended December 31, 2014**

**Governmental Fund Types – Special Revenue Funds**

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

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

**Proprietary Fund Types – Enterprise Funds**

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

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

**City of Fort Smith, Arkansas**  
**Combining Statement of Net Position**  
**Governmental Component Units**  
**December 31, 2014**

	Advertising and Promotion	Public Library	Total
<b>Assets</b>			
Cash	\$ 82,166	\$ 667,073	\$ 749,239
Investments	80,774	300,884	381,658
Receivables, net of allowance for uncollectibles			
Taxes	53,179	-	53,179
Sales taxes	-	157,245	157,245
Accounts	-	25,740	25,740
Accrued interest	38	-	38
Prepaid items	3,395	48,113	51,508
Capital assets			
Nondepreciable	-	427,132	427,132
Depreciable	-	289,308	289,308
Total Assets	219,552	1,915,495	2,135,047
<b>Liabilities</b>			
Accounts payable and accrued liabilities	25,198	47,864	73,062
Total Liabilities	25,198	47,864	73,062
<b>Net Position</b>			
Net investment in capital assets	-	716,440	716,440
Restricted for:			
Tourism & promotion	194,354	-	194,354
Assigned to:			
Library	-	1,151,191	1,151,191
Total Net Position	\$ 194,354	\$ 1,867,631	\$ 2,061,985

**City of Fort Smith, Arkansas**  
**Combining Statement of Activities – Governmental Component Units**  
**For the Year Ended December 31, 2014**

	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities	
			Advertising & Promotion	Public Library	Total
Advertising & Promotion	\$ 722,904	\$ -	\$ (719,280)	\$ -	\$ (719,280)
Public Library	2,974,746	158,530	-	(2,648,167)	(2,648,167)
<b>Total</b>	<b>\$ 3,697,650</b>	<b>\$ 158,530</b>	<b>(719,280)</b>	<b>(2,648,167)</b>	<b>(3,367,447)</b>
General revenues					
Property taxes			-	1,335,311	1,335,311
Sales taxes			-	937,538	937,538
Hospitality taxes			762,728	-	762,728
Unrestricted investment earnings			427	762	1,189
Other			-	130,226	130,226
<b>Total general revenues</b>			<b>763,155</b>	<b>2,403,837</b>	<b>3,166,992</b>
Change in net position			43,875	(244,330)	(200,455)
Net position, beginning			150,479	2,111,961	2,262,440
Net position, ending			<b>\$ 194,354</b>	<b>\$ 1,867,631</b>	<b>\$ 2,061,985</b>

**City of Fort Smith, Arkansas**  
**Balance Sheet – Advertising and Promotion**  
**Governmental Component Unit**  
**December 31, 2014**

<b>Assets:</b>	
Cash	\$ 82,166
Investments	80,774
Receivables, net of allowance for uncollectibles	
Taxes	53,179
Accrued interest	38
Prepaid items	<u>3,395</u>
Total Assets	<u><u>\$ 219,552</u></u>
<b>Liabilities and Fund Balance:</b>	
Current:	
Accounts payable and accrued liabilities	<u>\$ 25,198</u>
Total Liabilities	25,198
<b>Fund Balance:</b>	
Restricted for:	
Tourism & promotion	<u>194,354</u>
Total Liabilities and Fund Balance	<u><u>\$ 219,552</u></u>

**City of Fort Smith, Arkansas**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Advertising and Promotion - Governmental Component Unit**  
**For the Year Ended December 31, 2014**

<b>Revenues</b>	
Taxes	\$ 762,728
Interest	427
Contributions	<u>3,624</u>
Total revenues	<u>766,779</u>
 <b>Expenditures</b>	
Other	700,022
Capital outlay	<u>-</u>
Total Expenditures	<u>700,022</u>
Excess of revenues over expenditures	<u>66,757</u>
 <b>Other Financing Uses:</b>	
Transfers out to primary government	<u>(22,882)</u>
Total other financing uses	<u>(22,882)</u>
Net change in fund balance	43,875
Fund Balance, January 1	<u>150,479</u>
Fund Balance, December 31	<u><u>\$ 194,354</u></u>

**City of Fort Smith, Arkansas**  
**Combining Statement of Net Position**  
**Business-Type Component Units**  
**December 31, 2014**

	<u>Parking Authority</u>	<u>Airport</u>	<u>Total</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$ 55,801	\$ 2,432,787	\$ 2,488,588
Investments	375,845	-	375,845
Receivables, net of allowance for uncollectibles			
Accounts	4,127	351,102	355,229
Accrued interest	79	2,169	2,248
Restricted			
Cash	-	75,792	75,792
Grants and other governments	-	168,678	168,678
Prepaid items and deposits	1,681	62,168	63,849
Inventory	-	57,631	57,631
	<u>437,533</u>	<u>3,150,327</u>	<u>3,587,860</u>
Total Current Assets			
<b>Noncurrent Assets</b>			
Restricted			
Cash	-	981,226	981,226
Investments	-	304,349	304,349
Capital assets			
Nondepreciable	1,359,160	7,484,756	8,843,916
Depreciable	302,777	27,801,198	28,103,975
	<u>1,661,937</u>	<u>36,571,529</u>	<u>38,233,466</u>
Total Noncurrent Assets			
Total Assets	<u>2,099,470</u>	<u>39,721,856</u>	<u>41,821,326</u>
<b>Deferred Outflows of Resources</b>			
Deferred amount on refunding	-	143,727	143,727
	<u>-</u>	<u>143,727</u>	<u>143,727</u>
Total deferred outflows of resources			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	2,109	384,033	386,142
Payable from restricted assets:			
Revenue bonds payable, current	-	180,000	180,000
	<u>2,109</u>	<u>564,033</u>	<u>566,142</u>
Total Current Liabilities			
<b>Noncurrent liabilities</b>			
Due within one year	6	-	6
Due in more than one year	622	2,495,000	2,495,622
	<u>628</u>	<u>2,495,000</u>	<u>2,495,628</u>
Total Noncurrent Liabilities			
Total Liabilities	<u>2,737</u>	<u>3,059,033</u>	<u>3,061,770</u>
<b>Net Position</b>			
Net investment in capital assets	1,661,309	32,685,327	34,346,636
Restricted for bond retirement	-	380,141	380,141
Restricted for capital projects	-	61,804	61,804
Unrestricted	435,424	3,679,278	4,114,702
	<u>2,096,733</u>	<u>36,806,550</u>	<u>38,903,283</u>
Total Net Position			

**City of Fort Smith, Arkansas**  
**Combining Statement of Activities – Business-Type Component Units**  
**For the Year Ended December 31, 2014**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines, and Charges for Services	Capital Grants and Contributions	Parking Authority	Airport Commission	Total
Parking Authority	\$ 298,141	\$ 180,587	\$ -	\$ (117,554)	\$ -	\$ (117,554)
Airport	4,872,992	2,738,468	3,114,388	-	979,864	979,864
Total	\$ 5,171,133	\$ 2,919,055	\$ 3,114,388	(117,554)	979,864	862,310
General revenues						
Unrestricted investment earnings				1,471	10,347	11,818
Payment from City of Fort Smith				200,000	-	200,000
Total general revenues				201,471	10,347	211,818
Change in net position				83,917	990,211	1,074,128
Net position, beginning of year				2,012,816	35,816,339	37,829,155
Net position, ending of year				\$ 2,096,733	\$ 36,806,550	\$ 38,903,283

**City of Fort Smith, Arkansas**  
**Combining Statement of Cash Flows – Business-Type Component Units**  
**For the Year Ended December 31, 2014**

	<b>Parking Authority</b>	<b>Airport</b>	<b>Total</b>
<b>Operating Activities</b>			
Cash received from customers	\$ 181,591	\$ 2,631,877	\$ 2,813,468
Cash payments for goods and services	(57,541)	(1,473,012)	(1,530,553)
Cash paid to employees	(109,269)	(761,048)	(870,317)
Net cash provided by operating activities	<u>14,781</u>	<u>397,817</u>	<u>412,598</u>
<b>Noncapital Financing Activities</b>			
Operating transfers in from primary government	<u>200,000</u>	<u>-</u>	<u>200,000</u>
Net cash provided by noncapital financing activities	<u>200,000</u>	<u>-</u>	<u>200,000</u>
<b>Capital and Related Financing Activities</b>			
Proceeds from capital grants	-	3,040,859	3,040,859
Passenger facility charges received	-	370,823	370,823
Acquisition and construction of capital assets	(2,215)	(3,234,705)	(3,236,920)
Principal paid on bonds	(15,036)	(126,416)	(141,452)
Interest paid on bonds	(378,166)	(180,000)	(558,166)
Net cash used for capital and related financing activities	<u>(395,417)</u>	<u>(129,439)</u>	<u>(524,856)</u>
<b>Investing Activities</b>			
Proceeds from sales and maturities of investment securities	689,231	-	689,231
Outlays for purchases of investment securities	(512,950)	(490,000)	(1,002,950)
Interest on investments	3,060	7,949	11,009
Net cash provided by (used for) investing activities	<u>179,341</u>	<u>(482,051)</u>	<u>(302,710)</u>
<b>Net increase (decrease) in cash and restricted cash</b>	<u>(1,295)</u>	<u>(213,673)</u>	<u>(214,968)</u>
<b>Cash and restricted cash, January 1</b>	<u>57,096</u>	<u>3,026,601</u>	<u>3,083,697</u>
<b>Cash and restricted cash, December 31</b>	<u><u>\$ 55,801</u></u>	<u><u>\$ 2,812,928</u></u>	<u><u>\$ 2,868,729</u></u>
<b>Reconciliation of cash and restricted cash at December 31 to statement of net position</b>			
Cash	\$ 55,801	\$ 2,432,787	\$ 2,488,588
Restricted cash	-	1,057,018	1,057,018
Total	<u><u>\$ 55,801</u></u>	<u><u>\$ 3,489,805</u></u>	<u><u>\$ 3,545,606</u></u>

**City of Fort Smith, Arkansas**  
**Combining Statement of Cash Flows – Business-Type Component Units**  
**(Continued)**  
**For the Year Ended December 31, 2014**

	<b>Parking Authority</b>	<b>Airport</b>	<b>Total</b>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>			
Operating loss	\$ (96,472)	\$(1,986,831)	\$ (2,083,303)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities			
Depreciation	120,556	2,616,782	2,737,338
Miscellaneous expenses (net)	(7,550)	-	(7,550)
Change in assets and liabilities			
Accounts receivable	1,004	(106,591)	(105,587)
Inventory	-	(45,531)	(45,531)
Prepaid items	-	966	966
Accounts payable and accrued liabilities	(2,669)	(80,978)	(83,647)
Liabilities for accrued vacation and sick leave	(88)	-	(88)
 Total adjustments	 111,253	 2,384,648	 2,495,901
 Net cash provided by operating activities	 \$ 14,781	 \$ 397,817	 \$ 412,598

(This Page Intentionally Left Blank)

# **STATISTICAL SECTION**

# City of Fort Smith, Arkansas

## Statistical Section

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

<b>Contents</b>	<b>Page</b>
<b>Financial Trends (Tables 1-5)</b>	
These schedules contain trend information to assist the reader in understanding how the City’s financial performance and well-being have changed over time .....	127
<b>Revenue Capacity (Tables 6-11)</b>	
These schedules contain information to help the reader assess the City’s most significant revenue sources, local sales taxes and property taxes .....	133
<b>Debt Capacity (Tables 12-15)</b>	
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 .....	139
<b>Demographic and Economic Information (Tables 16-17)</b>	
These schedules offer demographic and economic indicators to assist the reader in understanding the environment within which the City’s financial activities take place .....	143
<b>Operating Information (Tables 18-20)</b>	
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 .....	145
<b>Continuing Disclosure Requirement Information (Tables 21-22)</b>	
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 .....	148

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

**Table 1**

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Governmental activities										
Net investment in capital assets	\$ 260,483,758	\$ 250,104,666	\$ 275,722,692	\$ 293,634,375	\$ 294,746,494	\$ 305,663,999	\$ 323,022,637	\$ 323,907,222	\$ 315,027,429	\$ 301,383,411
Restricted	3,988,372	44,488,640	47,754,213	46,981,658	24,205,366	23,050,850	39,016,328	45,995,375	41,087,435	46,649,301
Unrestricted	66,055,588	33,741,938	29,580,570	27,130,241	38,763,651	34,297,504	15,010,176	11,588,210	11,619,202	8,929,780
Total governmental activities net position	<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>	<u>\$ 381,490,807</u>	<u>\$ 367,734,066</u>	<u>\$ 356,962,492</u>
Business-Type activities										
Net investment in capital assets	\$ 181,439,396	\$ 229,748,148	\$ 225,664,963	\$ 249,818,159	\$ 293,549,646	\$ 314,941,959	\$ 324,215,779	\$ 329,000,477	\$ 359,247,688	\$ 378,186,724
Restricted	26,844,476	23,486,930	20,514,957	27,385,513	24,102,177	24,385,436	18,608,798	18,173,298	18,623,298	19,073,298
Unrestricted (deficit)	(12,506,307)	(15,666,417)	1,390,057	(4,385,785)	(3,057,942)	(7,596,655)	2,270,311	8,023,382	5,289,216	649,154
Total business-type activities net position	<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>	<u>\$ 355,197,157</u>	<u>\$ 383,160,202</u>	<u>\$ 397,909,176</u>
Primary government										
Net investment in capital assets	\$ 441,923,154	\$ 479,852,814	\$ 501,387,655	\$ 543,452,534	\$ 588,296,140	\$ 620,605,958	\$ 647,238,416	\$ 652,907,699	\$ 674,275,117	\$ 679,570,135
Restricted	30,832,848	67,975,570	68,269,170	74,367,171	48,307,543	47,436,286	57,625,126	64,168,673	59,710,733	65,722,599
Unrestricted (deficit)	53,549,281	18,075,521	30,970,627	22,744,456	35,705,709	26,700,849	17,280,487	19,611,592	16,908,418	9,578,934
Total primary government net position	<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>	<u>\$ 736,687,964</u>	<u>\$ 750,894,268</u>	<u>\$ 754,871,668</u>

Table 2

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

	Fiscal									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Expenses</b>										
<b>Governmental Activities:</b>										
General government	\$ 7,204,031	\$ 7,401,742	\$ 8,121,090	\$ 10,384,215	\$ 8,783,548	\$ 9,464,539	\$ 9,874,051	\$ 9,373,912	\$ 10,566,809	\$ 11,782,229
Public safety	25,007,200	28,283,667	29,635,609	28,634,055	31,836,140	32,350,902	34,009,318	37,263,101	40,463,203	37,468,682
Public works	8,624,464	11,583,305	10,862,082	12,091,319	12,169,873	13,226,363	14,541,350	14,541,430	16,688,875	16,828,138
Community services	10,723,724	11,465,302	10,559,736	9,637,947	13,438,158	12,165,578	10,732,048	11,633,976	11,431,562	17,875,559
Interest on long-term debt	-	671,893	3,757,618	4,109,187	3,917,534	3,838,008	2,933,735	4,099,571	4,958,960	4,948,763
Total governmental activities expenses	<u>51,559,419</u>	<u>59,405,909</u>	<u>62,936,135</u>	<u>64,856,723</u>	<u>70,145,253</u>	<u>71,045,390</u>	<u>72,090,502</u>	<u>76,911,990</u>	<u>84,109,410</u>	<u>88,903,371</u>
<b>Business-Type Activities:</b>										
Water and Sewer	29,678,171	32,920,994	36,693,984	41,745,466	34,198,511	37,974,129	38,875,863	41,283,645	42,203,035	42,807,102
Sanitation	9,075,365	10,507,258	11,455,050	11,465,629	11,403,090	11,670,602	11,287,956	12,361,032	12,185,883	13,298,931
Total business-type activities expenses	<u>38,753,536</u>	<u>43,428,252</u>	<u>48,149,034</u>	<u>53,211,095</u>	<u>45,601,601</u>	<u>49,644,731</u>	<u>50,163,819</u>	<u>53,644,677</u>	<u>54,388,918</u>	<u>56,106,033</u>
Total primary government expenses	<u>\$ 90,312,955</u>	<u>\$ 102,834,161</u>	<u>\$ 111,085,169</u>	<u>\$ 118,067,818</u>	<u>\$ 115,746,854</u>	<u>\$ 120,690,121</u>	<u>\$ 122,254,321</u>	<u>\$ 130,556,667</u>	<u>\$ 138,498,328</u>	<u>\$ 145,009,404</u>
<b>Program Revenues</b>										
<b>Governmental Activities:</b>										
<b>Charges for services</b>										
General government	\$ 3,445,662	\$ 3,551,771	\$ 3,370,526	\$ 4,267,976	\$ 3,644,887	\$ 3,874,758	\$ 3,935,526	\$ 3,864,179	\$ 4,011,708	\$ 3,590,637
Public safety	219,114	283,460	288,258	266,085	245,863	312,543	325,298	358,888	1,430,302	183,031
Public works	-	50	50	-	1,200	4,605	9,535	261,792	421,635	266,627
Community services	890,174	1,009,470	1,001,004	1,125,845	1,003,750	1,153,674	994,444	1,099,960	1,657,307	1,210,185
Operating grants and contributions	10,413,626	7,006,913	7,524,294	7,928,553	12,754,491	13,142,881	12,269,135	10,982,501	12,914,448	13,925,772
Capital grants and contributions	2,106,374	3,082,171	1,610,147	8,260,531	1,763,263	1,357,800	1,796,754	3,394,792	3,388,287	3,197,429
Total governmental activities program revenues	<u>17,074,950</u>	<u>14,933,835</u>	<u>13,794,279</u>	<u>21,848,990</u>	<u>19,413,454</u>	<u>19,846,261</u>	<u>19,330,692</u>	<u>19,962,112</u>	<u>23,823,687</u>	<u>22,373,681</u>
<b>Business-Type Activities:</b>										
<b>Charges for services</b>										
Water and sewer	30,402,025	32,645,032	33,238,901	36,391,791	35,652,828	38,509,851	40,818,042	41,049,517	37,805,650	35,918,255
Sanitation	11,129,352	11,811,666	12,561,103	14,095,412	12,560,096	13,246,801	12,337,186	12,640,422	15,068,421	13,291,198
Operating grants and contributions	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions	1,376,054	1,954,879	2,197,861	2,731,780	3,683,324	512,378	638,698	1,245,672	1,968,216	-
Total business-type activities program revenues	<u>42,907,431</u>	<u>46,411,577</u>	<u>47,997,865</u>	<u>53,218,983</u>	<u>51,896,248</u>	<u>52,269,030</u>	<u>53,793,926</u>	<u>54,935,611</u>	<u>54,842,287</u>	<u>49,209,453</u>
Total primary government program revenues	<u>\$ 59,982,381</u>	<u>\$ 61,345,412</u>	<u>\$ 61,792,144</u>	<u>\$ 75,067,973</u>	<u>\$ 71,309,702</u>	<u>\$ 72,115,291</u>	<u>\$ 73,124,618</u>	<u>\$ 74,897,723</u>	<u>\$ 78,665,974</u>	<u>\$ 71,583,134</u>
<b>Net (expense) revenue</b>										
Governmental activities	\$ (34,484,469)	\$ (44,472,074)	\$ (49,141,856)	\$ (43,007,733)	\$ (50,731,799)	\$ (51,199,129)	\$ (52,759,810)	\$ (56,949,878)	\$ (60,285,723)	\$ (66,529,690)
Business-Type activities	4,153,895	2,983,325	(151,169)	7,888	6,294,647	2,624,299	3,630,107	1,290,934	453,369	(6,896,580)
Total primary government net expense	<u>\$ (30,330,574)</u>	<u>\$ (41,488,749)</u>	<u>\$ (49,293,025)</u>	<u>\$ (42,999,845)</u>	<u>\$ (44,437,152)</u>	<u>\$ (48,574,830)</u>	<u>\$ (49,129,703)</u>	<u>\$ (55,658,944)</u>	<u>\$ (59,832,354)</u>	<u>\$ (73,426,270)</u>

Table 2 (Continued)

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>General Revenues and Other Changes in Net Position</b>										
Governmental activities:										
Taxes										
Property taxes	\$ 8,932,234	\$ 9,392,423	\$ 8,821,508	\$ 9,360,659	\$ 12,267,731	\$ 10,623,101	\$ 13,143,979	\$ 10,927,877	\$ 11,514,707	\$ 11,447,651
Sales taxes	31,236,465	40,747,820	53,014,309	57,837,124	52,601,763	52,091,471	53,838,552	54,489,254	54,291,940	55,823,661
Utility franchise fees	6,833,462	7,406,294	6,760,463	7,366,814	5,990,452	6,492,100	6,571,993	6,071,893	6,478,637	6,780,156
Alcoholic beverage taxes and miscellaneous tax	-	-	-	-	-	-	-	-	-	-
Unrestricted grants and contributions	1,277,089	5,139,979	6,558,212	1,386,747	226,195	10,085	-	55,357	-	-
Unrestricted investment earnings	1,489,322	3,220,403	6,155,547	3,065,530	538,627	163,172	18,480	474	364,291	85,627
Gain (loss) on sale of capital assets	852	22,838	-	-	-	-	-	-	-	-
Insurance proceeds from hail storm	-	-	-	-	1,778,572	-	-	-	-	-
Other	768,612	1,088,665	251,941	309,447	1,318,649	1,199,332	1,539,449	527,041	3,462,503	2,108,585
Transfers	(206,000)	(24,738,822)	(7,697,893)	(21,629,789)	(34,020,953)	(14,083,290)	(8,315,855)	(12,190,491)	(27,638,513)	(20,487,564)
Total governmental activities	50,332,036	42,279,600	73,864,087	57,696,532	40,701,036	56,495,971	66,796,598	59,881,405	48,473,565	55,758,116
Business-type activities:										
Sales taxes	17,372,140	10,812,656	-	-	-	-	-	-	-	-
Unrestricted investment earnings	2,475,149	2,951,710	1,950,264	2,362,717	343,471	89,914	14,459	61,383	68,600	87,230
Other	317,700	304,583	504,328	1,247,516	1,116,923	339,356	1,403,727	609,901	1,403,727	1,403,727
Transfers	206,000	24,738,822	7,697,893	21,629,789	34,020,953	14,083,290	8,315,855	12,190,491	27,638,513	20,487,564
Total business-type activities	20,370,989	38,807,771	10,152,485	25,240,022	35,481,347	14,512,560	9,734,041	12,861,775	29,110,840	21,978,521
 Total primary government	 \$ 70,703,025	 \$ 81,087,371	 \$ 84,016,572	 \$ 82,936,554	 \$ 76,182,383	 \$ 71,008,531	 \$ 76,530,639	 \$ 72,743,180	 \$ 77,584,405	 \$ 77,736,637
Changes in Net Position										
Governmental activities	\$ 15,847,567	\$ (2,192,474)	\$ 24,722,231	\$ 14,688,799	\$ (10,030,763)	\$ 5,296,842	\$ 14,036,788	\$ 2,931,527	\$ (11,812,158)	\$ (10,771,574)
Business-type activities	24,524,884	41,791,096	10,001,316	25,247,910	41,775,994	17,136,859	13,364,148	14,152,709	27,963,029	14,748,974
Total primary government	\$ 40,372,451	\$ 39,598,622	\$ 34,723,547	\$ 39,936,709	\$ 31,745,231	\$ 22,433,701	\$ 27,400,936	\$ 17,084,236	\$ 16,150,871	\$ 3,977,400

Table 3

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Revenues</b>										
Taxes (1)	\$ 46,694,358	\$ 57,108,031	\$ 68,510,896	\$ 74,585,914	\$ 69,476,528	\$ 69,689,304	\$ 71,868,941	\$ 72,036,723	\$ 72,257,168	\$ 74,337,156
Licenses and permits	1,499,151	1,473,234	1,501,022	2,126,151	1,559,950	1,489,526	1,628,157	1,553,688	1,612,104	1,623,061
Intergovernmental	12,952,988	12,734,833	13,395,035	13,608,213	13,117,444	12,881,250	12,552,267	12,672,787	13,423,088	15,018,681
Fines and forfeitures	2,064,332	2,063,755	2,858,829	2,188,504	2,098,901	2,299,274	2,356,809	2,408,231	2,570,173	2,121,646
Charges for services	978,987	1,099,840	1,088,811	1,215,016	1,172,312	1,237,853	1,108,213	1,277,269	1,333,228	1,340,413
Investment earnings	1,530,732	3,326,046	6,294,463	3,114,332	566,378	166,106	18,480	141,141	383,964	185,589
Contributions	808,149	2,166,420	1,027,818	3,926,800	1,511,328	1,338,330	1,341,458	1,395,068	2,707,215	2,046,589
Miscellaneous	250,361	470,606	316,373	274,696	189,946	341,329	470,997	343,630	769,159	367,470
Total revenues	<u>66,779,058</u>	<u>80,442,765</u>	<u>94,993,247</u>	<u>101,039,626</u>	<u>89,692,787</u>	<u>89,442,972</u>	<u>91,345,322</u>	<u>91,828,537</u>	<u>95,056,099</u>	<u>97,040,605</u>
<b>Expenditures</b>										
General government	6,879,247	7,522,720	8,190,325	8,317,788	8,226,444	7,879,961	7,969,047	7,972,590	8,316,034	8,544,169
Public safety	24,139,684	26,003,929	28,062,350	26,885,795	30,697,704	30,032,414	31,659,461	31,596,228	34,497,803	33,985,035
Public works	4,600,934	5,433,522	5,202,463	5,820,879	5,254,628	5,870,159	6,450,755	5,734,913	7,461,123	7,341,039
Community services	6,463,376	7,194,025	6,387,764	5,586,246	9,338,549	7,987,136	7,144,380	7,236,525	7,199,963	8,404,310
Other	2,334,916	3,245,313	3,776,800	3,550,903	1,830,124	2,335,524	2,368,766	1,812,324	1,772,276	1,636,526
Capital outlay	14,068,089	23,933,708	32,939,098	29,323,932	31,766,713	34,187,241	31,670,727	30,928,218	49,788,131	41,638,644
Debt service										
Principal	-	-	14,355,000	17,110,000	17,785,000	16,805,000	17,495,000	1,940,000	12,905,000	11,315,000
Interest	-	671,893	3,757,618	3,141,156	2,917,861	3,040,386	2,367,651	2,688,400	3,575,061	4,217,236
Issuance costs	-	-	-	-	259,839	75,892	-	349,650	-	400,062
Total expenditures	<u>58,486,246</u>	<u>74,005,110</u>	<u>102,671,418</u>	<u>99,736,699</u>	<u>108,076,862</u>	<u>108,213,713</u>	<u>107,125,787</u>	<u>90,258,848</u>	<u>125,515,391</u>	<u>117,482,021</u>
Excess (deficiency) of revenues over (under) expenditures	<u>8,292,812</u>	<u>6,437,655</u>	<u>(7,678,171)</u>	<u>1,302,927</u>	<u>(18,384,075)</u>	<u>(18,770,741)</u>	<u>(15,780,465)</u>	<u>994,432</u>	<u>(30,459,292)</u>	<u>(20,441,416)</u>
<b>Other financing sources and (uses)</b>										
Transfers in	4,101,090	63,067,680	2,602,260	17,313,147	29,689,472	6,809,336	3,531,999	77,142,266	3,632,186	36,885,129
Transfers out	(4,307,000)	(88,464,556)	(10,300,153)	(39,169,188)	(64,000,227)	(6,269,982)	(3,077,367)	(76,972,738)	(3,849,710)	(36,937,129)
Insurance proceeds from hail storm	-	-	-	-	1,778,572	-	-	-	-	-
Premiums on bond issuance	-	-	-	-	236,307	16,217	-	6,269,913	-	1,028,741
Bond issuance	-	88,299,286	-	15,685,899	29,150,000	3,595,000	-	110,660,000	-	34,295,000
Escrow deposits	-	-	-	-	-	-	-	(53,700,952)	-	-
Capital leases	1,241,713	341,156	(58,278)	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>1,035,803</u>	<u>63,243,566</u>	<u>(7,756,171)</u>	<u>(6,170,142)</u>	<u>(3,145,876)</u>	<u>4,150,571</u>	<u>454,632</u>	<u>63,398,489</u>	<u>(217,524)</u>	<u>35,271,741</u>
Net change in fund balances	<u>\$ 9,328,615</u>	<u>\$ 69,681,221</u>	<u>\$ (15,434,342)</u>	<u>\$ (4,867,215)</u>	<u>\$ (21,529,951)</u>	<u>\$ (14,620,170)</u>	<u>\$ (15,325,833)</u>	<u>\$ 64,392,921</u>	<u>\$ (30,676,816)</u>	<u>\$ 14,830,325</u>
Debt service as a % of noncapital expenditures	0.0%	1.34%	26.0%	28.8%	27.1%	26.8%	26.3%	7.8%	21.8%	20.5%

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

Table 4

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund										
Reserved	\$ 3,152,121	\$ 4,706,017	\$ 2,191,724	\$ 3,654,013	\$ 2,772,912	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	7,423,514	7,607,076	6,257,328	7,052,220	5,772,601	-	-	-	-	-
Nonspendable	-	-	-	-	-	126,037	66,707	264,783	44,106	73,340
Restricted	-	-	-	-	-	1,467,461	283,616	-	-	-
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	1,910,794	1,407,063	4,450,203	1,205,979	1,406,631
Unassigned	-	-	-	-	-	4,938,318	5,983,015	4,269,917	10,435,252	10,197,081
Total general fund	<u>10,575,635</u>	<u>12,313,093</u>	<u>8,449,052</u>	<u>10,706,233</u>	<u>8,545,513</u>	<u>8,442,610</u>	<u>7,740,401</u>	<u>8,984,903</u>	<u>11,685,337</u>	<u>11,677,052</u>
All other governmental funds										
Reserved	34,639,037	101,879,344	93,901,326	86,760,617	68,080,708	-	-	-	-	-
Unreserved, reported in:										
Special revenue funds	1,648,864	13,477,723	13,646,710	13,603,715	12,771,282	-	-	-	-	-
Debt service fund	-	3,634,024	-	-	-	-	-	-	-	-
Capital projects funds	394,212	457,785	457,547	516,855	709,966	-	-	-	-	-
Nonspendable	-	-	-	-	-	343,606	526,015	673,709	701,931	339,952
Restricted	-	-	-	-	-	62,360,676	51,037,382	114,702,230	79,671,763	95,030,923
Committed	-	-	-	-	-	508,840	443,933	-	-	-
Assigned	-	-	-	-	-	3,781,567	363,735	453,802	2,078,797	1,920,226
Total all other governmental funds	<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>168,200,806</u>	<u>115,829,741</u>	<u>82,452,491</u>	<u>97,291,101</u>
Total governmental fund balances	<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>\$ 175,941,207</u>	<u>\$ 124,814,644</u>	<u>\$ 94,137,828</u>	<u>\$ 108,968,153</u>

The City of Fort Smith adopted GASB 54 for fiscal year ending 12/31/2010. In the schedule above all years prior to 2011 are stated in its original form and therefore are not directly comparable to 2011 or later.

Table 5

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues	\$ 33,972,924	\$ 36,218,142	\$ 37,164,047	\$ 38,953,983	\$ 36,683,453	\$ 37,014,019	\$ 37,744,298	\$ 38,056,106	\$ 43,930,416	\$ 43,702,563
Expenditures	34,663,140	38,309,177	43,059,070	38,654,800	41,671,672	39,433,872	40,670,109	38,750,928	42,663,082	45,643,048
Excess (deficiency) of revenues over (under) expenditures	(690,216)	(2,091,035)	(5,895,023)	299,183	(4,988,219)	(2,419,853)	(2,925,811)	(694,822)	1,267,334	(1,940,485)
Other financing sources (uses)	2,507,103	3,825,493	2,030,982	1,957,998	2,777,499	2,366,950	2,223,602	1,634,238	1,738,186	1,932,200
Net change in fund balances	1,816,887	1,734,458	(3,864,041)	2,257,181	(2,210,720)	(52,903)	(702,209)	939,416	3,005,520	(8,285)
Fund balance, January 1	8,761,748	10,578,635	12,313,093	8,449,052	10,706,233	8,495,513	8,442,610	7,740,401	8,679,817	11,685,337
Fund balance, December 31	<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>	<u>\$ 8,679,817</u>	<u>\$ 11,685,337</u>	<u>\$ 11,677,052</u>

Table 6

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

Fiscal Year	Ad Valorem Taxes	Sales Taxes (1)	Utility Franchise Fees	Total
2005	\$ 8,624,431	\$ 31,236,465	\$ 6,833,462	\$ 46,694,358
2006	8,953,917	40,747,820	7,406,294	57,108,031
2007	8,736,124	53,014,309	6,760,463	68,510,896
2008	9,381,976	57,837,124	7,366,814	74,585,914
2009	10,884,313	52,601,763	5,990,452	69,476,528
2010	11,105,733	52,091,471	6,492,100	69,689,304
2011	11,458,396	53,838,552	6,571,993	71,868,941
2012	11,475,576	54,489,254	6,071,893	72,036,723
2013	11,486,591	54,291,940	6,478,637	72,257,168
2014	11,733,339	55,823,661	6,780,156	74,337,156

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

Table 7

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

Fiscal Year	1% City Sales & Use Tax Allocated for Street (1)	City Share 1% County Sales & Use Tax (2)	1% or 3/4% City Sales & Use Tax Allocated for Bonds (3)	1/4% City Sales & Use Tax Allocated Fire & Parks (3)	Total	Direct City Tax Rate	Overlapping Sebastian County Tax Rate
2005	\$ 17,372,140	\$ 13,864,325	\$ 17,372,140	\$ -	\$ 48,608,605	2.00%	1.00%
2006	18,420,915	14,718,645	18,420,915	-	51,560,475	2.00%	1.00%
2007	18,929,527	15,155,255	18,929,527	-	53,014,309	2.00%	1.00%
2008	20,613,205	16,610,714	20,613,205	-	57,837,124	2.00%	1.00%
2009	18,777,493	15,046,777	18,777,493	-	52,601,763	2.00%	1.00%
2010	18,599,727	14,892,017	18,599,727	-	52,091,471	2.00%	1.00%
2011	19,341,760	15,155,032	19,341,760	-	53,838,552	2.00%	1.00%
2012	19,605,123	15,279,008	18,836,899	768,224	54,489,254	2.00%	1.00%
2013	19,468,975	15,353,991	14,601,731	4,867,243	54,291,940	2.00%	1.00%
2014	20,099,013	15,625,636	15,074,259	5,024,753	55,823,661	2.00%	1.00%
Total	<u>\$ 191,227,878</u>	<u>\$ 151,701,400</u>	<u>\$ 180,567,656</u>	<u>\$ 10,660,220</u>	<u>\$ 534,157,154</u>		

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

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

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

Table 8

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

<b>Fiscal Year</b>	<b>Total Tax Levy (1)</b>	<b>Current Tax Collections</b>	<b>Percent of Levy Collections</b>	<b>Delinquent Tax Collections</b>	<b>Total Tax Collections</b>	<b>Collection Percent of Current Levy</b>	<b>Outstanding Delinquent Taxes</b>	<b>Outstanding Delinquent Taxes as a Percent of Current Levy</b>
2005	\$ 7,544,588	\$ 7,016,787	93.00%	\$ 270,725	\$ 7,287,512	96.59%	\$ 420,214	5.57%
2006	7,735,932	7,277,449	94.07%	397,572	7,675,021	99.21%	309,621	4.00%
2007	8,221,008	7,744,922	94.21%	337,687	8,082,609	98.32%	138,399	1.68%
2008	8,629,508	8,154,385	94.49%	434,209	8,588,594	99.53%	280,412	3.25%
2009	8,328,466	7,702,929	92.49%	305,640	8,008,569	96.16%	402,909	4.84%
2010	9,518,247	9,035,518	94.93%	411,376	9,446,894	99.25%	527,023	5.54%
2011	9,730,326	9,299,637	95.57%	344,396	9,644,033	99.11%	453,411	4.66%
2012	10,048,916	9,514,504	94.68%	396,701	9,911,205	98.63%	705,667	7.02%
2013	10,213,111	8,317,052	81.44%	424,158	8,741,210	85.59%	394,097	3.86%
2014	10,551,660	7,740,390	73.36%	1,318,456	9,058,846	85.85%	523,298	4.96%

(1) Total tax levy is based upon valuation of previous year and has been adjusted for the homestead tax relief for property owners which became effective for the 2001 fiscal year. The tax levy for this schedule represents the City's levy for its General Fund and for the police and fire pension contributions in the LOPFI Fund, a special revenue fund. The city also receives one-half of the collections from the county levy in its Street Maintenance Fund, a special revenue fund.

Table 9

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

Fiscal Year (1)	Real Property		Personal Property		Total		Ratio of Total Assessed to Total Estimated Actual	Direct Tax Rate (per \$100 assessed value)
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value		
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%	0.70
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%	0.70
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%	0.70
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%	0.70
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%	0.70
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%	0.70
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%	0.70
2012	968,690,035	4,843,450,175	357,156,805	1,785,784,025	1,325,846,840	6,629,234,200	20.00%	0.70
2013	980,472,019	4,902,360,095	367,266,450	1,836,332,250	1,347,738,469	6,738,692,345	20.00%	0.70
2014	989,630,922	4,948,154,610	361,225,320	1,806,126,600	1,350,856,242	6,754,281,210	20.00%	0.70

(1) Fiscal year is year of valuation.

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

Table 10

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

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

Fiscal Year (1)	City of Fort Smith		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		
2005	\$ 0.70	\$ 0.70	\$ 0.80	\$ 0.80	\$ 3.65	\$ 3.65	\$ 0.10	\$ 0.10	\$ 5.25	\$ 5.25
2006	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2007	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2008	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2009	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2010	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2011	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2012	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2013	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25
2014	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	5.25	5.25

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		
2005	\$ 7.00	\$ 7.00	\$ 8.00	\$ 8.00	\$ 36.50	\$ 36.50	\$ 1.00	\$ 1.00	\$ 52.50	\$ 52.50
2006	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2007	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2008	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2009	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2010	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2011	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2012	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2013	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50
2014	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	52.50	52.50

(1) Fiscal year is year of levy.

Table 11

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

Name of Taxpayer (1)	2014			2005		
	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation (2)	Rank	Percentage of Total Assessed Valuation
Fort Smith HMA LLC	\$ 21,484,040	1	1.59%			
AT&T Mobility	19,216,260	2	1.43%			
Gerdau/MacSteel	18,717,755	3	1.39%	\$ 21,494,832	1	2.08%
Baldor Electric Company	17,822,840	4	1.32%			
Cellco Partnership	17,762,265	5	1.32%			
Wal-Mart/Sam's Club	17,069,680	6	1.27%			
Stephen's Production Company	15,094,940	7	1.14%			
OK Foods, Inc.	13,769,820	8	1.02%	3201305	10	0.31%
Mercy Medical Center	13,683,135	9	1.02%			
Fort Smith Mall LLC	11,256,454	10	0.84%	6,961,500	6	0.67%
Whirlpool Corporation				20,987,000	2	2.03%
Gerber Products Company				11,153,565	3	1.08%
Beverly Corporation				7,744,040	4	0.75%
Rheem Manufacturing Company				7,270,715	5	0.70%
Hiram Walker & Sons				6,813,665	7	0.66%
Arkansas Best Corporation				4,118,010	8	0.40%
Medical Buildings of Arkansas				3,549,750	9	0.34%
	<u>\$ 165,877,189</u>		12.31%	<u>\$ 93,294,382</u>		9.03%

(1) Sebastian County Assessor's Office.

(2) Property taxes collected in 2014 are based upon 2013 assessed valuation of \$1,347,738,469. Property taxes collected in 2005 were based upon the 2004 assessed valuation of \$1,033,141,278.

Table 12

**City of Fort Smith, Arkansas**  
**Computation of Direct and Estimated Overlapping Debt**  
**December 31, 2014**  
**(Unaudited)**

<b>Taxing Jurisdiction</b>	<b>Total Outstanding Bonded Debt (1)</b>	<b>Estimated Percent Applicable (2)</b>	<b>Direct and Estimated Overlapping Bonded Debt</b>
Direct:			
City of Fort Smith	<u>\$ 125,642,323</u>	100%	<u>\$ 125,642,323</u>
Overlapping:			
Fort Smith Special School District	80,993,727	100%	80,993,727
Greenwood School District	45,795,000	5%	2,289,750
Sebastian County	<u>-</u>	76%	<u>-</u>
Total Overlapping	<u>126,788,727</u>		<u>83,283,477</u>
Total direct and estimated overlapping bonded debt	<u><u>\$ 252,431,050</u></u>		<u><u>\$ 208,925,800</u></u>
Ratio, direct and estimated overlapping debt to fiscal 2014 assessed valuation (3)			15.5%
Per capita direct and estimated overlapping bonded debt (4)			<u><u>\$ 2,389</u></u>

(1) Excluding self-supporting debt.

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

(3) From Table 7, \$1,350,856,242.

(4) Based on the estimated population for 2014 in Table 14.

**Table 13**

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Net assessed value (1)	\$ 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	\$ 1,325,846,840	\$ 1,347,738,469	\$ 1,350,856,242
Plus exempt property (2)	-	-	-	-	-	-	-	-	-	-
Total assessed value	<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>	<u>\$ 1,325,846,840</u>	<u>\$ 1,347,738,469</u>	<u>\$ 1,350,856,242</u>
Debt limit - 25% of total assessed value (3)	\$ 270,023,049	\$ 272,034,212	\$ 283,702,879	\$ 312,550,704	\$ 218,148,396	\$ 302,514,847	\$ 323,659,051	\$ 331,461,710	\$ 336,934,617	\$ 337,714,061
Amount of debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Debt Margin	<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>	<u>\$ 331,461,710</u>	<u>\$ 336,934,617</u>	<u>\$ 337,714,061</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 14**

**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			
2005	\$ -	\$ -	\$ 1,442,517	\$ 150,065,105	\$ 42,980,261	\$ 562,877	\$ 195,050,760	2.6%	\$ 2,365
2006	85,381,572	2,290,000	388,004	142,142,896	-	315,442	230,517,914	2.9%	2,761
2007	72,270,751	1,865,000	222,135	158,877,605	-	61,722	233,297,213	2.8%	2,769
2008	71,291,296	1,425,000	161,340	200,133,887	-	14,482	273,026,005	3.1%	3,223
2009	83,108,248	970,000	96,209	193,336,746	-	759,641	278,270,844	3.1%	3,245
2010	70,142,001	495,000	49,134	186,251,924	-	514,572	257,452,631	2.7%	2,986
2011	52,894,533	-	-	179,222,398	-	677,219	230,042,219	2.4%	2,639
2012	115,161,914	-	294,355	174,755,817	-	910,196	282,394,551	3.0%	3,229
2013	101,838,920	-	160,439	168,766,139	-	1,066,493	271,831,991	2.8%	3,117
2014	125,361,084	-	281,239	162,626,345	-	355,190	288,623,858	3.0%	3,309

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

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

Table 15

**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	
<b>Water and Sewer System</b>	2005	32,668,644	17,116,764	15,551,880	5,700,000	3,016,704	8,716,704	178%
	2006	35,439,335	21,269,130	14,170,205	6,820,000	2,776,864	9,596,864	148%
	2007	35,181,555	19,365,972	15,815,583	7,115,000	6,245,962	13,360,962	118%
	2008	38,608,012	20,463,804	18,144,208	8,350,000	6,411,852	14,761,852	123%
	2009	37,118,841	21,489,095	15,629,746	5,665,000	9,335,000	15,000,000	104%
	2010	38,661,437	20,872,208	17,789,229	5,910,000	9,089,126	14,999,126	119%
	2011	40,820,838	20,759,793	20,061,045	6,170,000	8,828,313	14,998,313	134%
	2012	41,080,985	22,019,792	19,061,193	4,045,000	7,968,048	12,013,048	159%
	2013	37,841,132	22,867,856	14,973,276	5,705,000	7,896,016	13,601,016	110%
	2014	36,176,568	23,037,349	13,139,219	5,870,000	7,728,715	13,598,715	97%
<b>Solid Waste System</b>	2005	11,441,729	7,775,933	3,665,796	820,000	239,814	1,059,814	346%
	2006	12,216,101	9,108,943	3,107,158	850,000	214,021	1,064,021	292%
	2007	13,122,193	10,269,779	2,852,414	875,000	187,827	1,062,827	268%
	2008	14,650,900	10,346,750	4,304,150	910,000	153,320	1,063,320	405%
	2009	12,675,503	10,058,856	2,616,647	945,000	113,716	1,058,716	247%
	2010	13,390,293	10,476,471	2,913,822	1,020,000	83,220	1,103,220	264%
	2011	12,675,503	10,142,163	2,533,340	1,060,000	21,465	1,081,465	234%
	2012 (4)	12,927,934	10,925,530	2,002,404	-	-	-	N/A
	2013 (4)	15,278,747	10,820,344	4,458,403	-	-	-	N/A
	2014 (4)	13,638,922	11,598,608	2,040,314	-	-	-	N/A

(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.

2013 reconciliation of interest paid reported on this schedule to the statement of revenues, expenses, and changes in fund net assets for the proprietary funds:

	Water & Sewer
Interest paid - this schedule	\$ 7,728,715
Capitalized interest	-
Accrued interest - 12/31/13	(1,932,179)
Accrued interest - 12/31/14	1,878,187
	<hr/>
Interest expense - statement of revenues, expenses, and changes in fund net position	\$ 7,674,723

(4) The solid waste system revenue bonds were redeemed in full during 2011. There are no revenue bonds outstanding at December 31, 2012 - 2014 for the solid waste system.

Table 16

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

<b>Fiscal Year</b>	<b>City Population (1)</b>	<b>County Population (1)</b>	<b>Personal Income (2) (in thousands)</b>	<b>Per Capita Income (2)</b>	<b>Median Age (3)</b>	<b>Education Level in Years of Schooling (3)</b>	<b>School Enrollment (4)</b>	<b>Unemployment Rate (2)</b>
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	84,253	121,741	8,435,449	30,122	35.4	12	13,900	5.3%
2008	84,708	122,436	8,937,040	31,602	35.4	12	13,759	6.1%
2009	85,747	123,597	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	87,155	126,948	9,537,232	31,891	35.0	12	13,896	8.6%
2012	87,443	127,304	9,503,067	33,876	35.0	12	14,048	7.7%
2013	87,443	127,304	9,469,141	34,892	35.0	12	14,313	8.1%
2014	87,215	127,463	9,718,240 *	34,711 *	35.7	12	14,317	5.5%

## Data Sources:

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

Table 17

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

Employer	2014			2005		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Sparks Health Systems	2,336	1	2.0%	2,150	3	1.6%
Mercy Medical Center	2,200	2	1.9%	1,800	4	1.4%
O. K. Industries	2,033	3	1.7%	4,748	1	3.6%
Baldor Electric Company	2,000	4	1.7%	1,700	7	1.3%
Fort Smith Public Schools	1,918	5	1.6%	1,702	6	1.3%
Arkansas Best Corp.	1,388	6	1.2%	900	8	0.7%
University of Arkansas at Fort Smith	1,000	7	0.8%			
Bost Human Development Services	969	8	0.8%			
City of Fort Smith	943	9	0.8%			
Golden Living/Beverly Enterprises	926	10	0.8%	873	9	0.7%
Whirlpool Corporation				4,600	2	3.5%
Rheem-Ruud				1,774	5	1.3%
Cooper Clinic				775	10	0.6%
Total	15,713		13.3%	21,022		15.8%

Data Sources:

Chamber of Commerce

U.S. Department of Labor, employment totals:

2014	118,287
2005	132,800

Table 18

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

<b>Function</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
General government	124	124	128	125	125	127	127	126	126	125
Public safety:										
Police										
Officers	160	168	168	168	168	170	170	163	163	163
Civilians	47	46	46	46	52	59	59	59	59	59
Fire										
Firefighters and officers	126	126	129	129	129	129	129	129	149	149
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	54	54
Traffic control	13	13	13	13	13	13	13	13	13	13
Parks and recreation	53	54	57	57	58	58	58	58	64	64
Transit	35	36	36	36	36	36	36	36	35	34
Water and sewer	185	191	191	191	191	192	189	191	192	196
Sanitation	76	77	78	78	78	78	78	78	78	78
<b>Total</b>	<b>873</b>	<b>889</b>	<b>900</b>	<b>897</b>	<b>904</b>	<b>916</b>	<b>913</b>	<b>907</b>	<b>941</b>	<b>943</b>

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

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Sub-stations (2)	-	8	8	8	8	8	8	8	8	8
Patrol units	12	12	12	12	12	12	12	12	12	12
Fire:										
Stations	10	10	10	10	10	10	10	10	11	11
Apparatus	22	21	21	21	21	21	21	18	17	17
Streets										
Streets (miles)	558	562	566	578	590	590	590	590	590	590
Streetlights	5,957	5,971	5,971	6,029	6,029	6,029	6,053	6,053	6,053	6,053
Traffic signals	136	135	135	142	146	146	149	149	149	149
Parks and recreation										
Parks acreage (square feet)	260	273	273	273	273	273	273	273	273	276
Parks	26	26	26	25	25	25	25	25	25	26
Swimming pools	1	1	1	1	1	1	1	1	1	1
Water splashpad	1	1	1	1	1	1	1	1	1	1
Tennis courts	14	14	12	12	12	12	12	12	12	12
Skatepark	1	1	1	1	1	1	1	1	1	1
Community centers	4	5	5	5	5	5	5	5	5	5
Convention center -										
Theater -seats	1,331	1,331	1,331	1,331	1,331	1,331	1,331	1,331	1,331	1,331
Theater -area (square feet)	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200
Exhibit Hall -area (square feet)	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Transit buses	20	20	20	20	20	20	20	20	20	19
Water and sewer										
Water mains (miles)	584	560	560	627	626	626	626	626	626	626
Average daily production capacity (thousands of gallons)	55,000	54,100	54,100	55,000	59,000	41,999	63,400	63,400	63,400	63,400
Average daily consumption (thousands of gallons)	28,876	28,097	29,197	28,876	37,004	26,473	30,532	30,532	21,267	22,137
Sanitary sewers (miles)	503	505	505	505	516	516	500	500	545	545
Storm sewers	7,900	7,900	7,900	7,900	7,900	7,900	7,900	7,900	7,900	7,900
Sanitation										
Collection trucks	52	52	52	52	52	53	53	45	45	45
Landfill capacity (in cubic yards) (1)	67,337,973	67,197,006	66,853,337	66,405,305	66,151,721	65,872,831	65,585,500	65,343,244	65,023,707	64,998,995

NA - not available

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

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

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

**Table 20**

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

<b>Function</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Police:										
Physical arrest	10,417	10,512	10,834	10,848	9,776	10,073	8,820	9,324	8,781	8,155
Parking violations	3,487	1,732	3,887	3,094	5,702	7,622	5,984	5,649	5,312	4,320
Traffic violations	19,289	20,442	21,129	24,191	19,593	16,296	14,841	14,841	14,946	11,343
Fire										
Number of calls answered	6,461	7,326	7,619	7,200	7,825	8,026	8,158	8,793	8,688	10,148
Transit										
Passenger trips	173,556	155,515	173,917	208,600	177,991	191,221	198,165	206,329	215,591	204,097
Water and sewer										
New connections	464	1,391	458	346	345	450	371	299	314	269
Average daily production (thousands of gallons)	28,876	28,097	29,197	23,567	23,934	26,473	30,532	28,554	26,850	22,137
Average daily sewage flow (thousands of gallons)	15,500	15,290	16,400	18,231	19,473	16,844	17,421	15,200	14,684	17,100
Sanitation										
Waste disposal (cubic yards/day)	1,168	1,299	1,234	1,042	1,040	1,137	1,052	1,352	1,024	1,024

**Table 21**

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

<b>Fiscal Year</b>	<b>Annual # Sanitation System Customers</b>	<b>Cubic Yardage of Waste at Landfill</b>	<b>Useful Life of Landfill Remaining (1)</b>	<b>Remaining Storage Capacity at Landfill</b>
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	21 yrs	65,585,500 cubic yards
2012	323,988	1,466,643	19 yrs	65,343,244 cubic yards
2013	327,036	1,107,403	16 yrs	65,023,707 cubic yards
2014	330,300	1,037,201	12 yrs	64,998,995 cubic yards

(1) This is the remaining life of the current cell being filled at the landfill. The entire landfill has a remaining life of 188.8 years.

(This Page Intentionally Left Blank)

Table 22

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

Fiscal Year	Average Daily Water Use in Gallons	Maximum Daily Water Use in Gallons	Total Water Use for Year in Gallons	Average Daily Sewage Flow in Gallons
2010	26,473,000	41,999,000	8,340,570,000	16,844,000
2011	30,532,000	43,500,000	8,503,902,000	17,421,000
2012	28,554,000	41,594,000	10,450,796,000	15,200,000
2013	26,850,000	38,419,000	9,800,220,000	14,684,000
2014	22,137,000	38,157,000	8,079,966,000	17,100,000

<b>Water Customers</b>					
Fiscal Year	Residential	Commercial	Wholesale	Other	Total
2010	28,877	4,108	13	10	33,008
2011	28,955	4,174	13	10	33,152
2012	29,104	4,196	13	132	33,445
2013	29,261	4,190	13	140	33,604
2014	29,346	4,222	13	151	33,732

<b>Sewer Customers</b>				
Fiscal Year	Residential	Commercial	Government	Total
2010	26,699	3,618	10	30,327
2011	26,695	3,685	10	30,390
2012	26,833	3,691	83	30,607
2013	26,976	3,669	87	30,732
2014	27,062	3,654	91	30,807

Table 22 (Continued)

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

<b>For 2013:</b>					<b>% of Gross</b>
<b>Entity</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>	<b>Revenues</b>	
City of Van Buren	\$ 3,424,295	\$ -	\$ 3,424,295	9.06%	
OK Foods	2,305,351	38,732	2,344,083	6.20%	
Gerber Products	1,189,866	-	1,189,866	3.15%	
Gerdau Macsteel	479,723	261,371	741,094	1.96%	
Sparks Medical Center	261,313	263,323	524,636	1.39%	
Mars Petcare US	139,807	57,329	197,136	0.52%	
St. Edward Mercy Medical Center	190,095	47,100	237,195	0.63%	
The Links Fort Smith	75,780	101,356	177,136	0.47%	
Kraft Foods	76,020	97,221	173,241	0.46%	
Pernod Ricard (Hiram Walker)	77,386	37,053	114,439	0.30%	
James River Dixie	46,608	59,927	106,535	0.28%	
Henderson Properties	41,563	53,327	94,890	0.25%	
Sebastian County Park/Jail	90,778	230	91,008	0.24%	
Top Ten Users	<u>\$ 8,398,585</u>	<u>\$ 1,016,969</u>	<u>\$ 9,415,554</u>	<u>24.91%</u>	

<b>For 2014:</b>					<b>% of Gross</b>
<b>Entity</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>	<b>Revenues</b>	
City of Van Buren	\$ 3,248,401	\$ -	\$ 3,248,401	9.04%	
OK Foods	2,167,372	101,227	2,268,599	6.32%	
Gerber Products	1,219,559	-	1,219,559	3.40%	
Gerdau Macsteel	441,989	240,041	682,030	1.90%	
Sparks Medical Center	264,927	241,790	506,717	1.41%	
Mars Petcare US	138,534	48,426	186,960	0.52%	
St. Edward Mercy Medical Center	143,846	44,869	188,715	0.53%	
The Links Fort Smith	63,955	85,540	149,495	0.42%	
Kraft Foods	89,108	113,958	203,066	0.57%	
Pernod Ricard (Hiram Walker)	61,814	31,558	93,372	0.26%	
James River Dixie	41,305	52,824	94,129	0.26%	
Henderson Properties	39,437	63,234	102,671	0.29%	
Sebastian County Park/Jail	49,978	66,845	116,823	0.33%	
Top Ten Users	<u>\$ 7,970,225</u>	<u>\$ 1,090,312</u>	<u>\$ 9,060,537</u>	<u>25.23%</u>	

## Independent Auditor's Report on Compliance With Certain State Acts

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

We have examined management's assertions that the City of Fort Smith, Arkansas complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas statutes during the year ended December 31, 2014:

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

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

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

In our opinion, the City of Fort Smith, Arkansas complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2014.

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

*BKD, LLP*

Fort Smith, Arkansas  
June 16, 2015