

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

Annual Financial Report
December 31, 2020 and 2019

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
December 31, 2020 and 2019

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March 26, 2021

To the Public:

Enclosed herein is the Annual Financial Report for the Fort Smith Regional Airport for the fiscal year ended December 31, 2020 with a comparison to fiscal year ended December 31, 2019. 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) require management to 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 auditor.

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 Board of Directors, appoints members to the Commission with at least 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 fourteen 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 77 corporate and general aviation aircraft, as well as the 188th Wing of the Arkansas Air National Guard. The airport's primary runway is 8,017 x 150-feet with dual instrument landing systems. The crosswind runway is 5,002 x 150-feet. 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 2020

Scheduled Airline Service – As of December 31, 2020, one regional airline (American Airlines) served the Airport. American operates non-stop flights to Dallas/Ft. Worth. The airline offers connecting service to most destinations in the world.

Enplaned passengers decreased 59.6% in 2020 versus 2019. 2020 reduction is in line with the national average.

Enplanements (revenue and non-revenue passenger boardings)

	American Airlines (to DFW)	Delta * (to ATL)	Atlantic Southeast (to ATL)	Charters	Total
2010	53,673	32,456	—	—	86,129
2011	50,452	35,782	—	—	86,234
2012	50,552	36,101	—	—	86,653
2013	49,041	35,479	—	—	84,520
2014	54,663	38,206	—	—	92,869
2015	56,109	30,595	—	—	86,704
2016	55,978	31,510	—	—	87,488
2017	61,516	28,066	—	—	89,582
2018	62,738	27,763	—	—	90,501
2019	69,096	26,574	—	—	95,670
2020	32,920	5,740	—	—	38,660

* Delta flights were suspended as of July 7, 2020.

Aircraft operations decreased 6.1% in 2020 versus 2019.

Aircraft Operations

	Itinerant				Local*		Total
	Air Carrier airline/charter over 60 passengers	Air Taxi airline/charter 60 passengers or less	General Aviation	Military	General Aviation	Military	
2010	1,465	5,692	14,683	8,623	7,982	6,281	44,726
2011	1,650	4,456	13,903	7,395	7,706	5,859	40,969
2012	318	6,262	13,710	6,944	6,915	4,816	38,965
2013	64	6,009	12,835	6,141	5,660	4,171	34,880
2014	53	5,624	12,948	5,487	5,421	4,400	33,933
2015	463	4,407	12,902	4,844	6,975	4,261	33,852
2016	2,053	2,776	14,533	7,160	11,816	6,189	44,527
2017	2,906	2,023	13,962	6,182	10,393	4,835	40,301
2018	1,483	3,264	12,833	4,974	8,547	2,957	34,058
2019	1,663	3,267	12,482	4,283	8,054	1,966	31,715
2020	740	2,796	12,234	4,397	7,966	1,662	29,795

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

Other 2020 Highlights

As a result of the COVID-19 Pandemic, the airport experienced the loss of one airline and a significant loss in revenues. The Airport received a CARES Act grant of \$11,614,426, that can be used to reimburse eligible operating expenses from January 20, 2020 through April 2024.

Infrastructure projects completed in 2020 included replacing the taxiway A east lighting system; a section of perimeter security fence with erosion control barrier; terminal ramp light fixtures; and carpet in the main lobby of the terminal. The master plan and 7/25 runway overlay design projects continue with both having a projected completion date in early 2021.

The preparation of this report and a successful 2020 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

A handwritten signature in blue ink, appearing to read "Michael Griffin".

Michael Griffin, A.A.E., Airport Director

Fort Smith Airport Commission
Members as of December 31, 2020

	<i>Term Expires</i>
Robert Hawkins	June 30, 2025
Gary Grimes	June 30, 2024
James E. Kelly, III M.D.	June 30, 2022
Mac McGhee	June 30, 2023
Jan Nordin	June 30, 2022
Kevin Ridgley	June 30, 2021
Justin Voris, MD	June 30, 2021

Airport Officials
as of December 31, 2020

Michael Griffin, A.A.E., Airport Director
Kathy Boze, C.M., Director of Administration
Richard Rushing, C.M., Director of Operations

Financial Section

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Fort Smith Regional Airport (the Airport), a component unit of the City of Fort Smith, Arkansas, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as 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 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 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 opinion.

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, 2020 and 2019, and the changes in its financial position and cash flows for the years 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 as 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Airport's basic financial statements. The introductory and statistical sections and accompanying supplementary information, including the schedule of expenditures of federal awards as required by Title U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule and 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 Title U.S. Code of Federal Regulation Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on these sections.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2021, on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Airport's 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 Airport's internal control over financial reporting and compliance.

BKD, LLP

Little Rock, Arkansas
March 26, 2021

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Management's Discussion and Analysis
December 31, 2020 and 2019

This narrative discussion and analysis is intended to serve as an introduction and overview to the Fort Smith Regional Airport's (the Airport's) basic financial statements for the fiscal years ended December 31, 2020 and 2019. 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) 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 statements of net position, the statements of revenues, expenses, and changes in net position, and the statements of cash flows. The statements of net position present information on all of the Airport's assets, liabilities and deferred outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the Airport's financial health. The statements of revenues, expenses and changes in net position present information showing how the Airport's net position changed during the most recent year, along with a comparison of operating performance with 2019. 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

2020 Statement of Net Position Compared to 2019

Current assets were down 47.7% or \$2,363,211 and current liabilities were down 23.1% or \$127,584. The change in current assets is primarily due to the increase in certificates of deposits which reduced current assets and increased noncurrent assets. The change in current liabilities is primary due to removal of current revenue bond payable when the bond was paid off. Total net position has increased by 5.7% or \$2,315,466.

2019 Statement of Net Position Compared to 2018

Current assets were up 5.1% or \$238,187 and current liabilities were down 46.1% or \$472,936. The change in current assets is primarily due to the increase in certificates of deposit. The change in current liabilities is primarily due to the completion of the ARFF station construction during the year, reducing year-end construction payables from prior year end. Total net position has decreased by 0.5% or \$206,969.

FORT SMITH REGIONAL AIRPORT Statements of Net Position

	2020	2019	2018	2020-2019 % Change	2019-2018 % Change
Current Assets	\$ 2,588,221	\$ 4,951,432	\$ 4,713,245	-47.7%	5.1%
Capital Assets, net	35,250,231	36,173,147	37,520,677	-2.6%	-3.6%
Other Assets	5,231,913	1,187,239	957,659	340.7%	24.0%
Total Assets	<u>\$ 43,070,365</u>	<u>\$ 42,311,818</u>	<u>\$ 43,191,581</u>	1.8%	-2.0%
Total Deferred Outflows of Resources	<u>\$ -</u>	<u>\$ 55,665</u>	<u>\$ 70,807</u>	-100.0%	-21.4%
Current Liabilities	\$ 425,913	\$ 553,497	\$ 1,026,433	-23.1%	-46.1%
Noncurrent Liabilities	-	1,485,000	1,700,000	-100.0%	-12.6%
Total Liabilities	<u>\$ 425,913</u>	<u>\$ 2,038,497</u>	<u>\$ 2,726,433</u>	-79.1%	-25.2%
Net Position					
Net Investment in Capital Assets	\$ 35,000,556	\$ 34,528,812	\$ 35,681,484	1.4%	-3.2%
Restricted Net Position	27,801	455,490	441,523	-93.9%	3.2%
Unrestricted Net Position	<u>7,616,095</u>	<u>5,344,684</u>	<u>4,412,948</u>	42.5%	21.1%
Total Net Position	<u>\$ 42,644,452</u>	<u>\$ 40,328,986</u>	<u>\$ 40,535,955</u>	5.7%	-0.5%

2020 Revenues and Expenses Compared to 2019

Operating revenues decreased by \$753,040 (25.2%) due to decreased traffic as a result of the COVID-19 pandemic. Operating expenses decreased by \$19,732 (0.4%). Capital contributions, grants and charges were up \$3,223,893 (225.6%) due to the CARES Act funds received in the current year. Projects funded in 2020 included: completing construction of Taxiway A lighting system and continuing the airport master plan and the design of Runway 7/25 overlay; all federally funded with state match. Completing perimeter fencing and security systems updates with PFC funds. Net position increased by \$2,315,466 (5.7%).

2019 Revenues and Expenses Compared to 2018

Operating revenues increased by \$76,678 (2.6%) due to the increase in landing fees, building rentals and parking lot fees. Operating expenses increased \$56,924 (1.2%) primarily due to the increases in personnel services. Capital contributions, grants and charges were down \$2,008,532 (58.4%) due to the completion of the ARFF Station Construction project in 2019 funded by the FAA. Projects funded in 2019 included: completing FAA funded construction of the new ARFF station and continuing the Master Plan; PFC funded purchases of security system updates and state matching share of the ARFF station construction and Checkpoint renovations. Net position decreased by \$206,969 (0.5%).

FORT SMITH REGIONAL AIRPORT Summary of Revenues, Expenses and Changes in Net Position

	2020	2019	2018	% Change 2020-2019	% Change 2019-2018
Operating Revenues:					
Flowage Fees	\$ 75,181	\$ 138,293	\$ 140,853	-45.6%	-1.8%
Landing Fees	77,459	157,817	144,179	-50.9%	9.5%
Rented Buildings and Other	1,661,746	1,845,141	1,805,188	-9.9%	2.2%
Parking Lot Fees	176,075	508,467	482,454	-65.4%	5.4%
Fuel	65,651	71,693	67,581	-8.4%	6.1%
Other	176,447	264,188	268,666	-33.2%	-1.7%
	<u>2,232,559</u>	<u>2,985,599</u>	<u>2,908,921</u>	-25.2%	2.6%
Operating Expenses:					
Personal Services	858,078	831,412	797,953	3.2%	4.2%
Contractual Services	925,662	980,293	980,617	-5.6%	0.0%
Commodities	193,947	232,175	228,217	-16.5%	1.7%
Other Charges	126,550	96,378	93,780	31.3%	2.8%
Depreciation and Amortization	2,490,055	2,473,766	2,456,533	0.7%	0.7%
	<u>4,594,292</u>	<u>4,614,024</u>	<u>4,557,100</u>	-0.4%	1.2%
Operating Loss	(2,361,733)	(1,628,425)	(1,648,179)	-45.0%	1.2%
Nonoperating Expenses, net	<u>24,275</u>	<u>(7,575)</u>	<u>(69,608)</u>	420.5%	89.1%
Decrease in Net Position before Capital Contributions, Grants and Charges	(2,337,458)	(1,636,000)	(1,717,787)	-42.9%	4.8%
Capital Contributions, Grants and Charges	<u>4,652,924</u>	<u>1,429,031</u>	<u>3,437,563</u>	225.6%	-58.4%
Increase (Decrease) in Net Position after Capital Contributions, Grants and Charges	2,315,466	(206,969)	1,719,776	1218.8%	-112.0%
Total Net Position, Beginning of Year	<u>40,328,986</u>	<u>40,535,955</u>	<u>38,816,179</u>	-0.5%	4.4%
Total Net Position, End of Year	<u>\$42,644,452</u>	<u>\$ 40,328,986</u>	<u>\$ 40,535,955</u>	5.7%	-0.5%

Capital Assets

2020 Capital Projects

The following major projects and additions were completed during 2020:

- Taxiway A East lighting construction was completed with expenses of \$674,240 incurred in 2020. The project was completed in 2020 at total of \$757,358. The project was funded 90% with FAA funds with the balance of \$76,130 from state matching funds.
- Section of perimeter security fencing was completed at a total cost of \$333,596 and funded 100% with PFC funds.
- Terminal ramp light fixtures was updated to LED; and the security access control and CCTV system were upgraded at a combined cost of \$51,330 and funded 100% with PFC funds.
- Security access control and CCTV system were upgraded at a combined cost of \$51,330. Both funded 100% with PFC funds.
- New carpet was installed in the main terminal lobby for a total cost of \$92,813 and terminal ramp light fixtures were updated to LED at \$23,675. Both completed with airport funds.

The following projects were started and underway at December 31, 2020:

- Airport master plan update continued from 2019 with expenses of \$47,651 incurred in 2020. The project is expected to conclude in early 2021 at total cost of \$778,929. FAA will provide 90% funding for this project, with the balance expected to be funded by state reimbursement in 2021.
- Design phase for the runway overlay continued from 2019 with expenses of \$264,575 incurred in 2020. The project is expected to conclude in early 2021 at a total of \$495,000. FAA will provide 90% funding for this project, with the balance expected to be funded by state reimbursement in 2021.

2019 Capital Projects

The following major projects and additions were completed during 2019:

- ARFF station construction continued from 2017 with expenses of \$94,143 incurred in 2019. The project was completed in 2019 with collective total of \$4,004,112 building cost. The project was funded 90% with FAA funds, \$250,000 by state matching funds and a portion covered by PFC and airport funds.
- The Checkpoint remodel completed in 2019 with \$179,258 incurred in 2019. The project was completed with a total cost of \$182,978 funded by the Airport and state matching of \$84,758.
- Terminal furniture was added in 2019 with a cost of \$19,515, ARFF station furniture and fixtures totaling \$39,010, other office furniture and fixtures totaling \$16,571 and other assets totaling \$20,300.

The following projects were started and underway at December 31, 2019:

- Airport master plan update continued from 2019 with expenses of \$481,517 incurred in 2019. Conclusion of this project is projected for early 2020 at total cost of \$778,929. FAA will provide 90% funding for this project, with the balance expected to be funded by state reimbursement in 2019.
- FAA funded projects which began in 2019 were the design phase for the runway overlay totaling \$177,214 and Taxiway A East lighting totaling \$83,117 in 2019.

Debt Administration

2020 Compared to 2019

Long-term debt was reduced by 100% as the CARES Act funds were used to extinguish debt.

2019 Compared to 2018

Long-term debt was reduced by 11.0% as a result of the scheduled principal payments established by terms of the bonds.

FORT SMITH REGIONAL AIRPORT Outstanding Long-Term Debt					
	2020	2019	2018	% Change 2020-2019	% Change 2019-2018
Revenue Bonds Payable, Net	\$ -	\$1,700,000	\$ 1,910,000	-100.0%	-11.0%
Total Outstanding Debt	<u>\$ -</u>	<u>\$1,700,000</u>	<u>\$ 1,910,000</u>		

Additional information on the Airport's long-term debt can be found on page 22 of this report.

Economic Factors and Next Year's Rates and Charges

The airport experienced a 59.6% reduction in enplaned passengers during 2020, for a total of 38,660 as compared to 95,670 in 2019 and 90,501 in 2018. Total aviation operations decreased 6.1% in 2020 for a total of 29,795 as compared to and 31,715 in 2019 and 34,058 in 2018.

The COVID-19 Pandemic resulted in unprecedented losses in flights, passengers, and revenues. The airport's passenger loss is comparable to the national average for U.S. airports. Delta Air Line chose to stop services in July and then canceled their lease in December.

The majority of the airport's revenues are derived from leases that are based on usage and percentages of gross receipts. The airport saw a significant loss in revenues from these leases. A CARES Act grant has reduced the effects from the 2020 revenue loss.

Passengers and flights are projected to start increasing in 2021 which will result in a gradual increase in revenue. The CARES Act grant and other stimulus funding will be used for eligible operating expense through April 2024, which will keep the airport in good standing financially.

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
Statements of Net Position
December 31, 2020 and 2019

	2020	2019
Current Assets		
Cash	\$ 2,014,971	\$ 1,687,709
Restricted cash equivalents	-	87,357
Certificates of deposit	-	2,672,700
Accounts receivable, net of allowance; 2019-\$3,650; 2019-\$3,650	127,906	130,208
Passenger facility charges receivable	27,801	62,475
Intergovernmental receivable	243,644	157,988
Inventories	46,607	38,186
Prepaid expenses	79,663	72,663
Interest receivable	47,629	42,146
	<u>2,588,221</u>	<u>4,951,432</u>
Noncurrent Assets		
Restricted cash	131,603	81,581
Certificates of deposit	5,100,310	800,000
Restricted certificates of deposit	-	305,658
Capital assets, not being depreciated	8,066,937	7,831,515
Capital assets, being depreciated, net	27,183,294	28,341,632
	<u>40,482,144</u>	<u>37,360,386</u>
Total noncurrent assets	<u>40,482,144</u>	<u>37,360,386</u>
Total assets	<u>43,070,365</u>	<u>42,311,818</u>
Deferred Outflows of Resources		
Deferred amounts on refunded bonds	-	55,665
	<u>-</u>	<u>55,665</u>
Total deferred outflows of resources	<u>-</u>	<u>55,665</u>

	<u>2020</u>	<u>2019</u>
Current Liabilities		
Payable From Unrestricted Assets		
Accounts payable	\$ 278,975	\$ 160,993
Accrued expenses and other	72,293	102,629
Accounts payable – related party	9,000	21
Current maturity of revenue bonds payable	-	215,000
Unearned revenue	65,645	74,854
	<u>425,913</u>	<u>553,497</u>
Noncurrent Liabilities		
Revenue bonds payable	-	1,485,000
	<u>425,913</u>	<u>2,038,497</u>
Net Position		
Net investment in capital assets	<u>35,000,556</u>	<u>34,528,812</u>
Restricted for		
Expendable		
Bond reserves	-	393,015
Capital expenditures	27,801	62,475
	<u>27,801</u>	<u>455,490</u>
Unrestricted	<u>7,616,095</u>	<u>5,344,684</u>
Total net position	<u>\$ 42,644,452</u>	<u>\$ 40,328,986</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenues		
Flowage fees	\$ 75,181	\$ 138,293
Landing fees	77,459	157,817
Rented buildings and other	1,661,746	1,845,141
Parking lot fees	176,075	508,467
Fuel	65,651	71,693
Other	176,447	264,188
Total operating revenues	2,232,559	2,985,599
Operating Expenses		
Personal services	858,078	831,412
Contractual services	925,662	980,293
Commodities	193,947	232,175
Other charges	126,550	96,378
Depreciation and amortization	2,490,055	2,473,766
Total operating expenses	4,594,292	4,614,024
Operating Loss	(2,361,733)	(1,628,425)
Nonoperating Revenues (Expenses)		
Investment income	102,622	101,075
Interest expense	(78,347)	(108,650)
Net nonoperating expenses	24,275	(7,575)
Decrease in Net Position Before Capital Contributions and Grants	(2,337,458)	(1,636,000)
Capital Contributions and Grants		
Passenger facility charges	157,915	379,561
Federal, state and local grants	4,495,009	1,049,470
Total capital contributions and grants	4,652,924	1,429,031
Increase (Decrease) in Net Position	2,315,466	(206,969)
Net Position, Beginning of Year	40,328,986	40,535,955
Net Position, End of Year	\$ 42,644,452	\$ 40,328,986

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Activities		
Cash receipts from customers and users	\$ 1,997,888	\$ 2,951,339
Cash payments to vendors for goods and services	(1,060,136)	(1,246,797)
Cash payments for employee services	(874,737)	(827,805)
	<u>63,015</u>	<u>876,737</u>
Noncapital Financing Activities		
Noncapital grants and gifts	<u>3,309,613</u>	<u>-</u>
	<u>3,309,613</u>	<u>-</u>
Capital and Related Financing Activities		
Principal payments on bonds payable	(1,700,000)	(210,000)
Interest paid	(45,264)	(94,569)
Acquisition and construction of capital assets	(1,641,926)	(1,650,468)
Passenger facility charges received	192,589	374,851
Capital grants received	<u>1,336,713</u>	<u>1,443,413</u>
	<u>(1,857,888)</u>	<u>(136,773)</u>
Investing Activities		
Purchase of investments	(5,100,310)	(3,778,358)
Proceeds from sales and maturities of investments	3,778,358	2,368,520
Income received on investments and cash equivalents	<u>97,139</u>	<u>77,078</u>
	<u>(1,224,813)</u>	<u>(1,332,760)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	289,927	(592,796)
Cash and Cash Equivalents, Beginning of Year	<u>1,856,647</u>	<u>2,449,443</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,146,574</u>	<u>\$ 1,856,647</u>
Presented on the Statements of Net Position		
Current assets - cash	\$ 2,014,971	\$ 1,687,709
Current assets - restricted cash equivalents	-	87,357
Noncurrent assets - restricted cash	<u>131,603</u>	<u>81,581</u>
	<u>\$ 2,146,574</u>	<u>\$ 1,856,647</u>

See Notes to Financial Statements

	<u>2020</u>	<u>2019</u>
Reconciliation of Operating Loss to Net Cash Provided by		
Operating Activities		
Operating loss	\$ (2,361,733)	\$ (1,628,425)
Items not requiring cash		
Depreciation and amortization	2,490,055	2,473,766
Changes in		
Accounts receivable	(234,671)	(34,260)
Inventories	(8,421)	23,678
Prepaid expenses	(7,000)	(5,379)
Accounts payable and accrued liabilities	<u>184,785</u>	<u>47,357</u>
Net cash provided by operating activities	<u>\$ 63,015</u>	<u>\$ 876,737</u>
Noncash Capital and Related Financing Activities:		
Capital assets acquired through payables	<u>\$ 249,675</u>	<u>\$ 90,889</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

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, pursuant to Arkansas Code Section 14-359-104, 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 its statutory authority to remove members of the Airport Commission. Also, the City board of directors retains approval authority over the issuance of bonds for Airport purposes. Therefore, the City is financially accountable for the Airport, which is presented as a discretely presented component unit 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.

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, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Airport considers all liquid investments with original maturity of three months or less to be cash equivalents. At December 31, 2019, cash equivalents consist of money market funds held by brokers.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

Investments and Investment Income

Investments in certificates of deposit and money market funds are carried at amortized cost. Investment income includes dividend and interest income and gas royalties.

Accounts Receivable

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

Inventory Pricing

Inventories of de-icing material are valued at cost using the first in, first out (FIFO) method. Inventories of fuel are stated at the lower of cost or market determined using the FIFO method.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition 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
Equipment, furniture and fixtures and other	3 – 10 years
Ramps, runways, taxiways and improvements	10 – 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.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

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 statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Deferred Outflows of Resources and Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net position by the airport that is applicable to a future reporting period and a deferred outflow of resources is a consumption of net position by the Airport that is applicable to a future period. Both deferred inflows and outflows are reported in the statement of net position but are not recognized in the financial statements as revenues and expenses until the period(s) to which they relate. Deferred outflows of resources of the airport consist of the deferred charge on bond refunding.

Deferred amounts on refunded bonds are being amortized into interest expense using the interest method over the shorter of the life of the refunded or refunding bonds. Remaining balance of the deferred amounts was written off in 2020 when bonds were retired.

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.

Revenue

The Airport has two classes of revenue, operating and nonoperating. 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. Nonoperating revenues generally consist of items that are not classified as operating revenues such as interest income and gas royalties.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

Net Position

Net position of the Airport is classified in three components. Net investment in capital assets consists 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 position is 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 position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

When both restricted and unrestricted resources are available for use, generally it is the Airport's policy to use restricted resources first.

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 unearned 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 \$157,915 and \$379,561 for 2020 and 2019, respectively.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

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.

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

At December 31, 2020 and 2019, none of the Airport's bank balances of \$7,253,073 and \$5,737,425, respectively, 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, 2020 and 2019, the Airport had the following investments and maturities:

December 31, 2020					
Type	Cost	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Money market funds	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2019					
Type	Cost	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Money market funds	\$ 87,357	\$ 87,357	\$ -	\$ -	\$ -
	<u>\$ 87,357</u>	<u>\$ 87,357</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Fort Smith Regional Airport
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Notes to Financial Statements
December 31, 2020 and 2019

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, 2019 are securities issued or backed by the U.S. Government. At December 31, 2019, the Airport’s investments not directly guaranteed by the U.S. government were rated as follows:

Investment Type	Rating Agency	Rating
Money Market Mutual Funds	S&P/Moody’s	AAA/Aaa

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, 2019 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:

	<u>2020</u>	<u>2019</u>
Carrying value		
Deposits	\$ 7,246,884	\$ 5,547,648
Investments	-	87,357
	<u>\$ 7,246,884</u>	<u>\$ 5,635,005</u>
Included in the following statement of net position captions		
Current cash	\$ 2,014,971	\$ 1,687,709
Current restricted cash equivalents	-	87,357
Current certificates of deposit	-	2,672,700
Noncurrent restricted cash	131,603	81,581
Noncurrent certificates of deposit	5,100,310	800,000
Noncurrent restricted certificates of deposit	-	305,658
	<u>\$ 7,246,884</u>	<u>\$ 5,635,005</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

Restricted Cash, Cash Equivalents and Investment Securities

Cash, cash equivalents and investment securities are restricted as follows:

	<u>2020</u>	<u>2019</u>
Revenue bond interest and principal funds	\$ -	\$ 87,357
Revenue bond reserve funds	-	305,658
Passenger facility charge fund	<u>131,603</u>	<u>81,581</u>
	<u>\$ 131,603</u>	<u>\$ 474,596</u>

Investment Income

Investment income for the years ended December 31, 2020 and 2019, consisted of:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 99,773	\$ 99,604
Gas royalties	<u>2,849</u>	<u>1,471</u>
	<u>\$ 102,622</u>	<u>\$ 101,075</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

Note 3: Capital Assets

A summary of changes in capital assets for the years ended December 31, 2020 and 2019, is as follows:

	2020			Ending Balance
	Beginning Balance	Transfers In and Additions	Transfers Out and Disposals	
Capital assets, not being depreciated:				
Land	\$ 6,831,680	\$ -	\$ -	\$ 6,831,680
Construction in progress	999,835	338,318	(102,896)	1,235,257
Total capital assets, not being depreciated	<u>7,831,515</u>	<u>338,318</u>	<u>(102,896)</u>	<u>8,066,937</u>
Capital assets, being depreciated:				
Buildings and building improvements	26,346,321	117,108	(1,382,392)	25,081,037
Runways and other airport infrastructure	55,412,227	781,034	(161,089)	56,032,172
Equipment, furniture and fixtures and other	12,517,865	427,285	(447,822)	12,497,328
Total capital assets, being depreciated	<u>94,276,413</u>	<u>1,325,427</u>	<u>(1,991,303)</u>	<u>93,610,537</u>
Less accumulated depreciation for:				
Buildings and building improvements	(14,598,457)	(637,962)	1,382,392	(13,854,027)
Runways and other airport infrastructure	(40,980,818)	(1,519,662)	161,089	(42,339,391)
Equipment, furniture and fixtures and other	(10,355,506)	(332,431)	454,112	(10,233,825)
Total accumulated depreciation	<u>(65,934,781)</u>	<u>(2,490,055)</u>	<u>1,997,593</u>	<u>(66,427,243)</u>
Total capital assets, being depreciated, net	<u>28,341,632</u>	<u>(1,164,628)</u>	<u>6,290</u>	<u>27,183,294</u>
Capital assets, net	<u>\$ 36,173,147</u>	<u>\$ (826,310)</u>	<u>\$ (96,606)</u>	<u>\$ 35,250,231</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

	2019			
	Beginning Balance	Transfers In and Additions	Transfers Out and Disposals	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 6,831,680	\$ -	\$ -	\$ 6,831,680
Construction in progress	4,155,196	764,328	(3,919,689)	999,835
Total capital assets, not being depreciated	<u>10,986,876</u>	<u>764,328</u>	<u>(3,919,689)</u>	<u>7,831,515</u>
Capital assets, being depreciated:				
Buildings and building improvements	22,159,231	4,187,090	-	26,346,321
Runways and other airport infrastructure	55,412,227	-	-	55,412,227
Equipment, furniture and fixtures and other	12,572,234	95,396	(149,765)	12,517,865
Total capital assets, being depreciated	<u>90,143,692</u>	<u>4,282,486</u>	<u>(149,765)</u>	<u>94,276,413</u>
Less accumulated depreciation for:				
Buildings and building improvements	(13,983,843)	(614,614)	-	(14,598,457)
Runways and other airport infrastructure	(39,442,533)	(1,538,285)	-	(40,980,818)
Equipment, furniture and fixtures and other	(10,183,515)	(320,867)	148,876	(10,355,506)
Total accumulated depreciation	<u>(63,609,891)</u>	<u>(2,473,766)</u>	<u>148,876</u>	<u>(65,934,781)</u>
Total capital assets, being depreciated, net	<u>26,533,801</u>	<u>1,808,720</u>	<u>(889)</u>	<u>28,341,632</u>
Capital assets, net	<u>\$ 37,520,677</u>	<u>\$ 2,573,048</u>	<u>\$ (3,920,578)</u>	<u>\$ 36,173,147</u>

Construction Commitments

As of December 31, 2020, the Airport has construction commitments which include the master plan update and runway overlay design, among other commitments. As of December 31, 2020 and 2019, outstanding construction commitments totaled \$116,324 and \$1,099,290, respectively.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2020 and 2019

Note 4: Long-term Liabilities

The following is a summary of long-term liabilities for the years ended December 31, 2020 and 2019:

	2020				
	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Revenue bonds payable	\$ 1,700,000	\$ -	\$ (1,700,000)	\$ -	\$ -
	2019				
	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Revenue bonds payable	\$ 1,910,000	\$ -	\$ (210,000)	\$ 1,700,000	\$ 215,000

Revenue Bonds Payable

On August 2, 2011, the City issued \$3,205,000 of Airport Refunding Revenue Bonds, Series 2011, on behalf of the Commission to refund on a current basis the remaining outstanding Airport Refunding and Improvement Revenue Bonds, Series 1999, and to pay expenses and fund the reserves of the issuance of the Series 2011 bonds.

The Series 2011 bonds (the Bonds) bear interest at 1.50% to 5.35%. The Bonds are payable in annual installments through October 1, 2026. All of the Bonds still outstanding may be redeemed at the Airport's option on or after October 1, 2020. The redemption price is equal to the principal amount being redeemed plus accrued interest to the redemption date. The Bonds are secured by all revenues from the operation of the Airport.

The Series 2011 bonds were retired during the year ended December 31, 2020.

Note 5: 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, including parking lot fees, for the years ended December 31, 2020 and 2019, was \$1,837,821 and \$2,353,608, respectively.

Fort Smith Regional Airport
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Notes to Financial Statements
December 31, 2020 and 2019

Minimum future rentals on noncancellable operating leases in each of the next five years and thereafter as of December 31, 2020 are as follows:

2021	\$ 1,315,299
2022	815,253
2023	702,041
2024	572,972
2025	234,216
Thereafter	3,760,256
	\$ 7,400,037

Contingent rentals and fees aggregated approximately \$456,314 in 2020 and \$672,947 in 2019, and are accrued in arrears. During 2020, due to the impact of the COVID-19 pandemic, the Airport waived monthly minimum guarantees.

American Airlines and Delta Air Lines lease space for their operations for approximately \$319,000 per year. If the airlines choose to discontinue service, the financial impact on the Airport would be significant.

During 2020, Delta Air Lines discontinued service due to the impact of the COVID-19 pandemic on their operations.

Note 6: Public Employees' 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 his or her 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 5% of each covered employee's earnings.

Employer contributions to PERS totaled approximately \$37,000 and \$36,000 for 2020 and 2019, respectively.

Fort Smith Regional Airport
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Notes to Financial Statements
December 31, 2020 and 2019

The Airport also participates in the other postemployment benefit plan (plan) administered by the City. The plan is a cost sharing multiple employer plan. All benefit obligations of the plan are pooled and recorded on the books of the City. As of December 31, 2020, there were no material required contributions. The complete disclosures required by GASB 75 are included in the City of Fort Smith's Annual Financial Report.

Note 7: Related Party Transactions

The City is responsible for processing and disbursing the Airport's payroll on a bi-weekly basis. The Airport reimburses the City for the cost of the payroll plus a monthly administration fee of \$264. During 2020 and 2019, the Airport paid the City \$3,163 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, 2020 and 2019, \$9,000 and \$21, respectively, was payable each year to the City for payroll disbursements, insurance premiums, and retirement contributions.

Note 8: 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 the current or any of the three preceding years.

Note 9: COVID-19 Pandemic & CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. The dynamic nature of the COVID-19 pandemic is the cause of numerous uncertainties, some of which include the ultimate duration or extent of the pandemic; the duration of travel restrictions and warnings; to what extent the COVID-19 pandemic will continue to disrupt the local or global economy; the extent to which such disruption will adversely impact construction or other operations at the Airport; continued actions that may be taken by governmental authorities to contain the outbreak or treat its impact; and duration or extent to which any of the foregoing may have a material adverse effect on the financial position, results of operations and cash flows of the Airport, including reduction in the overall investment position and declines in passenger traffic. The duration of these uncertainties and the ultimate financial effects cannot be reasonable estimated at this time.

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CARES Act grant is the Coronavirus Aid, Relief, and Economic Security Act approved by the United States Congress and signed into law by the President on March 27, 2020. It was a legislative action to address the crisis created by the COVID-19 pandemic and includes among its relief measures direct aid in the form of grants for airports as well as direct aid, loans and loan guarantees for passenger and cargo airlines. The Airport was awarded \$11.6 million in CARES Act grant funds which may be used for qualifying expenses as defined by the Federal Aviation Administration over the next four years. The Airport drew \$3.5 million of the CARES Act grant in FY 2020.

Supplementary Information

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)
Year Ended December 31, 2020

	Final Budget	Actual	Variance
Operating Revenues			
Flowage Fees			
FBO	\$ 64,000	\$ 69,629	\$ 5,629
Corporate	5,000	5,552	552
	<u>69,000</u>	<u>75,181</u>	<u>6,181</u>
Landing Fees			
Airlines	63,200	76,839	13,639
FBO	-	620	620
	<u>63,200</u>	<u>77,459</u>	<u>14,259</u>
Rented Buildings and Other			
Airlines	170,000	167,584	(2,416)
Car rental	357,000	321,704	(35,296)
Other terminal and office	1,600	1,576	(24)
Displays	44,000	44,142	142
TSA	49,000	49,355	355
FBO	320,200	320,218	18
SASO	90,000	90,044	44
T - Hangars	81,000	81,996	996
Corporate	119,000	119,679	679
Commercial leases	469,000	465,448	(3,552)
	<u>1,700,800</u>	<u>1,661,746</u>	<u>(39,054)</u>
Parking Lot Fees	<u>200,000</u>	<u>176,075</u>	<u>(23,925)</u>
Fuel	<u>55,000</u>	<u>65,651</u>	<u>10,651</u>
Other			
Auto gas – rental car and airlines	26,700	23,665	(3,035)
Miscellaneous	51,100	65,352	14,252
LEO cost reimbursement	87,500	87,430	(70)
	<u>165,300</u>	<u>176,447</u>	<u>11,147</u>
Total operating revenues	<u>2,253,300</u>	<u>2,232,559</u>	<u>(20,741)</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, 2020

	Final Budget	Actual	Variance
Operating Expenses			
Personal services			
Salaries regular	\$ 690,200	\$ 681,692	\$ 8,508
Salaries overtime	7,200	3,519	3,681
Longevity	1,900	1,558	342
FICA airport contribution	53,500	49,398	4,102
FUTA unemployment	4,000	-	4,000
Health coverage and wellness	80,000	73,197	6,803
Dental	7,400	6,433	967
Disability	3,600	3,002	598
Life	1,200	921	279
Vision	1,400	1,180	220
Retirement	37,200	36,809	391
	<u>887,600</u>	<u>858,078</u>	<u>29,522</u>
Contractual services			
Electricity	148,800	143,654	5,146
Gas	69,510	68,205	1,305
Water and sewer	37,600	29,786	7,814
Telephone	9,000	7,838	1,162
Printing and advertisement	3,000	126	2,874
Postage and shipping	2,500	1,084	1,416
Travel and training	18,500	9,999	8,501
Airport marketing/development	35,000	21,184	13,816
Airport business	7,000	1,232	5,768
Professional services	26,000	22,975	3,025
Technical services	29,000	22,076	6,924
Legal services	7,000	2,900	4,100
Maintenance/repair – buildings	160,000	122,679	37,321
Maintenance/repair – fences	3,000	978	2,022
Maintenance/repair – pavement	100,000	47,673	52,327
Maintenance/repair – equipment	125,000	121,950	3,050
Maintenance/repair - Wash Bay	-	1,735	(1,735)
Maintenance/repair – displays	-	186	(186)
Other contractual services	90,000	87,998	2,002
LEO cost reimbursement	87,500	87,430	70
Audit and financial services	42,000	41,483	517
Commercial leases	82,500	82,491	9
	<u>1,082,910</u>	<u>925,662</u>	<u>157,248</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, 2020

	Final Budget	Actual	Variance
Commodities			
Office and duplicating supplies	\$ 2,100	\$ 1,829	\$ 271
Motor fuels and lubricants	21,500	15,002	6,498
Chemicals	21,000	8,942	12,058
Janitorial supplies	21,000	20,361	639
Materials	19,600	15,854	3,746
Other commodities	26,500	14,422	12,078
Clothing and supplies	8,700	6,107	2,593
Tools	4,200	3,581	619
Trees and plants	23,000	15,784	7,216
Gas for resale	23,500	23,678	(178)
Aviation fuel for resale	52,000	61,266	(9,266)
Field lighting	20,000	7,121	12,879
	<u>243,100</u>	<u>193,947</u>	<u>49,153</u>
Other charges			
Commercial property insurance	47,000	46,427	573
Airport liability insurance	8,300	8,755	(455)
Officers and directors insurance	6,400	6,424	(24)
Vehicle insurance	13,700	13,854	(154)
Workers compensation insurance	12,600	12,342	258
Dues and subscriptions	8,800	9,351	(551)
Miscellaneous charges	1,500	19,164	(17,664)
Payroll processing fees	3,700	3,163	537
Property and use taxes	7,500	7,070	430
	<u>109,500</u>	<u>126,550</u>	<u>(17,050)</u>
Total operating expenses	<u>2,323,110</u>	<u>2,104,237</u>	<u>218,873</u>
Operating Income	<u>(69,810)</u>	<u>128,322</u>	<u>239,614</u>
Nonoperating Revenues (Expenses)			
Investment income			
Interest – operating fund	73,000	64,962	(8,038)
Interest – bond reserve	-	6,988	6,988
Interest – PFC funds reserved	100	80	(20)
Interest – projects fund	27,000	27,743	743
Gas royalties	1,400	2,849	1,449
	<u>101,500</u>	<u>102,622</u>	<u>1,122</u>
Interest expense	<u>(91,605)</u>	<u>(78,347)</u>	<u>13,258</u>
Total Nonoperating Revenues (Expenses)	<u>9,895</u>	<u>24,275</u>	<u>14,380</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, 2020

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Increase in Net Position Before Capital Contributions and Grants	<u>\$ (59,915)</u>	<u>\$ 152,597</u>	<u>\$ 253,994</u>
Capital Contributions and Grants			
Passenger facility charges	170,000	157,915	(12,085)
Federal, state and local grants			
Federal grants	3,950,616	4,419,272	468,656
State grants	<u>203,500</u>	<u>75,737</u>	<u>(127,763)</u>
	<u>4,154,116</u>	<u>4,495,009</u>	<u>340,893</u>
	<u>4,324,116</u>	<u>4,652,924</u>	<u>328,808</u>
Increase in Net Position Before Bond Principal Payments and Capital Outlay Expenditures	<u>4,264,201</u>	<u>4,805,521</u>	<u>582,802</u>
Bond principal payments	1,700,000	1,700,000	-
Capital outlay expenditures	<u>1,647,365</u>	<u>1,125,346</u>	<u>522,019</u>
	<u>3,347,365</u>	<u>2,825,346</u>	<u>522,019</u>
Increase (Decrease) in Net Position, Budgetary Basis	<u>\$ 916,836</u>	<u>\$ 1,980,175</u>	<u>\$ 1,104,821</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, 2020

Notes to Budgetary Comparison Schedule

Budget Reconciliation – Items required to adjust actual expenses reported on the budgetary basis to those reported within the financial statements as of and for the year ended December 31, 2020, are as follows:

Operating expenses – Budgetary Basis, December 31, 2020	\$ 2,104,237
Depreciation and amortization expense	<u>2,490,055</u>
Operating expenses – Statements of Revenues, Expenses and Changes in Net Position, December 31, 2020	<u>\$ 4,594,292</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, 2020

	<u>Date Approved</u>	<u>Amount Approved</u>	<u>Cumulative Total - December 31, 2019</u>
Revenues			
Passenger facility charge revenues received			\$ 7,607,511
Interest earned			166,453
			<u>\$ 7,773,964</u>
Expenditures			
PFC projects completed prior to 2007	7/24/1997	\$ 3,279,122	\$ 3,279,122
Application 06-03			
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>
Application 07-04			
Boarding Bridge Installation	11/20/2007	877,533	877,533
Flight Information Display System	11/20/2007	85,262	85,262
Security System Improvements	11/20/2007	279,268	279,268
PFC Administration Costs	11/20/2007	68,045	68,045
		<u>1,310,108</u>	<u>1,310,107</u>
Application 12-05			
Airport Entry Signs to Passenger Terminal	10/22/2012	65,273	65,273
Passenger Terminal Sterile Lobby Expansion	10/22/2012	52,982	52,982
Portable Pre-conditioned Air and Ground Power Unit	10/22/2012	130,453	130,453
Runway 1/19 Pavement Rehabilitation and Marking	10/22/2012	26,202	26,202
Perimeter Security Fence and Erosion Control	10/22/2012	227,191	227,191
Runway Closure Signs	10/22/2012	37,186	37,186
Wildlife Habitat Mitigation and Drainage Improvements	10/22/2012	506,974	506,974
Wildlife Management Plan	10/22/2012	4,625	4,625
Security System Upgrade	10/22/2012	33,951	33,951
Breaking Action Testing Equipment	10/22/2012	7,250	7,250
Replace Security Vehicles	10/22/2012	47,482	47,482
Public Information Systems	10/22/2012	12,515	12,515
Snow Removal Equipment	10/22/2012	87,359	87,359
PFC Administration	10/22/2012	80,968	80,968
		<u>1,320,411</u>	<u>1,320,411</u>
Application 18-06			
Runway 1-19 Lighting Rehabilitation	1/17/2018	54,770	54,770
Emergency Airfield Generator Replacement	1/17/2018	39,621	39,621
Rehabilitate Terminal Building (chiller, HVAC, Fire Alarm Panel)	1/17/2018	355,213	333,565
Acquire/Replace Snow Removal Equipment	1/17/2018	306,330	305,896
Acquire Runway Sweeper	1/17/2018	140,000	126,707
RW 7-25 Rehab (Crack Repair, Seal Coat, Remark & Rw Renum)	1/17/2018	120,000	-
ARFF Facility Design & Construction	1/17/2018	290,000	116,863
Mater Plan Update & Airport Layout Plan	1/17/2018	57,500	-
TW A East Lighting Rehab & Electric Vault Phase Modification	1/17/2018	80,000	-
Rehab Term Bldg (Public Info System Improvements)	1/17/2018	20,000	-
Upgrade Security Systems & Security Fencing	1/17/2018	400,000	8,210
PFC Program Mgmt.	1/17/2018	100,000	64,638
			<u>1,050,270</u>
Total passenger facility charge revenue expended		<u>\$ 6,642,160</u>	<u>\$ 7,692,429</u>

Quarters Ended				Year Ended	Cumulative
March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	December 31, 2020	Total - December 31, 2020
\$ 88,113	\$ 43,485	\$ 25,005	\$ 35,986	\$ 192,589	\$ 7,800,100
17	22	23	19	81	166,534
<u>\$ 88,130</u>	<u>\$ 43,507</u>	<u>\$ 25,028</u>	<u>\$ 36,005</u>	<u>\$ 192,670</u>	<u>\$ 7,966,634</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,279,122</u>
-	-	-	-	-	128,515
-	-	-	-	-	280,734
-	-	-	-	-	200,000
-	-	-	-	-	123,270
-	-	-	-	-	732,519
-	-	-	-	-	877,533
-	-	-	-	-	85,262
-	-	-	-	-	279,268
-	-	-	-	-	68,045
-	-	-	-	-	1,310,107
-	-	-	-	-	65,273
-	-	-	-	-	52,982
-	-	-	-	-	130,453
-	-	-	-	-	26,202
-	-	-	-	-	227,191
-	-	-	-	-	37,186
-	-	-	-	-	506,974
-	-	-	-	-	4,625
-	-	-	-	-	33,951
-	-	-	-	-	7,250
-	-	-	-	-	47,482
-	-	-	-	-	12,515
-	-	-	-	-	87,359
-	-	-	-	-	80,968
-	-	-	-	-	1,320,411
-	-	-	-	-	54,770
-	-	-	-	-	39,621
-	-	-	-	-	333,565
-	-	-	-	-	305,896
-	-	-	-	-	126,707
-	-	-	-	-	-
-	-	-	-	-	116,863
-	-	-	-	-	-
-	-	-	-	-	-
30,350	10,396	15,017	81,772	137,535	145,745
1,208	-	-	3,857	5,065	69,703
<u>31,558</u>	<u>10,396</u>	<u>15,017</u>	<u>85,629</u>	<u>142,600</u>	<u>1,192,870</u>
<u>\$ 31,558</u>	<u>\$ 10,396</u>	<u>\$ 15,017</u>	<u>\$ 85,629</u>	<u>\$ 142,600</u>	<u>\$ 7,835,029</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Schedule of Passenger Facility Charge Revenues and Expenditures (Continued)
Year Ended December 31, 2020

Notes to Schedule:

1. This schedule includes the Passenger Facility Charge (PFC) Program activity of the Airport and is presented on the cash basis of accounting. Under the cash basis of accounting, PFC revenues are recognized when they are received rather than when earned and eligible expenditures are recognized when payment for the related goods or services is made. The information in this schedule is presented in accordance with the requirements of the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration (FAA). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

PFC expenditures may consist of direct project costs, administrative costs, debt service and bond financing costs, as applicable to active applications. The Schedule of Passenger Facility Charges Revenues and Expenditures includes eligible expenditures that have been applied against PFC's collected as of December 31, 2020.
2. Collections and expenditures on approved projects in the schedule above agree to the Passenger Facility Charge Quarterly Status Reports (PFC Reports) submitted by the Airport to the FAA.
3. 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.
4. 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.
5. Effective November 20, 2007 and amended on October 4, 2012, a total of \$1,310,108 has been approved to be imposed and collected on behalf of the Airport and used by the Airport.
6. Effective October 22, 2012 and amended on January 17, 2018, a total of \$1,320,411 has been approved to be imposed and collected on behalf of the Airport and used by the Airport.
7. Effective January 17, 2018, a total of \$1,963,434 has been approved to be imposed and collected on behalf of the Airport and used by the Airport.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Transportation/ Federal Aviation Administration				
COVID-19 - Airport Improvement Program	20.106		\$ -	\$ 3,546,586
Airport Improvement Program	20.106		-	892,922
			<u>\$ -</u>	<u>\$ 4,439,508</u>

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Airport under programs of the federal government for the year ended December 31, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Airport, it is not intended to and does not present the financial position, changes in net position or cash flows of the Airport.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The airport has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

Statistical Section

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Selected Airport Operations Information
Year Ended December 31, 2020

Airport Operations

The Airport serves the west-central Arkansas and east-central Oklahoma region. The following shows enplanement information at the Airport from 2000 to 2020:

Total Year	U. S. Domestic Enplanements	Airport % of Enplanements	U. S. Primary Airports
2020	38,660 *	Not available	Not available
2019	95,670	0.01%	935,693,527
2018	90,501	0.01%	899,710,601
2017	89,582	0.01%	856,918,657
2016	87,488	0.01%	829,290,352
2015	86,704	0.01%	798,390,000
2014	92,869	0.01%	760,650,507
2013	84,520	0.01%	738,415,316
2012	86,653	0.01%	731,187,279
2011	86,234	0.01%	726,007,934
2010	86,129	0.01%	713,580,637
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

Airlines	2020 Passenger Enplanements	2020 Market Share
American Airlines	32,920	85%
Express Jet (Delta Air lines)	5,740	15%
	38,660 *	100%

Current year data is provided to the airport by local airlines. Prior years' data has been adjusted to data from the FAA Website.

*Significant decrease in enplanements in 2020 due to impact of COVID-19 pandemic on operations including termination of Delta Airlines service.

Rental Car and Airline Agreements

The Airport has lease/operating agreements with the following car rental agencies: Avis/Budget, Hertz and National/Enterprise. The Airport receives the greater of ten percent (10%) of gross revenue or a minimum annual guarantee 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, 2020

Fort Smith based airlines include 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 2020 rental rate of space for the exclusive use areas was \$20.95 per square foot per year and non-exclusive use areas was \$15.45 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. As of December 31, 2020, the agreement with American Airlines has not been changed due to the change in circumstances following the termination of the Delta Airlines agreement.

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
Truman Arnold Companies	Fixed base operator
ArcBest Corporation	Corporate aviation department
Shirley Crain	Corporate aviation department
Peterson Air	Corporate aviation department
USAF (188 th Wing)	MQ-9 MCE, governmental agency
ABS Avionics	Specialty aviation service organization
Franklin County Aviation	Specialty aviation service organization
Mercy	Specialty aviation service organization
Metro Aviation	Specialty aviation service organization
Rogers Aviation	Specialty aviation service organization
Southern Eagle Aviation	Specialty aviation service organization
Numerous aviators	Specialty aviation service organization
Numerous aviators	T-hangar & small hangar leases
Federal Aviation Administration	Air Traffic Control Tower, governmental agency
Transportation Security Administration	Governmental agency
Airport Advertising	Advertising in passenger terminal
Ashby Street Outdoor	Advertising Billboard
Republic Parking Systems	Parking lot operator
Lyft	Commercial Operations
Raiser	Commercial Operations - UBER
Best HVAC Parts & Supply	Commercial building lease
Galbreath Dodson	Commercial building lease - Federal Express
Heritage Hotel Group - Homewood	Commercial land lease
Heritage Hotel Group - Home2	Commercial land lease
Home Depot	Commercial land lease
Young & Young Development	Commercial land lease

Other Required Reports

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, 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, the financial statements of Fort Smith Regional Airport, a component unit of the City of Fort Smith, Arkansas (the Airport), which comprise the statement of net position as of December 31, 2020, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated March 26, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airport's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 financial statements. 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airport's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Little Rock, Arkansas
March 26, 2021

Report on Compliance for the Major Federal Program and Report on Internal Control over Compliance

Independent Auditor's Report

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

Report on Compliance for the Major Federal Program

We have audited the Fort Smith Regional Airport's, a component unit of the City of Fort Smith, Arkansas (the Airport), compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Airport's major federal program for the year ended December 31, 2020. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Airport's major federal program based on our audit of the types of compliance requirements referred to above. 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Airport's compliance.

Opinion on the Major Federal Program

In our opinion, the Fort Smith Regional Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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 a 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Little Rock, Arkansas
March 26, 2021

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs
Year Ended December 31, 2020

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:
 Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

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

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:
 Unmodified Qualified Adverse Disclaimer

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, 2020

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? Yes No

7. The Airport's major program was:

Cluster/Program	CFDA Number
Airport Improvement Program	20.106

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Airport qualified as a low-risk auditee? 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, 2020

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
	No matters are reportable.

Findings Required to be Reported by Uniform Guidance

Reference Number	Finding
	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 Year Ended December 31, 2020

Reference Number	Summary of Finding	Status
No matters are reportable.		

**Report on Compliance for the Passenger Facility Charge Program and
Report on Internal Control Over Compliance
Independent Auditor's Report**

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

Report on Compliance

We have audited Fort Smith Regional Airport's compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, that could have a direct and material effect on the passenger facility charge program for the year ended December 31, 2020.

Management's Responsibility

Management is responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance of the Airport based on our audit of the types of compliance requirements referred to above. 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 types of 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 on compliance with the passenger facility charge program. However, our audit does not provide a legal determination of the Airport's compliance.

Opinion on Passenger Facility Charge Program

In our opinion, Fort Smith Regional Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with types of requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the passenger facility charge program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Little Rock, Arkansas
March 26, 2021

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Passenger Facility Charges Audit Summary
Year Ended December 31, 2020

- | | | | |
|-----|---|---------------------|---------------|
| 1. | Type of report issued on PFC financial statements. | <u>X</u> Unmodified | ___ Qualified |
| 2. | Type of report on PFC compliance. | <u>X</u> Unmodified | ___ Qualified |
| 3. | Quarterly revenue and expenditures reconcile with submitted quarterly reports and reported un-liquidated revenue matches actual amounts. | ___ <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 Assurance 8 of the Guide. | ___ <u>X</u> Yes | ___ No |
| 12. | Project design and implementation 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 |

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Schedule of Passenger Facility Charges Program
Findings and Questioned Costs
Year Ended December 31, 2020

Findings Required to be Reported by the Guide

Reference Number	Finding	Questioned Costs
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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
Year Ended December 31, 2020

Reference Number	Summary of Finding	Status
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No matters are reportable.