

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**

Annual Financial Report

December 31, 2010 and 2009



**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**December 31, 2010 and 2009**

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March 15, 2011

To the Public:

Enclosed herein is the Annual Financial Report for the Fort Smith Regional Airport for the fiscal year ended December 31, 2010 with a comparison to fiscal year ended December 31, 2009. Responsibility for the accuracy of the data, completeness, and fairness of the presentation, including all disclosures, rests with the management of the Airport. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and reported in a manner that presents fairly the financial position and results of operations of the Airport. All disclosures necessary to enable the reader to gain an understanding of the Airport's financial activities have been included.

Accounting principles generally accepted in the United States of America (GAAP) requires that management provide a narrative overview and analysis to accompany the financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal should be read in conjunction with the MD&A, which can be found immediately following the report of the independent accountants.

### **The Organization**

The Fort Smith Regional Airport is governed by the Fort Smith Airport Commission, which was established by the City of Fort Smith, Arkansas on February 15, 1977, pursuant to AR Code §14-359-104. Consisting of seven (7) members, the Commission meets at least once each month in open session. The Mayor, with confirmation from the City of Fort Smith's Board of Directors, appoints members to the Commission with one appointment annually in June. Commission members serve without compensation for a term of five (5) years. The Airport Director serves at the pleasure of the Commission as the chief executive responsible for the operation of the Airport. The Airport Director oversees a staff of thirteen full-time employees and two part time employees.

### **The Airport**

The Fort Smith Regional Airport is a key element of the transportation system that serves the residents and businesses of Western Arkansas and Eastern Oklahoma. By offering access to safe, efficient, and convenient air transportation, the Airport plays a significant role in economic development for the region.

Fort Smith Regional Airport is home to approximately 90 corporate and general aviation aircraft, as well as Arkansas' only fighter base, the 188th Fighter Wing of the Arkansas Air National Guard. The Airport's primary runway is 8,000 x 150-foot with dual instrument landing systems. The crosswind runway is 5,002 x 150-foot. Air Traffic services are provided by the Federal Aviation Administration from an Air Traffic Control (ATC) Tower and TRACON (Terminal Radar Approach Control). The Airport is located just off Interstate 540 within an eight-mile radius of Interstate 40 and future Interstate 49, providing excellent access to ground transportation.

## The Activities in 2010

Scheduled Airline Service – As of December 31, 2010, two regional airlines (American Eagle Airlines and Delta Air Lines) served the Airport. American operates non-stop flights to Dallas/Ft. Worth. Delta operates non-stop flights to Memphis. Each airline offers connecting service to most destinations in the world.

Enplaned passengers were up 10% in 2010 versus 2009.

### Enplanements (revenue and non-revenue passenger boardings)

	American Eagle (to DFW)	Delta * (to MEM)	Atlantic Southeast (to ATL)	Charters	Total
2006	62,935	31,782	–	–	94,717
2007	61,059	26,750	11,318	–	99,127
2008	45,752	23,833	17,445	–	87,030
2009	51,084	23,885	3,463	–	78,432
2010	53,673	32,456	–	–	86,129

\* Delta Air Lines purchased Northwest Airlines in 2009.

Aircraft operations were up 2% in 2010 versus 2009.

### Aircraft Operations

	Itinerant				Local*		Total
	Air Carrier airline/charter over 60 passenger	Air Taxi airline/charter 60 passengers or less	General Aviation	Military	General Aviation	Military	
2006	245	7,248	19,827	19,642	13,940	15,397	79,470
2007	169	7,963	20,671	16,964	10,415	12,995	69,177
2008	283	7,997	18,538	13,046	9,914	8,076	57,854
2009	409	6,937	13,962	8,965	7,045	6,500	43,818
2010	1,465	5,692	14,683	7,982	6,281	6,281	44,726

\* Local - those that occur only within the local airport traffic pattern or at practice areas within 20 miles of the airport.

## Other 2010 Highlights

The largest accomplishments for the year were: rehabilitation of taxiway B north and the northern section of the airfield perimeter road, reconstruction and realignment of the west corporate taxiway to provide access to a new corporate hangar, procurement of additional snow removal equipment, beginning work on the runway 7/25 lighting rehabilitation, design began on taxiway A west realignment and widening; and the wildlife hazard assessment program is well underway.

The preparation of this report and a successful 2010 could not have been accomplished without the dedicated service of the Airport's staff. Everyone involved has our sincere appreciation for the efforts made in preparation of this report. In closing, without the leadership and support of our governing body, the Fort Smith Airport Commission, preparation of this report would not have been possible.

Sincerely,

FORT SMITH REGIONAL AIRPORT

  
John Parker, Airport Director

**Fort Smith Airport Commission**  
**Members as of December 31, 2010**

	<i>Term Expires</i>
Scott Archer	June 30, 2015
Ryan Carter	June 30, 2011
Rick Deramus	June 30, 2012
Lawrence A. Devero	June 30, 2011
Wayne Haver	June 30, 2014
Marcia Melvin	June 30, 2013
Jan Nordin	June 30, 2012

**Airport Officials**  
**as of December 31, 2010**

John Parker, Airport Director  
Kathy Boze, Director of Administration  
Michael Griffin, Director of Operations

**Financial Section**

## Independent Accountants' Report on Financial Statements and Supplementary Information

Members of the Fort Smith Airport Commission  
Fort Smith Regional Airport  
Fort Smith, Arkansas

We have audited the accompanying basic financial statements of the Fort Smith Regional Airport, a component unit of the City of Fort Smith, Arkansas, as of and for the years ended December 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Airport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fort Smith Regional Airport as of December 31, 2010 and 2009, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2011, on our consideration of the Airport'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 *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying supplementary information, including the schedule of passenger facility charge revenues and expenditures as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and the schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

BKD, LLP

March 15, 2011

# **Management's Discussion and Analysis**

## **December 31, 2010 and 2009**

This narrative discussion and analysis is intended to serve as an introduction and overview to the Fort Smith Regional Airport's (Airport's) basic financial statements for the fiscal years ended December 31, 2010 and 2009. The information presented here should be read in conjunction with the financial statements, footnotes, and supplementary information found in this report.

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

This audit report consists of three parts 1) management's discussion and analysis (this section), 2) the basic financial statements, and 3) supplementary information. The Airport's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The Airport is structured as a single enterprise fund with revenues recognized when earned and expenses recognized when incurred, regardless of when cash is received or paid. Capital assets are capitalized and, with the exception of land, are depreciated over their useful lives.

The basic financial statements include the balance sheets, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The balance sheets present information on all of the Airport's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the Airport's financial health. The statement of revenues, expenses, and changes in net assets presents information showing how the Airport's assets changed during the most recent year, along with a comparison of operating performance with 2009. All changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future periods. The statements of cash flows relate to the receipts and disbursements of cash and cash equivalents. Consequently, only transactions that affect the Airport's cash accounts are recorded in these statements.

### **Financial Results**

#### ***2010 Balance Sheet Compared to 2009***

Current assets were up by 38.3% or \$884,839 due to an improved cash position while current liabilities were up by 27.8% or \$155,382. Total net assets have increased by 4.4% or \$1,565,497.

#### ***2009 Balance Sheet Compared to 2008***

Current assets were up by 12.4% or \$255,138 while current liabilities were down by 32.8% or \$272,756. Total net assets have increased by 3.1% or \$1,061,124.

**FORT SMITH REGIONAL AIRPORT  
BALANCE SHEETS**

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010-2009 % Change</b>	<b>2009-2008 % Change</b>
Current Assets	\$ 3,196,841	\$ 2,312,002	\$ 2,056,864	38.3%	12.4%
Capital Assets, net	37,436,370	36,189,930	35,634,500	3.4%	1.6%
Other Assets	<u>313,355</u>	<u>852,099</u>	<u>997,643</u>	-63.2%	-14.6%
Total Assets	<u>\$ 40,946,566</u>	<u>\$ 39,354,031</u>	<u>\$ 38,689,007</u>	4.0%	1.7%
Current Liabilities	\$ 714,280	\$ 558,898	\$ 831,654	27.8%	-32.8%
Noncurrent Liabilities	<u>3,153,916</u>	<u>3,282,260</u>	<u>3,405,604</u>	-3.9%	-3.6%
Total Liabilities	<u>3,868,196</u>	<u>3,841,158</u>	<u>4,237,258</u>	0.7%	-9.3%
Net Assets					
Invested in Capital Assets, Net of Related Debt	34,465,809	33,229,129	32,706,435	3.7%	1.6%
Restricted Net Assets	972,807	1,296,630	963,927	-25.0%	34.5%
Unrestricted Net Assets	<u>1,639,754</u>	<u>987,114</u>	<u>781,387</u>	66.1%	26.3%
Total Net Assets	<u>37,078,370</u>	<u>35,512,873</u>	<u>34,451,749</u>	4.4%	3.1%
Total Liabilities and Net Assets	<u>\$ 40,946,566</u>	<u>\$ 39,354,031</u>	<u>\$ 38,689,007</u>	4.0%	1.7%

**2010 Revenues and Expenses Compared to 2009**

Operating revenues increased by \$199,101 or 8.2% primarily due to an increase in enplanements and military use fees received in association with maintenance work. Operating expenses were up by \$46,386 or 1.1%. Capital contributions, grants and charges increased by \$267,594 or 8.38% primarily due to the receipt of a new corporate hangar that was constructed by a tenant, offset by a decrease in grant monies at approximately \$1 million.

**2009 Revenues and Expenses Compared to 2008**

Operating revenues decreased by \$206,757 or 7.8% primarily due to the retraction in the national and local economy. Operating expenses were down by \$74,675 or 1.7% primarily due to a reduction in commodity and contractual services cost. Capital contributions, grants and charges; which are FAA, State, and Air National Guard grant reimbursements associated with several Airport capital improvement projects and passenger facility charges, decreased by \$58,979 or 1.8%.

**FORT SMITH REGIONAL AIRPORT  
SUMMARY OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	2010	2009	2008	% Change 2009-2010	% Change 2008-2009
<b>Operating Revenues:</b>					
Flowage Fees	\$ 172,235	\$ 158,949	\$ 181,745	8.4%	-12.5%
Landing Fees	158,758	156,711	184,671	1.3%	-15.1%
Military Use Fees and Rents	249,825	174,825	175,336	42.9%	-0.3%
Rented Buildings and Other	1,437,992	1,415,002	1,482,390	1.6%	-4.5%
Operators' Fees	6,099	4,652	7,477	31.1%	-37.8%
Parking Lot Fees	312,100	254,279	294,607	22.7%	-13.7%
Fuel	19,153	16,757	-	100.0%	-
Other	272,756	248,642	310,348	9.7%	-19.9%
	<u>2,628,918</u>	<u>2,429,817</u>	<u>2,636,574</u>	8.2%	-7.8%
<b>Operating Expenses:</b>					
Personal Services	707,332	707,164	673,231	0.0%	5.0%
Contractual Services	903,827	889,106	917,423	1.7%	-3.1%
Commodities	190,663	178,569	223,891	6.8%	-20.2%
Other Charges	88,826	89,784	86,449	-1.1%	3.9%
Depreciation and Amortization	2,539,675	2,519,314	2,557,618	0.8%	-1.5%
	<u>4,430,323</u>	<u>4,383,937</u>	<u>4,458,612</u>	1.1%	-1.7%
Operating Loss	(1,801,405)	(1,954,120)	(1,822,038)	7.8%	-7.2%
Non-Operating Expenses, net	(93,661)	(177,725)	(96,302)	-47.3%	84.5%
Decrease in Net Assets before Capital Contributions, Grants and Charges	(1,895,066)	(2,131,845)	(1,918,340)	11.1%	-11.1%
Capital Contributions, Grants and Charges	<u>3,460,563</u>	<u>3,192,969</u>	<u>3,251,948</u>	8.4%	-1.8%
Increase in Net Assets after Capital Contributions, Grants and Charges	1,565,497	1,061,124	1,333,608	47.5%	-20.4%
Total Net Assets, Beginning of Year	<u>35,512,873</u>	<u>34,451,749</u>	<u>33,118,141</u>	3.1%	4.0%
Total Net Assets, End of Year	<u>\$ 37,078,370</u>	<u>\$ 35,512,873</u>	<u>\$ 34,451,749</u>	4.4%	3.1%

**Capital Assets**

**2010 Capital Projects**

*The following major projects and additions were completed during 2010:*

- A multi-year project consisting of realigning the pavement of taxiway B, repairing the perimeter road and the installation of airfield lighting was completed at a total cost of \$3,331,742. The project had current year expenses of \$1,030,200. Current year funding was provided from the FAA in the amount of \$255,598 and the Arkansas Department of Aeronautics in the amount of \$129,987. In addition, the remaining balance of the Airport's FAA escrow fund was used for the project and amounted to \$453,186 of additional funding.

- Rehabilitation and expansion of a corporate taxi lane was completed at a total cost of \$557,515. The Arkansas Department of Aeronautics provided funding in the amount of \$499,972 in the current year for this project.
- The purchase of snow removal equipment consisting of a motor grader and two 2.5 ton trucks with dump beds and snow plows having a total cost of \$361,657. The FAA provided funding in the amount of \$343,741 in the current year for these acquisitions.

***The following projects were started and underway at December 31, 2010:***

- The rehabilitation of airfield lighting on runway 7/25 began during the current year and incurred expenses of \$500,014. The FAA provided current year funding in the amount of \$475,014.
- The design of Taxiway A West realignment and widening began during the current year and incurred expenses of \$166,327. The FAA provided current year funding in the amount of \$158,010.

**2009 Capital Projects**

***The following major projects were completed in 2009:***

- A multi-year project consisting of the construction of a new general aviation ramp in the southeast quadrant of the Airport was completed at a total cost of \$3,569,247. The project had current year expenses of \$171,068. Current year funding was provided from the FAA in the amount of \$172,591 and the Arkansas Department of Aeronautics in the amount of \$195,017
- A multi-year project consisting of the construction of two buildings with spaces for a total of 28 separate t-hangar units was completed at a total cost of \$1,370,034. The project had current year expenses of \$71,075. Current year funding was provided from the Arkansas Department of Aeronautics in the amount of \$275,000

***The following projects were started and underway at December 31, 2009:***

- Construction and engineering related to realigning the pavement of taxiway B had a total cost of \$2,585,654 during the current year. The FAA provided current year funding in the amount of \$2,214,154.

**Debt Administration**

***2010 Compared to 2009***

Long-term debt was reduced by 3.6% as a result of the scheduled principal payment established by terms of the bonds.

***2009 Compared to 2008***

Long-term debt was reduced by 3.2% as a result of the scheduled principal payment established by terms of the bonds.

**FORT SMITH REGIONAL AIRPORT  
OUTSTANDING LONG-TERM DEBT**

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>% Change 2010-2009</b>	<b>% Change 2009-2008</b>
Revenue Bonds Payable, Net	\$ 3,283,916	\$ 3,407,260	\$ 3,520,604	-3.6%	-3.2%

Additional information on the Airport's long-term debt can be found on pages 20 and 21 of this report.

**Economic Factors and Next Year's Rates and Charges**

The Airport experienced a 10% increase in enplaned passengers during 2010, for a total of 86,129 enplanements as compared to 78,432 in 2009 and 87,030 in 2008. Improvements to the local and national economy had a large influence on the increase in overall enplanements. This increase in enplanements for 2010 is typical of airports of comparable size. Enplanements for 2011 are expected to be consistent with 2010 numbers. Total aviation operations were up 2%, which was the first increase since 2006. Aviation operations in 2011 are expected to be consistent with 2010.

The majority of the Airport's revenues are based on usage fees and percentages of gross receipts. The condition of the local economy is the most significant factor affecting these revenue streams. The local economy is expected to be stable during 2011; therefore, usage fees and charges are expected to coincide.

**Request for Information**

This financial report is designed to provide a general overview of the Airport's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Administration, Fort Smith Regional Airport, 6700 McKennon Blvd. Suite 200, Fort Smith, AR 72903.

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Balance Sheets**  
**December 31, 2010 and 2009**

**Assets**

	<u>2010</u>	<u>2009</u>
<b>Current Assets</b>		
<b>Unrestricted Assets</b>		
Cash	\$ 1,686,215	\$ 898,350
Accounts receivable, net	262,904	198,403
Inventories	17,598	15,696
Certificates of deposit	-	250,000
Prepaid expenses	52,609	58,180
Interest receivable	-	700
	<hr/>	<hr/>
Total unrestricted current assets	2,019,326	1,421,329
	<hr/>	<hr/>
<b>Restricted Assets</b>		
Cash equivalents, held by trustee for debt service	491,976	88,418
Certificates of deposit	204,774	452,742
Passenger facility charges receivable	55,621	51,632
Intergovernmental receivable	424,862	297,683
Interest receivable	282	198
	<hr/>	<hr/>
Total restricted current assets	1,177,515	890,673
	<hr/>	<hr/>
Total current assets	3,196,841	2,312,002
	<hr/>	<hr/>
<b>Noncurrent Assets</b>		
Investments – restricted	-	405,640
Deferred charges, net	313,355	446,459
Capital assets, not being depreciated	6,744,163	8,644,636
Capital assets, being depreciated, net	30,692,207	27,545,294
	<hr/>	<hr/>
Total noncurrent assets	37,749,725	37,042,029
	<hr/>	<hr/>
Total assets	<u>\$ 40,946,566</u>	<u>\$ 39,354,031</u>

## Liabilities and Net Assets

	<b>2010</b>	<b>2009</b>
<b>Current Liabilities</b>		
<b>Payable From Unrestricted Assets</b>		
Accounts payable	\$ 272,938	\$ 322,985
Accrued expenses and payroll withholdings	53,673	53,134
Accounts payable – related party	46,799	36,634
Deferred revenue	6,162	21,145
	<u>379,572</u>	<u>433,898</u>
<b>Payable From Restricted Assets</b>		
Current maturity of revenue bonds payable	130,000	125,000
Deferred revenue	204,708	-
	<u>334,708</u>	<u>125,000</u>
Total current liabilities payable from unrestricted assets	<u>379,572</u>	<u>433,898</u>
Total current liabilities payable from restricted assets	<u>334,708</u>	<u>125,000</u>
Total current liabilities	714,280	558,898
<b>Noncurrent Liabilities</b>		
Revenue bonds payable, net	<u>3,153,916</u>	<u>3,282,260</u>
Total liabilities	<u>3,868,196</u>	<u>3,841,158</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	<u>34,465,809</u>	<u>33,229,129</u>
Restricted for:		
Bond reserves	492,258	494,573
FAA (escrow)	-	452,742
Capital expenditures	480,549	349,315
	<u>972,807</u>	<u>1,296,630</u>
Total restricted net assets	<u>972,807</u>	<u>1,296,630</u>
Unrestricted	<u>1,639,754</u>	<u>987,114</u>
Total net assets	<u>37,078,370</u>	<u>35,512,873</u>
Total liabilities and net assets	<u>\$ 40,946,566</u>	<u>\$ 39,354,031</u>

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Operating Revenues</b>		
Flowage fees	\$ 172,235	\$ 158,949
Landing fees	158,758	156,711
Military use fees and rents	249,825	174,825
Rented buildings and other	1,437,992	1,415,002
Operators' fees	6,099	4,652
Parking lot fees	312,100	254,279
Fuel	19,153	16,757
Other	<u>272,756</u>	<u>248,642</u>
Total operating revenues	<u>2,628,918</u>	<u>2,429,817</u>
<b>Operating Expenses</b>		
Personal services	707,332	707,164
Contractual services	903,827	889,106
Commodities	190,663	178,569
Other charges	88,826	89,784
Depreciation and amortization	<u>2,539,675</u>	<u>2,519,314</u>
Total operating expenses	<u>4,430,323</u>	<u>4,383,937</u>
<b>Operating Loss</b>	<u>(1,801,405)</u>	<u>(1,954,120)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	40,623	39,852
Interest expense	(210,980)	(217,577)
Gain on sale of capital assets	<u>76,696</u>	<u>-</u>
Total nonoperating expenses	<u>(93,661)</u>	<u>(177,725)</u>
<b>Decrease in Net Assets Before Capital Contributions, Grants and Charges</b>	<u>(1,895,066)</u>	<u>(2,131,845)</u>
<b>Capital Contributions, Grants and Charges</b>		
Passenger facility charges	337,712	310,007
Federal, state and local grants	1,875,647	2,882,962
Contributions from tenant improvements	<u>1,247,204</u>	<u>-</u>
Total capital contributions, grants and charges	<u>3,460,563</u>	<u>3,192,969</u>
<b>Increase in Net Assets</b>	1,565,497	1,061,124
<b>Net Assets, Beginning of Year</b>	<u>35,512,873</u>	<u>34,451,749</u>
<b>Net Assets, End of Year</b>	<u>\$ 37,078,370</u>	<u>\$ 35,512,873</u>

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Operating Activities</b>		
Cash receipts from customers and users	\$ 2,565,595	\$ 2,443,638
Cash payments to vendors for goods and services	(992,530)	(1,441,132)
Cash payments for employee services	(706,278)	(724,645)
	<u>866,787</u>	<u>277,861</u>
Net cash provided by operating activities		
<b>Capital and Related Financing Activities</b>		
Principal payments on bonds payable	(125,000)	(115,000)
Interest paid	(209,324)	(215,921)
Acquisition and construction of capital assets	(2,638,177)	(2,928,664)
Passenger facility charges received	333,723	309,792
Capital grants received	1,951,998	2,747,981
Proceeds from sale of capital assets	76,696	-
Payment of bond issuance costs	(10,127)	-
	<u>(620,211)</u>	<u>(201,812)</u>
Net cash used in capital and related financing activities		
<b>Investing Activities</b>		
Purchase of investments	-	(250,000)
Proceeds from sales and maturities of investments	903,608	759,989
Income received on investments and cash equivalents	41,239	46,264
	<u>944,847</u>	<u>556,253</u>
Net cash provided by investing activities		
<b>Net Increase in Cash and Cash Equivalents</b>	1,191,423	632,302
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>986,768</u>	<u>354,466</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,178,191</u>	<u>\$ 986,768</u>

	<u>2010</u>	<u>2009</u>
<b>Presented on the Statement of Net assets</b>		
Current assets - cash	\$ 1,686,215	\$ 898,350
Current assets - restricted cash equivalents, held by trustee	491,976	88,418
	<u>\$ 2,178,191</u>	<u>\$ 986,768</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (1,801,405)	\$ (1,954,120)
Items not requiring cash		
Depreciation and amortization	2,539,675	2,519,314
Changes in		
Accounts receivable	(63,323)	13,821
Inventories	(1,902)	(12,182)
Prepaid expenses	5,571	(6,216)
Accounts payable and accrued liabilities	188,171	(282,756)
	<u>\$ 866,787</u>	<u>\$ 277,861</u>
Net cash provided by operating activities		
<b>Noncash Activities:</b>		
Capital assets acquired through payables	\$ 41,614	\$ 284,111
Hangar acquired from tenant	\$ 1,247,204	\$ -

**Fort Smith Regional Airport**  
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**Note 1: Nature of Organization and Summary of Significant Accounting Policies**

The Fort Smith Airport Commission (Airport Commission) was established by a City of Fort Smith (City) ordinance to manage the Fort Smith Regional Airport (Airport) and consists of seven members appointed by the Mayor and confirmed by the governing body of the City. Each member of the Airport Commission is appointed for a term of five years. The City can impose its will on the Airport through the appointment of the members of the governing body. Therefore, the Airport is a component unit of the City whose financial statements are discretely presented in the City's basic financial statements. The Airport is organized as an enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business; where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered, primarily through user charges.

***Basis of Accounting and Financial Reporting***

The financial statements consist of a single-purpose business-type activity which is reported on the accrual basis of accounting using the economic resources measurement focus.

The Airport prepares its financial statements in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Airport follows all applicable GASB pronouncements. In addition, the Airport follows all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

***Use of Estimates***

The preparation of financial statements in conformity 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 during the reporting period. Actual results could differ from those estimates.

***Cash Equivalents***

For purposes of the statements of cash flows, the Airport considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents consist primarily of money market mutual funds held by brokers.

**Fort Smith Regional Airport**  
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***Accounts Receivable***

The Airport accrues revenue for fees and charges earned but not yet billed as of year end.

***Inventory Pricing***

Inventories consist primarily of fuel and are stated at the lower of cost or market determined using the first-in, first-out (FIFO) method.

***Investments and Investment Income***

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, gas royalties, realized gains and losses on investments carried at fair value and the net change for the year in the fair value of investments carried at fair value.

***Deferred Charges***

***Bond Issue Costs***

Costs incurred in issuing the 1999 series bonds are being amortized on a straight-line basis over the term of the bonds.

***Airport Master Plan***

The FAA requires the Airport to develop a master plan at least every 20 years however, they recommend that the plans should be updated every five to 10 years. The Fort Smith Airport updates their plan every five years. Accordingly, costs incurred for developing the plan are recognized as deferred charges and amortized over five years using the straight-line method.

***Leasehold Broker Commissions***

Commissions paid to brokers to negotiate leases are recorded as deferred charges and amortized over the term of the corresponding lease using the straight-line method.

**Fort Smith Regional Airport**  
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**Capital Assets**

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Airport:

Buildings and leasehold improvements	10 – 40 years
Machinery and equipment	3 – 15 years
Improvements other than buildings	5 – 20 years
Furniture and fixtures	3 – 10 years
Ramps, runways, taxiways and improvements	3 – 50 years

**Lessee-Financed Improvements**

Certain leases include provisions whereby lessee-financed improvements become the property of the Airport. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Airport recognizes lessee-financed improvements as capital assets and as capital contributions at cost, or estimated cost, upon completion of construction, or upon the asset being placed in service, whichever occurs first.

**Compensated Absences**

Airport policies permit most employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are included in accrued expenses and are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

**Revenue Bonds Payable**

Original issue discount on the 1999 bonds is amortized using the interest method over the life of the bond.

**Revenue and Expense and Net Assets Recognition**

The Airport has two classes of revenue, operating and non-operating. Operating revenues consist of revenues that are generally received during the regular course of airport operations such as office and space rentals, landing fees, flowage fees and parking lot concessions. Non-operating revenues generally consist of items that are not classified as operating revenues such as interest income and gas royalties.

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Net assets of the Airport are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Airport, including amounts deposited with trustees as required by bond indentures. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

***Rental Income***

All leases wherein the Airport is the lessor are accounted for as operating leases. Rental income is generally recognized as it becomes receivable over the respective lease terms.

***Federal and State Grants***

Outlays for certain airport capital improvements are subject to reimbursement from federal grant programs. Funds are also received for airport development from the State of Arkansas. Funding provided from government grants is considered earned as the related approved capital outlays or expenses are incurred. Costs claimed for reimbursement are subject to audit and acceptance by the granting agency.

From time to time, the Airport disposes of land or other assets which were originally purchased with federal assistance. In accordance with the Airport Improvement Program (AIP), the Airport must reinvest the federal government's proportionate share of the proceeds realized from the sale or exchange of such assets in approved AIP projects or return such amounts to the federal government. Proceeds intended to be reinvested in future AIP projects are recorded as deferred revenue until expended.

***Passenger Facility Charges***

Under a Record of Decision, the Federal Aviation Administration (FAA) grants the Airport approval to impose a passenger facility charge (PFC) on flights originating from Fort Smith. As of February 2008, the charge increased from \$3.00 to \$4.50 per enplaned passenger. PFC's are restricted for use in the construction of certain airport improvements and other costs, as approved by the FAA. PFC's are recognized as they are earned, are included in capital contributions, grants and charges and amounted to \$337,712 and \$310,007 for 2010 and 2009, respectively.

***Reclassifications***

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications have no effect on the changes in net assets.

**Fort Smith Regional Airport**  
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**Note 2: Deposits, Investments and Investment Income**

***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 Airport's deposit policy for custodial credit risk requires compliance with the provisions of state law.

At December 31, 2010 and 2009, none of the Airport's bank balances of \$1,985,672 and \$2,227,423 were exposed to custodial credit risk.

***Investments***

State statutes authorize the Airport to invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and in bank repurchase agreements. At December 31, 2010 and 2009, the Airport had the following investments and maturities:

Type	December 31, 2010				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Money market mutual funds	\$ 491,976	\$ 491,976	\$ -	\$ -	\$ -
	<u>491,976</u>	<u>491,976</u>	<u>-</u>	<u>-</u>	<u>-</u>
Type	December 31, 2009				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 405,640	\$ 405,640	\$ -	\$ -	\$ -
Money market mutual funds	88,418	88,418	-	-	-
	<u>494,058</u>	<u>494,058</u>	<u>-</u>	<u>-</u>	<u>-</u>

Interest Rate Risk – The Airport'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 - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Airport's investments at December 31, 2010 and 2009 are securities issued or backed by the U.S. Government.

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Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Airport will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At December 31, 2010, all of the Airport's investments were held by counterparties in the Airport's name.

Concentration of Credit Risk - The Airport places no limit on the amount that may be invested in any one issuer.

**Summary of Carrying Values**

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	<b>2010</b>	<b>2009</b>
Carrying value		
Deposits	\$ 1,890,989	\$ 1,601,092
Investments	491,976	494,058
	<b>\$ 2,382,965</b>	<b>\$ 2,095,150</b>
Included in the following balance sheet captions		
Cash	\$ 1,686,215	\$ 898,350
Certificates of deposit - unrestricted	-	250,000
Restricted cash equivalents, held by trustee for debt service	491,976	88,418
Certificates of deposit - restricted	204,774	452,742
Investments – restricted (non-current)	-	405,640
	<b>\$ 2,382,965</b>	<b>\$ 2,095,150</b>

**Fort Smith Regional Airport**  
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**Investment Income**

Investment income for the years ended December 31, 2010 and 2009, consisted of:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 18,065	\$ 23,232
Gas royalties	<u>22,558</u>	<u>16,620</u>
	<u>\$ 40,623</u>	<u>\$ 39,852</u>

**Note 3: Deferred Charges**

The carrying basis and accumulated amortization of deferred charges at December 31, 2010 and 2009, were:

	<u>2010</u>		<u>2009</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Bond issue costs	\$ 184,799	\$ 65,502	\$ 174,672	\$ 59,680
Airport master plan	857,815	705,467	857,815	581,928
Leasehold broker commissions	110,548	68,838	110,548	54,968
Other	<u>65,226</u>	<u>65,226</u>	<u>65,226</u>	<u>65,226</u>
	<u>\$ 1,218,388</u>	<u>\$ 905,033</u>	<u>\$ 1,208,261</u>	<u>\$ 761,802</u>

Amortization expenses for the years ended December 31, 2010 and 2009, was \$143,231 and \$146,080, respectively. Estimated amortization expense for each of the following five years is:

2011	\$ 135,705
2012	29,427
2013	27,798
2014	9,878
2015	9,878
Thereafter	<u>100,669</u>
	<u>\$ 313,355</u>

**Fort Smith Regional Airport**  
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**Note 4: Capital Assets**

A summary of changes in capital assets for the years ended December 31, 2010 and 2009 is as follows:

	2010			Ending Balance
	Beginning Balance	Transfers In and Additions	Transfers Out and Disposals	
Capital assets, not being depreciated:				
Land	\$ 6,058,806	\$ -	\$ -	\$ 6,058,806
Construction in progress	2,585,830	1,793,102	(3,693,575)	685,357
Total capital assets, not being depreciated	8,644,636	1,793,102	(3,693,575)	6,744,163
Capital assets, being depreciated:				
Buildings	20,291,784	1,247,204	-	21,538,988
Runways and other airport infrastructure	38,190,730	557,515	3,331,742	42,079,987
Equipment, furniture and fixtures and other	9,174,657	45,491	198,832	9,418,980
Total capital assets, being depreciated	67,657,171	1,850,210	3,530,574	73,037,955
Less accumulated depreciation for:				
Buildings	(8,137,766)	(715,441)	-	(8,853,207)
Runways and other airport infrastructure	(26,630,586)	(1,157,098)	-	(27,787,684)
Equipment, furniture and fixtures and other	(5,343,525)	(523,905)	162,573	(5,704,857)
Total accumulated depreciation	(40,111,877)	(2,396,444)	162,573	(42,345,748)
Total capital assets, being depreciated, net	27,545,294	(546,234)	3,693,147	30,692,207
Capital assets, net	\$ 36,189,930	\$ 1,246,868	\$ (428)	\$ 37,436,370

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

**Fort Smith Regional Airport**  
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**Note 5: Long-term Liabilities**

The following is a summary of long-term liabilities for the years ended December 31, 2010 and 2009:

	<b>2010</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due in One Year</b>
Revenue bonds payable	\$3,440,000	\$ -	\$ 125,000	\$ 3,315,000	\$ 130,000
Unamortized bond discount	(32,740)	-	(1,656)	(31,084)	-
	<u>\$3,407,260</u>	<u>\$ -</u>	<u>\$ 123,344</u>	<u>\$ 3,283,916</u>	<u>\$ 130,000</u>
	<b>2009</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due in One Year</b>
Revenue bonds payable	\$3,555,000	\$ -	\$ 115,000	\$ 3,440,000	\$ 125,000
Unamortized bond discount	(34,396)	-	(1,656)	(32,740)	-
	<u>\$3,520,604</u>	<u>\$ -</u>	<u>\$ 113,344</u>	<u>\$ 3,407,260</u>	<u>\$ 125,000</u>

***Revenue Bonds Payable***

The revenue bonds payable consist of Airport Revenue Bonds (Bonds) in the original amount of \$5,290,000 dated October 1, 1999, which bear interest at 4.90% to 6.25%. The Bonds are payable in annual installments through October 1, 2026. The Airport is required to make monthly deposits of approximately \$28,000 to the debt service fund held by the trustee. All of the Bonds still outstanding may be redeemed at the Airport's option on or after October 1, 2010. The redemption price is equal to the principal amount being redeemed plus accrued interest to the redemption date. The Bonds are secured by the net revenues and accounts receivable of the Airport and the assets restricted under the bond indenture agreement.

The indenture agreement requires that certain funds be established with the trustee. Accordingly, these funds are included as restricted cash and cash equivalents, held by trustee for debt service and investments - restricted in the balance sheets. The indenture agreement also requires the Airport to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least the maximum annual debt service on all bonds (including any additional bonds issued), and restrictions on issuance of additional debt. As of December 31, 2010 and 2009, the Airport is in compliance with these debt covenants.

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The debt service requirements as of December 31, 2010, are as follows:

<b>Year Ending December 31, 2010</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	130,000	204,028	334,028
2012	140,000	196,618	336,618
2013	145,000	188,497	333,497
2014	155,000	180,015	335,015
2015	165,000	170,870	335,870
2016-2020	985,000	688,190	1,673,190
2021-2024	1,030,000	306,757	1,336,757
2025-2026	565,000	51,875	616,875
	<u>\$ 3,315,000</u>	<u>\$ 1,986,850</u>	<u>\$ 5,301,850</u>

**Note 6: Rental Income From Operating Leases**

The Airport leases land, buildings and space in the terminal on a fixed fee and a contingent rental fee basis. Many of the leases provide for periodic review and adjustment of the rental amounts. Substantially all capital assets are held by the Airport for the purpose of rental or related use. Rental income for the years ended December 31, 2010 and 2009, was \$1,750,092 and \$1,669,281, respectively.

Minimum future rentals on noncancelable operating leases in each of the next five years and thereafter as of December 31, 2010 are as follows:

2011	1,497,391
2012	1,116,935
2013	738,887
2014	655,198
2015	424,478
Thereafter	<u>3,528,342</u>
	<u>\$ 7,961,231</u>

Contingent rentals and fees aggregated approximately \$319,000 in 2010 and \$295,000 in 2009, and are accrued in arrears.

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American Eagle and Delta Air Lines lease space for their operations. If the airlines choose to discontinue service, the financial impact on the Airport would be significant.

**Note 7: Public Employee's Retirement Plan**

***Plan Description***

The Airport participates in the City of Fort Smith's Public Employees' Retirement Plan (PERS), a defined contribution plan, that is qualified under Section 401(a) of the Internal Revenue Code (the "401(a) Plan"). The International City Management Association Retirement Corporation (ICMARC) serves as administrator of the 401(a) Plan. All full-time, nonuniformed employees are covered by the 401(a) Plan. Each participant has a plan account to which the contributions are made and each participant manages their account by selecting from various investment 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 of Directors and ICMARC. Approval from both the Board of Directors and ICMARC is required for 401(a) Plan amendments. Employees make no contributions to the 401(a) Plan; however, the Airport makes contributions equal to 10% of each covered employee's earnings.

Employer contributions to PERS totaled approximately \$52,500 each year for 2010 and 2009, respectively.

The Airport participates in an other post employment benefit plan administered by the City. The liability associated with these benefits is not significant to the Airport and has not been recorded. The complete disclosures required by GASB 45 are included in the City of Fort Smith's Comprehensive Annual Financial Report (CAFR).

**Note 8: Related Party Transactions**

The City is responsible for processing and disbursing the Airport's payroll on a bi-monthly basis. The Airport reimburses the City for the cost of the payroll plus a monthly administration fee of \$264. During 2010 and 2009, the Airport paid the City \$3,168 in payroll administration fees each year. In addition, the Airport also participates in the City's health insurance and retirement plans. The City bills the Airport monthly for the insurance premiums and bi-weekly for the retirement plan contributions. While the City retains the risk of financing the health insurance plan's obligations that exceed the Airport's and its employees' premiums paid, the monthly health insurance premiums are determined by the City at the beginning of each year and are adjusted as necessary. As of December 31, 2010 and 2009, \$46,799 and \$36,634 was payable to the City for payroll disbursements, insurance premiums, and retirement contributions, respectively.

**Fort Smith Regional Airport**  
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**Note 9: Risk Management**

The Airport is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

## **Supplementary Information**

**Fort Smith Regional Airport**  
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**Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)**  
**Year Ended December 31, 2010**

	Final Budget	Actual	Variance
<b>Operating Revenues:</b>			
<b>Flowage Fees</b>			
FBO	\$ 140,000	\$ 148,032	\$ 8,032
Corporate	14,500	24,203	9,703
	<u>154,500</u>	<u>172,235</u>	<u>17,735</u>
<b>Landing Fees</b>			
Airlines	140,000	153,860	13,860
FBO	4,000	4,898	898
	<u>144,000</u>	<u>158,758</u>	<u>14,758</u>
<b>Military Use Fees and Rents</b>			
Air National Guard	174,800	249,825	75,025
<b>Rented Buildings and Other</b>			
Airlines	157,000	157,221	221
Car rental	348,000	359,839	11,839
Restaurant	11,000	6,191	(4,809)
Other terminal and office	6,600	6,615	15
Displays	55,000	53,885	(1,115)
TSA	41,800	41,842	42
FBO	216,000	227,570	11,570
SASO	25,500	16,013	(9,487)
T - Hangars	33,000	23,564	(9,436)
Corporate	141,000	136,159	(4,841)
Freight companies	73,800	73,836	36
Commercial leases	332,900	332,957	57
Other buildings/hangars	2,000	2,300	300
	<u>1,443,600</u>	<u>1,437,992</u>	<u>(5,608)</u>
<b>Operators' Fees</b>	<u>4,300</u>	<u>6,099</u>	<u>1,799</u>
<b>Parking Lot Fees</b>	<u>256,000</u>	<u>312,100</u>	<u>56,100</u>
<b>Fuel</b>	<u>32,000</u>	<u>19,153</u>	<u>(12,847)</u>
<b>Other</b>			
Auto gas – rental car and airlines	75,800	74,230	(1,570)
Miscellaneous	150,000	42,598	(107,402)
LEO cost reimbursement	156,000	155,928	(72)
	<u>381,800</u>	<u>272,756</u>	<u>(109,044)</u>
Total operating revenues	<u>2,591,000</u>	<u>2,628,918</u>	<u>37,918</u>

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) (Continued)**  
**Year Ended December 31, 2010**

	Final Budget	Actual	Variance
<b>Operating Expenses</b>			
Personal services			
Salaries regular	\$ 523,745	\$ 517,151	\$ 6,594
Salaries overtime	14,420	4,265	10,155
Salaries other	1,095	988	107
FICA airport contribution	41,175	38,881	2,294
FUTA	15,105	-	15,105
Health coverage	60,945	62,638	(1,693)
Wellness	10,825	9,855	970
Dental	7,830	7,767	63
Disability	2,600	2,481	119
Life	10,410	9,269	1,141
Vision	1,350	1,426	(76)
Retirement	53,590	52,611	979
	<u>743,090</u>	<u>707,332</u>	<u>35,758</u>
Contractual services			
Electricity	173,000	151,830	21,170
Gas	107,500	63,504	43,996
Water and sewer	20,900	22,611	(1,711)
Telephone	10,700	9,781	919
Printing and advertisement	3,500	950	2,550
Postage and shipping	2,500	2,163	337
Travel and training	18,500	17,316	1,184
Airport marketing/development	50,000	3,429	46,571
Airport business	13,000	7,074	5,926
Professional services	35,000	31,303	3,697
Technical services	25,000	13,442	11,558
Legal services	35,000	8,802	26,198
Maintenance/repair – buildings	65,000	76,265	(11,265)
Maintenance/repair – fences	4,000	2,559	1,441
Maintenance/repair – pavement	40,000	20,691	19,309
Maintenance/repair – equipment	32,500	47,743	(15,243)
Maintenance/repair – displays	500	203	297
Other contractual services	143,000	147,441	(4,441)
LEO cost reimbursement	156,000	155,928	72
Audit and financial services	40,000	35,761	4,239
Commercial leases	82,500	82,491	9
Equipment rental	1,000	689	311
Laundry services	2,200	1,851	349
	<u>1,061,300</u>	<u>903,827</u>	<u>157,473</u>

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) (Continued)**  
**Year Ended December 31, 2010**

	Final Budget	Actual	Variance
Commodities			
Office and duplicating supplies	\$ 4,100	\$ 1,537	\$ 2,563
Motor fuels and lubricants	18,500	25,258	(6,758)
Chemicals	24,000	14,446	9,554
Janitorial supplies	14,000	12,099	1,901
Materials	14,000	18,261	(4,261)
Other commodities	15,500	10,626	4,874
Clothing and supplies	3,000	2,979	21
Tools	3,000	3,698	(698)
Trees and plants	4,600	647	3,953
Gas for resale	71,600	71,019	581
Aviation fuel for resale	28,000	16,545	11,455
Field lighting	17,500	13,548	3,952
	<u>217,800</u>	<u>190,663</u>	<u>27,137</u>
Other charges			
Commercial property insurance	33,000	30,327	2,673
Airport liability insurance	8,000	7,586	414
Officers and directors insurance	11,500	10,467	1,033
Vehicle insurance	11,500	10,227	1,273
Workers compensation insurance	11,000	9,661	1,339
Dues and subscriptions	8,600	8,291	309
Miscellaneous charges	8,350	9,104	(754)
Payroll processing fees	4,000	3,163	837
	<u>95,950</u>	<u>88,826</u>	<u>7,124</u>
Total operating expenses	<u>2,118,140</u>	<u>1,890,648</u>	<u>227,492</u>
<b>Operating Income</b>	<u>472,860</u>	<u>738,270</u>	<u>265,410</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income			
Interest – operating fund	2,500	8,768	6,268
Interest – bond reserve	3,600	4,330	730
Interest – FAA escrow	-	594	594
Interest – projects fund	3,500	4,373	873
	<u>9,600</u>	<u>18,065</u>	<u>8,465</u>
Gas royalties	<u>14,000</u>	<u>22,558</u>	<u>8,558</u>
Interest expense	<u>(209,300)</u>	<u>(210,980)</u>	<u>(1,680)</u>
Gain on sale of capital assets	<u>-</u>	<u>76,696</u>	<u>76,696</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(185,700)</u>	<u>(93,661)</u>	<u>92,039</u>

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) (Continued)**  
**Year Ended December 31, 2010**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Increase in Net Assets Before Capital Contributions, Grants and Charges</b>	<u>\$ 287,160</u>	<u>\$ 644,609</u>	<u>\$ 357,449</u>
<b>Capital Contributions, Grants and Charges</b>			
Passenger facility charges	<u>320,000</u>	<u>337,712</u>	<u>17,712</u>
Federal, state and local grants			
Federal grants	1,637,013	1,245,688	(391,325)
State grants	<u>663,972</u>	<u>629,959</u>	<u>(34,013)</u>
	<u>2,300,985</u>	<u>1,875,647</u>	<u>(425,338)</u>
Contributions from tenant improvements	<u>-</u>	<u>1,247,204</u>	<u>1,247,204</u>
<b>Increase in Net Assets Before Bond Principal Payments and Capital Outlay Expenditures</b>	<u>2,908,145</u>	<u>4,105,172</u>	<u>1,197,027</u>
Bond principal payments	126,300	125,000	1,300
Capital outlay expenditures	<u>3,251,865</u>	<u>3,643,312</u>	<u>(391,447)</u>
	<u>3,378,165</u>	<u>3,768,312</u>	<u>(390,147)</u>
<b>Increase (Decrease) in Net Assets, Budgetary Basis</b>	(470,020)	336,860	806,880
<b>Net Assets, Beginning of Year</b>	<u>35,512,873</u>	<u>35,512,873</u>	<u>-</u>
<b>Net Assets, End of Year</b>	<u>\$ 35,042,853</u>	<u>\$ 35,849,733</u>	<u>\$ 806,880</u>

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) (Continued)**  
**Year Ended December 31, 2010**

**Notes to Budgetary Comparison Schedule**

Budget Reconciliations – Items required to adjust actual expense and net assets reported on the budgetary basis to those reported within the financial statements as of and for the year ended December 31, 2010, are as follows:

Net Assets – Budgetary Basis, December 31, 2010	\$ 35,849,733
Depreciation and amortization expense	(2,539,675)
Bond principal payments	125,000
Capital outlay	<u>3,643,312</u>
 Net Assets – Statements of Revenues, Expenses and Changes in Net Assets, December 31, 2010	 <u>\$ 37,078,370</u>
 Operating expenses – Budgetary Basis, December 31, 2010	 \$ 1,890,648
Depreciation and amortization expense	<u>2,539,675</u>
 Operating expenses – Statements of Revenues, Expenses and Changes in Net Assets, December 31, 2010	 <u>\$ 4,430,323</u>

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Schedule of Passenger Facility Charge Revenues and Expenditures**  
**Year Ended December 31, 2010**

	<b>Date Approved</b>	<b>Amount Approved</b>	<b>Cumulative Total - December 31, 2009</b>
<b>Revenues</b>			
Passenger facility charge revenues received			\$ 4,111,139
Interest earned			162,956
			<u>4,274,095</u>
Total passenger facility charge revenue received			<u>\$ 4,274,095</u>
<b>Expenditures</b>			
PFC projects completed prior to 2007	7/24/1997	\$ 3,279,122	\$ 3,279,122
<b>Application 06-03</b>			
Perimeter road construction reimbursements	8/1/2006	128,515	128,515
Terminal Apron	8/1/2006	280,734	280,734
Conditioned Air at Gates	7/5/2006	200,000	200,000
Terminal Security Equipment	7/5/2006	123,270	123,270
		<u>732,519</u>	<u>732,519</u>
Total Application 06-03			
<b>Application 07-04</b>			
Boarding Bridge Installation	11/20/2007	876,500	262,454
Flight Information Display System	11/20/2007	84,000	-
Security System Improvements	11/20/2007	220,000	-
PFC Administration Costs	11/20/2007	70,000	-
		<u>1,250,500</u>	<u>262,454</u>
Total Application 07-04			
		<u>\$ 5,262,141</u>	<u>\$ 4,274,095</u>
Total passenger facility charge revenue expended		<u>\$ 5,262,141</u>	<u>\$ 4,274,095</u>

**Notes to Schedule:**

1. Revenues and expenditures on approved projects in the schedule above are presented on the cash basis and agree to the Passenger Facility Charge Quarterly Status Reports (PFC Reports) submitted by the Airport to the FAA.
2. Effective July 24, 1997 and amended on August 1, 2006, a total of \$3,279,122 has been approved to be imposed and collected on behalf of the Airport and used by the Airport.
3. Effective August 1, 2006, a total of \$732,519 has been approved to be imposed and collected on behalf of the Airport and used by the Airport.
4. Effective November 20, 2007, a total of \$1,250,500 has been approved to be imposed and collected on behalf of the Airport and used by the Airport.

<b>March 31, 2010</b>	<b>June 30, 2010</b>	<b>September 30, 2010</b>	<b>December 31, 2010</b>	<b>Year Ended December 31, 2010</b>	<b>Cumulative Total - December 31, 2010</b>
\$ 63,094	\$ 91,342	\$ 88,277	\$ 91,010	\$ 333,723	\$ 4,444,862
-	-	-	-	-	162,956
<u>\$ 63,094</u>	<u>\$ 91,342</u>	<u>\$ 88,277</u>	<u>\$ 91,010</u>	<u>\$ 333,723</u>	<u>\$ 4,607,818</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,279,122
-	-	-	-	-	128,515
-	-	-	-	-	280,734
-	-	-	-	-	200,000
-	-	-	-	-	123,270
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>732,519</u>
63,094	91,342	88,277	91,010	333,723	596,177
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>63,094</u>	<u>91,342</u>	<u>88,277</u>	<u>91,010</u>	<u>333,723</u>	<u>596,177</u>
<u>\$ 63,094</u>	<u>\$ 91,342</u>	<u>\$ 88,277</u>	<u>\$ 91,010</u>	<u>\$ 333,723</u>	<u>\$ 4,607,818</u>
<u>\$ 63,094</u>	<u>\$ 91,342</u>	<u>\$ 88,277</u>	<u>\$ 91,010</u>	<u>\$ 333,723</u>	<u>\$ 4,607,818</u>

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2010**

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount
Airport Improvement Program	U.S. Department of Transportation: Federal Aviation Administration	20.106		\$ 1,698,708
Law Enforcement Officer Reimbursement Agreement Program	U. S. Department of Homeland Security	97.090	HSTS0208HSLR150	<u>155,928</u>
				<u>\$ 1,854,636</u>

**Notes to Schedule**

1. This schedule includes the federal awards activity of the Fort Smith Regional Airport and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Of the federal expenditures presented in this schedule, the Airport provided no federal awards to subrecipients.

## **Statistical Section**

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Selected Airport Operations Information**  
**Year Ended December 31, 2010**

**Airport Operations**

The Airport serves the west-central Arkansas and east-central Oklahoma region. The following shows enplanement information at the Airport from 1996 to 2010:

Total Year	U. S. Domestic Enplanements	Airport % of Enplanements	U. S. Primary Airports
2010	86,129	Not available	Not available
2009	78,432	0.01%	696,769,131
2008	87,030	0.01%	734,700,902
2007	99,127	0.01%	762,397,236
2006	94,717	0.01%	737,647,279
2005	102,607	0.01%	735,547,793
2004	90,613	0.01%	704,793,726
2003	89,510	0.01%	650,045,348
2002	85,137	0.01%	644,579,286
2001	90,311	0.01%	659,422,828
2000	99,493	0.01%	708,638,875
1999	102,583	0.02%	682,614,094
1998	104,629	0.02%	655,175,790
1997	99,833	0.02%	641,563,706
1996	92,294	0.02%	621,613,161
		<b>2010 Passenger Enplanements</b>	<b>2010 Market Share</b>
<b>Airlines</b>			
	American Eagle (American Airlines)	53,673	62%
	Pinnacle (Delta Air lines)	7,258	9%
	Mesaba (Delta Air lines)	25,198	29%
		<u>86,129</u>	<u>100%</u>

Current year data is provided to the airport by local airlines. Prior years' data has been adjusted to data from the FAA DOT/TSC ACAIS Database.

**Rental Car and Airline Agreements**

The Airport has lease/operating agreements with the following car rental agencies: Avis, Budget, Hertz and National/Alamo/Enterprise. The Airport receives the greater of ten percent (10%) of gross revenue or \$35,154 annually from each agency.

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Selected Airport Operations Information (Continued)**  
**Year Ended December 31, 2010**

Fort Smith based airlines include American Eagle, Inc. (code share partner for American Airlines) and Delta Air Lines. The airlines lease agreements are equivalent in material respects, and include a covenant not to grant more favorable terms to other signatory airlines. The current landing fee is \$1.25 per thousand pounds of the maximum allowable certificated landing weight of aircraft used.

Terminal space is leased to the airlines on an exclusive and non-exclusive use basis. Exclusive use areas include ticket counters, office space and operations areas. The non-exclusive use areas include baggage claim space and security screening space. The 2010 rental rate of space for the exclusive use areas was \$19.00 per square foot per year and non-exclusive use areas was \$14.00 per square foot per year. The total rent for the non-exclusive use areas is prorated among the airlines using the industry standard “20/80%” rule – 20% of the total rent is equally divided among the airlines and 80% is divided according to each airline’s percentage of passenger enplanements. The agreements also establish fees for the airlines use of the public address system in the terminal.

**Other Lease Agreements**

Set forth below is a list of tenants or lessees of the Airport that are not airlines or rental car agencies.

Name of Tenant	Type
Federal Express	Freight company
Truman Arnold Companies	Fixed base operator
Arkansas Best Corporation	Corporate aviation department
Baldor Electric Company	Corporate aviation department
Golden Ventures	Corporate aviation department
Dude, Inc.	Corporate aviation department
Peterson Chemical	Corporate aviation department
Arkansas Air National Guard 188 <sup>th</sup> FW	A-10 Fighter Base
Runway Café	Restaurant
Republic Parking Systems	Parking lot operator
Transportation Security Administration	Governmental agency
Federal Aviation Administration	Air Traffic Control Tower, governmental agency
Fort Smith Aviation Services	Specialty aviation service organization
Numerous advertisers	Predominantly advertising in passenger terminal
Gardner, Inc	Office lease
The Home Depot	Commercial land lease
Young & Young Developers	Commercial land lease
Marion Driscoll	Commercial land lease
Numerous aviators	T-hangar leases

## **Other Required Reports**

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

Members of the Fort Smith Airport Commission  
Fort Smith Regional Airport  
Fort Smith, Arkansas

We have audited the financial statements of the Fort Smith Regional Airport, a component unit of the City of Fort Smith, Arkansas, as of and for the year ended December 31, 2010, and have issued our report thereon dated March 15, 2011. 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.

### **Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

We noted certain matters that we reported to the Airport's management in a separate letter dated March 15, 2011.

This report is intended solely for the information and use of the governing body, management and others within the Airport and the U.S. Department of Transportation – Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

March 15, 2011

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

Members of the Fort Smith Airport Commission  
Fort Smith Regional Airport  
Fort Smith, Arkansas

### **Compliance**

We have audited the compliance of the Fort Smith Regional Airport, a component unit of the City of Fort Smith, Arkansas, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that is applicable to its major federal program for the year ended December 31, 2010. The Airport's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Airport's management. Our responsibility is to express an opinion on the compliance of the Airport based on our audit.

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

In our opinion, the Airport complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2010.

### **Internal Control Over Compliance**

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

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

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

This report is intended solely for the information and use of the governing body, management, and the U.S. Department of Transportation – Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

March 15, 2011

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2010**

***Summary of Auditor's Results***

1. The opinion(s) expressed in the independent accountants' report was (were):  
 Unqualified       Qualified       Adverse       Disclaimed
  
2. The independent accountants' report on internal control over financial reporting described:  
Significant deficiency(ies) noted considered material weakness(es)?       Yes       No  
Significant deficiency(ies) noted that are not considered to be a material weakness?       Yes       No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?       Yes       No
  
4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:  
Significant deficiency(ies) noted considered material weakness(es)?       Yes       No  
Significant deficiency(ies) noted that are not considered to be a material weakness?       Yes       No
  
5. The opinion(s) expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was (were):  
 Unqualified       Qualified       Adverse       Disclaimed
  
6. The audit disclosed findings required to be reported by OMB Circular A-133?       Yes       No

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2010**

7. The Airport's major program was:

<b>Cluster/Program</b>	<b>CFDA Number</b>
Airport Improvement Program	20.106

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

9. The Airport qualified as a low-risk auditee as that term is defined in OMB Circular A-133?

Yes       No

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2010**

*Findings Required to be Reported by Government Auditing Standards*

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
No matters are reportable.		

*Findings Required to be Reported by OMB Circular A-133*

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
No matters are reportable.		

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended December 31, 2010**

<b>Reference Number</b>	<b>Summary of Findings</b>	<b>Status</b>
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No matters are reportable.

## **Independent Accountants' Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control Over Compliance**

Members of the Fort Smith Airport Commission  
Fort Smith Regional Airport  
Fort Smith, Arkansas

### ***Compliance***

We have audited the compliance of the Fort Smith Regional Airport with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, for its passenger facility charge program for the year ended December 31, 2010. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Airport's management. Our responsibility is to express an opinion on the Fort Smith Regional Airport's compliance based on our audit.

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

In our opinion, Fort Smith Regional Airport complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2010.

### ***Internal Control Over Compliance***

The management of the Fort Smith Regional Airport is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to the passenger facility charge program. In planning and performing our audit, we considered the Airport's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

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

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

This report is intended solely for the information and use of the governing body, management and others within the Airport and U. S. Department of Transportation – Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

March 15, 2011

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Passenger Facility Charges Audit Summary**  
**For the Year Ended December 31, 2010**

- |     |   |                      |               |
|-----|---|----------------------|---------------|
| 1.  | Type of report issued on PFC financial statements.  | <u>X</u> Unqualified | ___ Qualified |
| 2.  | Type of report on PFC compliance  | <u>X</u> Unqualified | ___ Qualified |
| 3.  | Quarterly Revenue and disbursements reconcile with submitted quarterly reports.   | ___ <u>X</u> Yes     | ___ No        |
| 4.  | PFC Revenue and Interest is accurately reported on FAA Form 5100-127.   | ___ <u>X</u> Yes     | ___ No        |
| 5.  | The Public Agency maintains a separate financial accounting record for each application.  | ___ <u>X</u> Yes     | ___ No        |
| 6.  | Funds disbursed were for PFC eligible items as identified in the FAA Decision to pay only for the allowable costs of the projects.                | ___ <u>X</u> Yes     | ___ No        |
| 7.  | Monthly carrier receipts were reconciled with quarterly carrier reports.  | ___ <u>X</u> Yes     | ___ No        |
| 8.  | PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds. | ___ <u>X</u> Yes     | ___ No        |
| 9.  | Serving carriers were notified of PFC program actions/changes approved by the FAA.  | ___ <u>X</u> Yes     | ___ No        |
| 10. | Quarterly Reports were transmitted (or available via website) to remitting carriers.  | ___ <u>X</u> Yes     | ___ No        |
| 11. | The Public Agency is in compliance with Assurances 5, 6, 7 and 8 of the Guide.  | ___ <u>X</u> Yes     | ___ No        |
| 12. | Project administration is carried out in accordance with Assurance 9 of the Guide.  | ___ <u>X</u> Yes     | ___ No        |
| 13. | Project administration is carried out in accordance with Assurance 10 of the Guide.   | ___ <u>X</u> Yes     | ___ No        |
| 14. | For those public agencies with excess revenue, a plan for the use of this revenue has been submitted to the FAA for review and concurrence.       | ___ Yes              | ___ No        |
|     |   | <u>X</u> N/A         | ___ No        |

***Findings Required to be Reported by the Guide***

No matters are reportable.

**Fort Smith Regional Airport**  
**A Component Unit of the City of Fort Smith, Arkansas**  
**Passenger Facility Charges**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended December 31, 2010**

<b>Reference Number</b>	<b>Fiscal Year of Initial Occurrence</b>	<b>Finding</b>	<b>Status</b>
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No matters are reportable.