

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2002**

The City of Fort Smith, Arkansas

CITY OF FORT SMITH, ARKANSAS

Comprehensive Annual Financial Report

Year Ended December 31, 2002

Prepared By the

**CITY OF FORT SMITH, ARKANSAS
FINANCE DEPARTMENT**

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CITY OF FORT SMITH, ARKANSAS

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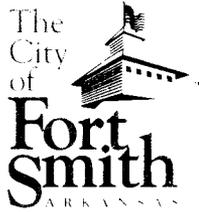
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May 2, 2003

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

Introduction

The Comprehensive Annual Financial Report of the City of Fort Smith, Arkansas (the City), for the fiscal year ended December 31, 2002, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City and its discretely presented component units. All disclosures necessary to enable the reader to gain an understanding of the City's financial affairs have been included.

The Comprehensive Annual Financial Report is presented in five sections: Introductory, Financial, Single Audit, Statistical, and Other. The Introductory Section includes this transmittal letter, the 2001 Certificate of Achievement for Excellence in Financial Reporting and the City's organization chart. The Financial Section includes the general purpose financial statements, the combining, individual fund, and account group financial statements and schedules, supplementary information, and combining statements for discretely presented component units, as well as the report of independent public accountants on the financial statements and schedules. The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis. The Other Section includes the Report of Independent Public Accountants on Compliance with Arkansas State Statutes. The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984, the Single Audit Act Amendments of 1996, and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Information related to this single audit, including the schedule of expenditures of federal and state awards and reports of independent public accountants on the internal control structure and compliance with applicable laws and regulations, are included in the Single Audit Section of this report.

This report includes all funds and account groups of the City and its component units. The City provides a full range of services. These services include police and fire protection; sanitation services; water and sewer utilities services; the maintenance and construction of highways, streets, and infrastructure; parks and recreation services; and planning, zoning, and general administrative services. In addition to general government activities, the City is accountable for the Municipal Court Retirement System; therefore, these activities are reported as part of the City. Although the Fort Smith Regional Airport, the Fort Smith Parking Authority, the Advertising and Promotion Commission, and the Fort Smith Public Library are legally separate from the City, the relationship between these entities and the City is such that the Airport, Parking Authority, Advertising and Promotion Commission, and the Public Library are included as a part of the reporting entity in the general purpose financial statements.

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Economic Condition and Outlook

The City is the economic and employment center of western Arkansas and eastern Oklahoma. According to the Chamber of Commerce data, new and expanding industries and businesses have created more than 19,000 new jobs in the past five years. Private capital investment by local businesses and industries has exceeded \$2.3 billion in the past five years. Fort Smith, the state's second largest city, enjoys a metropolitan area population of 211,000 and a residential population of over 80,000. The unemployment rate for 2002 was 4.7%, compared with 2.9%, for 2001. The latest cost of living index figures indicate that Fort Smith's index is 89.6% based upon the U.S. composite index of 100. Along with the increase in the unemployment rate, the City's revenue from sales taxes was impacted by the downturn in the nation's economy. The City's 2% assessed local sales and use tax decreased by 1.44% for 2002, as compared to the previous five-year annual average increase of 3.3%. The City's share of the 1% Sebastian County (the County) sales and use tax is allocated based upon its population within the County. The City's share of the county sales tax decreased by 2.97% in 2002 as compared to 2001.

The City provides a full range of municipal services. In addition, the City provides contract water service to an additional 60,000 citizens in 12 suburban communities and contract wastewater treatment for two small suburban communities. The City's capacity for water production is approximately 45 million gallons per day.

Major Initiatives

For the Year

In 2002, the City's leadership produced many significant results. A partial selection of these results are as follows:

- Construction of the Lake Fort Smith water supply expansion project began. A \$46 million contract was authorized from a total estimated \$180 million project.
- The comprehensive plan was adopted and is now available to use as a planning tool to make improvements to the City.
- Over 60% of the \$28 million wastewater plant improvements contracts were completed.
- Successfully negotiated resolution of the water dispute with Van Buren without court proceedings. The arbitration process has been finalized and the rate methodology for Van Buren through the end of its 20 year water purchase commitment with the City has been defined.
- In a joint effort with the Fort Chaffee Redevelopment Trust, the boundary disputes with Barling were negotiated to an agreeable solution and Barling's suit against the FCRA and the City was withdrawn. Development of the Chaffee Crossing area is underway.
- Commenced the design and/or construction of all 2002 sales tax street and drainage projects.
- Designated as a "City of Note" by the Vision in Local Television for the City's cable access channel.
- Designated as an Arkansas Volunteer Community of the Year for 2002.

For the Future

Through policy guidance of the City's Board of Directors (the Board) and in cooperation with the leadership of our educational institutions, business, and industry, the City has enjoyed and shared the role of moving the community in a positive direction over the last decade. To keep the momentum, the City will need to continue focusing its efforts on those policy issues facing the citizens and businesses in the coming year. Several of these policy issues and initiatives can be described as follows:

- As Chaffee Crossing develops, the City must provide public safety, street maintenance and construction, municipal utility services, planning and code enforcement for the area.
- Implementation of the comprehensive plan recommendations will require future budget allocations to accomplish its key elements.

- The City must determine a funding source for its share of the new courts building once a final plan by Sebastian County is adopted.
- The City's share of the county sales tax represents approximately 38% of the General Fund annual revenue. The reliance of a revenue that is impacted by external factors such as economic conditions is a concern. The City must continue to review other revenue options and continue to economize expenditures in the General Fund in an effort to provide financial stability while providing the level of services, especially public safety, that citizens demand.
- The Parks and Recreation Commission report recommends expansion and improvement to the City's park facilities and acreage. A funding source must be identified to meet these needs.
- Future expansion and development of the riverfront park and facilities as well as continued improvements in the downtown area will need to be considered in terms of dedicating efforts for obtaining sources of funding. Private participation and grants are options to review.
- Wet weather relief sewers to collect excessive rainfall entering the wastewater collection system must be constructed between 2003 and 2012 to comply with an EPA administrative order. Rate adjustments will be necessary to support debt service for future bond issues.

Financial Information

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Single Audit

As a recipient of federal and state financial awards, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management.

As a part of the City's single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal and state financial award programs, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's single audit for the fiscal year ended December 31, 2002, disclosed no instances of material weaknesses in the internal control structure or material violations of applicable laws and regulations.

Budgeting Controls

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by citizens as the governing body. Activities of the General Fund, the Street Fund in the Special Revenue Funds, the Water and Sewer Operating Fund, and the Sanitation Operating Fund are included in the annual appropriated budget. Project length financial plans are adopted for the Capital Projects Funds and Special Revenue Funds, excluding the Street Maintenance Fund. The level of budgetary control (that is, the level at which expenditures or expenses cannot legally exceed the appropriated amount) is established at the departmental level. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbrances are reflected as a reservation of fund balance in the applicable funds. Unencumbered appropriations lapse at year-end.

General Government Functions

The following schedule presents a summary of the Governmental Fund revenues (excluding component units) for the fiscal year ended December 31, 2002, and the amount and percentage of increases and decreases in relation to prior year:

<u>Revenue Source</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2001</u>	<u>Percent of Increase (Decrease) Total</u>
Taxes	\$ 7,681,552	11.57%	\$ 601,689	16.52%
Sales taxes	35,167,253	52.96	(704,767)	(19.35)
Licenses and permits	1,343,203	2.02	(119,079)	(3.27)
Utility franchise fees	4,846,025	7.30	(353,774)	(9.71)
Intergovernmental	11,900,040	17.92	(2,043,513)	(56.11)
Fines and forfeitures	1,744,309	2.63	128,552	3.53
Fees for services	786,492	1.18	65,968	1.81
Interest	1,515,915	2.28	(1,348,187)	(37.02)
Contributions	831,586	1.25	(98,869)	(2.71)
Miscellaneous	590,805	0.89	229,902	6.31
Total	\$ 66,407,180	100.00%	\$ (3,642,078)	(100.00)%

Taxes are derived from the assessment of ad valorem taxes upon the appraised value of real and personal property within the City. The increase between years is due to an increase in the appraised property values.

Sales taxes include the revenue generated by the 1% City sales and use tax which has been in effect since November 1985, the Sebastian County 1% sales and use tax which has been in effect since August 1994, and the ½% City sales and use tax which became effective in January 1998. Sales tax in the City decreased 2% in 2002 from the prior year. The decrease in sales taxes was a result of a general economic downturn in the community.

The decrease in utility franchise fees between years is due to the much milder temperatures in the winter and summer of 2002 as compared to 2001.

Intergovernmental revenue decreased significantly between years due to less activity from disaster funding and construction projects. The total Federal Emergency Management Assistance (FEMA) grants related to the ice storm of 2001 totaled approximately \$35,000 in 2002 as compared to approximately \$971,000 in 2001. Total construction for the downtown streetscape project funded with an Economic Development Administration grant totaled approximately \$366,000 in 2002 as compared to approximately \$717,000 in 2001. Also, Department of Justice grants related to police personnel and equipment decreased approximately \$188,000, state economic projects were completed during 2001 totaling approximately \$299,000 with no similar activity in 2002, and the Darby Community Center construction funded with state historic preservation grants totaled approximately \$12,000 during 2002 as compared to approximately \$120,000 for 2001.

The decrease in interest revenue between years is a result of a decrease of approximately \$1.1 million in funds available for investment in the 1997 Sales and Use Tax Construction Fund, a capital projects fund, with the completion of the convention center project during of 2002. The significant decrease in the rate of return on investments between years also contributed to the decline in interest for 2002.

The following schedule presents a summary of the Governmental Fund expenditures (excluding component units) for the fiscal year ended December 31, 2002, and the amounts and percentage of increases and decreases in relation to prior year:

Function	Amount	Percent of Total	Increase (Decrease) from 2001	Percent of Increase (Decrease) Total
General government	\$ 5,215,541	7.60%	\$ 423,964	134.13%
Public safety	19,892,329	28.99	(63,922)	(20.22)
Public works	23,702,402	34.54	4,896,778	1,549.19
Community services	5,536,507	8.07	538,753	170.44
Other	1,739,626	2.54	(264,696)	(83.74)
Capital	3,415,681	4.98	(3,718,187)	(1,176.32)
Debt service	9,115,124	13.28	(1,496,604)	(473.48)
Total	\$ 68,617,210	100.00%	\$ 316,086	100.00%

General government expenditures increased between years due to the addition of a downtown development program as well as an increase in the allocation of information and technology systems cost to the General Fund with a corresponding decrease in allocation from the enterprise funds.

The increase in public works expenditures is due to the total street and drainage projects constructed in the Sales Tax Fund, a special revenue fund, being \$19.9 million for 2002 as compared to \$12.7 million for 2001. This increase was offset by the \$2.3 million decrease in public works expenditures in the Special Grants Fund, a special revenue fund, between years due to the disaster expenditures and state funded economic development projects which occurred in 2001.

Community services expenditures increased as a result of increased operating expenditures for park programs, housing assistance, the convention center and expansion of the public transit system during 2002.

The decrease in capital outlay is directly related to the construction costs for the convention center project. The total expended in 2002 approximated \$1.4 million as compared to approximately \$4.7 million in 2001.

Debt service expenditures decreased due to the decrease in the amount of called bonds between years. During 2002, \$4.6 million of 1997 Sales and Use Tax bonds were called prior to maturity as compared to \$5.8 million during 2001.

General Fund Balance

The total fund balance of the General Fund at December 31, 2002, is \$5,532,288 as compared to \$4,193,751 at December 31, 2001. The City is working towards meeting its revised financial policy whereby the undesignated /unreserved General Fund ending fund balance is maintained at not less than 15% of total expenditures at December 31, 2002, and thereafter.

Enterprise Operations

The City's enterprise operations are comprised of two separate and distinct activities: the water and sewer utilities and sanitation services.

Operating revenues of the Water and Sewer Fund increased by approximately 13.7% between years. A rate increase became effective in January 2002 for water and sewer services. The rate increases were expected to increase revenue more significantly for 2002. However, consumption decreased approximately 5.6% between years which impacted total revenues.

Water and sewer expenses increased by approximately 5.8% between years. Personnel services increased by 7.8% as a result of the 2% cost of living adjustment granted to all employees as of January 1, 2002, and merit raises for employees based upon performance evaluations. Contractual services increased by 28% due to an increase in the amount of consulting and laboratory services which were performed by private firms. Materials and supplies expense remained stable between years. Utility costs in 2002 decreased by 3.8% due to the unseasonably mild temperatures during the year and the decrease in consumption. Depreciation expense for 2002 increased 3.3% over the 2001 charge as a result of several projects being completed at the end of 2001 and projects completed during 2002 were capitalized.

Interest and fiscal charges increased by approximately \$3.4 million due to the \$111.8 million in revenue bonds during 2002. This increase was offset by the \$3.4 million interest capitalization for the 2002 water and sewer system revenue bonds.

Sanitation Fund operating revenues increased by 3.9% between years as a result of a full year of additional revenue generated by the October 1, 2001 rate increases.

Sanitation Fund operating expenses decreased approximately 1.2% between years. Personnel services increased approximately 5.6% as a result of the 2% cost of living adjustment granted to all employees as of January 1, 2002 and merit raises for employees based upon performance evaluations. Contractual services decreased by 11.6% as a result of lower state mandated fees paid due to a decrease in the amount of waste disposal at the landfill. Materials and supplies decreased by 24.2% as a result of less cover material needed at the landfill and a decrease in the current year charge for landfill closure and postclosure care costs as a result of the state approving the City's closure plan. Utility costs and depreciation expense remained stable between years.

Pension Trust Funds Operations

From December 21, 1976, to March 31, 1997, the City administered a single-employer Public Employees' Retirement System (PERS) and accounted for the plan as a separate Pension Trust Fund. The Plan was a noncontributory defined benefit plan that covered all full-time employees with the exception of fire, police, municipal court, and certain administrative employees who were eligible for the Fire Relief and Pension Plan, the Police Relief and Pension Plan, LOPFI, Municipal Court Retirement System, and the Deferred Compensation Plan, respectively. The City contributed 10% of covered payroll of the PERS. On April 1, 1997, the PERS was converted to a money purchase retirement plan, a defined contribution plan, that is qualified under Section 401(a) of the Internal Revenue Code. The ICMARC serves as administrator of the 401(a) plan. The City makes annual contributions equal to 10% of each covered employee earnings. The Plan covers all full-time, nonuniformed employees with the exception of the district judges and the district court clerk.

The present value of each PERS active member at March 31, 1997, was transferred to ICMARC in the participant's name. An annuity contract was purchased from an insurance company to continue to provide benefit payments to beneficiaries of PERS. The annuity contract provides that all beneficiaries will receive a 3% cost of living adjustment every three years beginning January 1, 1998. The remaining balance of approximately \$1.7 million was transferred to the Employee Insurance Fund to provide for future employee benefits. The present value of the deferred vested members of PERS may be withdrawn or rolled into a qualified plan at the member's choice.

The City continues to administer the Municipal Court Retirement System (the Court System). Operating revenues decreased 20% between years due to a decrease in the amount of investment earnings for the year as a result of lower rates of return. Operating expenses increased 204% between 2001 and 2002 as a result of the retirement of one judge in July 2002. The district judges and the district court clerk are covered by this plan. There are currently two beneficiaries of the Court System.

In September 1990, the City entered into an agreement with Arkansas LOPFI (LOPFI) whereby administration of the Fire and Police pension plans was assumed by LOPFI. This action will provide the City's police and fire civil service personnel with an actuarially funded pension plan and allow the City to provide the pension benefits due police officers and firefighters. Effective July 1, 1996, the board of directors approved increases in benefit payments for retirees and beneficiaries. The minimum monthly benefit payment was increased from \$350 to \$500 and a 3% cost of living adjustment will be granted every other year beginning July 1, 1996, and each two years thereafter. The City's

contribution rates decreased in 2002 compared with 2001 from 21.92% to 18.11% for police participants and decreased from 29.46% to 25.58% for fire participants.

Debt Administration

At December 31, 2002, the City had revenue bonds outstanding of approximately \$154.2 million and sales and use tax bonds outstanding of approximately \$88.005 million. Nine issues comprise this total.

Water and Sewer

In July 1994, the City issued \$27,215,000 of Water and Sewer Refunding and Construction Revenue Bonds which refunded the 1977 and 1987 Water and Sewer Revenue Bonds and included \$6.6 million in new debt. The additional bond proceeds were used to construct improvements to the water and sewer system. The projected maturity date is October 1, 2012. At December 31, 2002, \$10.53 million of bonds were outstanding. The 1994 Revenue Bonds are collateralized by the revenue of the water and sewer system and various special funds established by the authorizing bond ordinance. The 1994 Revenue Bonds are rated Aaa by Moody's Investor Service and AAA by Standard & Poor's Corporation. The issue is insured by the Municipal Bond Investor's Assurance Corporation.

In September 1999, the City issued \$26,415,000 of Water and Sewer System Revenue Bonds. The Bonds were issued to provide the first phase of funding for the expansion and improvements to the Lake Fort Smith water supply project as well as provide improvements to the Lee Creek water impoundment and improvements to the existing water transmission, storage, and distribution system. The projected maturity date is October 1, 2019. At December 31, 2002, \$23.845 million of bonds were outstanding. The 1999 Revenue Bonds are collateralized by the revenue of the water and sewer system and various special funds established by the authorizing bond ordinance. The 1999 Revenue Bonds are rated AAA by Standard & Poor's Corporation. The issue is insured by the Ambac Assurance Corporation. The 1999 Bonds have an underlying rating of A by Standard & Poor's Corporation.

In June 2001, the City issued \$46,000,000 of Sales and Use Tax Bonds and, in October 2001, the City issued \$34,000,000 of Sales and Use Tax Bonds. The total principal for the 2001 Bonds is \$80,000,000 which was allocated at \$50,000,000 for water improvements and \$30,000,000 for wastewater improvements. The water improvements include extensions, betterments, and improvements to the City's water system relative to the Lake Fort Smith water expansion project. The wastewater improvements include expansion of the wastewater treatment plants and land acquisition as necessary. The 2001 Bonds are not general obligations of the City, but are special obligations payable solely from collections of a ½% sales and use tax levied by the City. The issuance of the Bonds and the pledging of the tax to the payment of principal of and interest on the Bonds was approved at a special election held March 20, 2001. The voters also approved the pledge of the ½% sales and use tax currently pledged for the 1997 Sales and Use Tax Bonds to transfer to the 2001 Bonds once the 1997 Bonds are redeemed.

Revenue generated by the ½% sales tax, which became effective May 1, 2001, totaled \$7.8 million in 2002. At December 31, 2002, \$73.68 million of 2001 Bonds were outstanding.

In February 2002, the City issued \$90,425,000 of Water and Sewer Refunding and Construction Revenue Bonds. The 2002A Bonds total \$82,590,000 and were issued to finance a portion of water system improvements (\$8,190,000) and to finance a portion of the cost of the Lake Fort Smith water expansion project (\$74,400,000). The Series 2002B Bonds total \$8,835,000 and were issued to advance refund \$1,100,000 in principal amount of the 1994 Water and Sewer Refunding and Construction Revenue Bonds to be refunded maturing October 1, 2009, and \$6,540,000 in principal amount of the 1994 Bonds to be refunded maturing October 1, 2012.

In October 2002, the City issued \$21,330,000 of Water and Sewer Revenue Bonds. These 2002C Bonds were issued to finance a portion of the Lake Fort Smith water supply expansion project.

At December 31, 2002, \$111.755 million of 2002 Bonds were outstanding.

The 2002 Bonds are collateralized by the revenue of the water and sewer system on a parity with the nonrefunded portion of the 1994 Bonds and with the 1999 Bonds. The 2002 Bonds are rated AAA by Standard & Poor's Corporation. The issue is insured by the Financial Security Assurance Inc. The 2002 Bonds have an underlying rating of A by Standard & Poor's Corporation.

Sanitation

In December 1994, the City issued \$3,560,000 of Solid Waste Revenue Bonds for the purpose of constructing a portion of the second phase of the City's landfill in accordance with the EPA's Subtitle D Regulations. The projected maturity date of the bonds is December 1, 2009. On April 21, 1998, the City issued \$3,055,000 Solid Waste Refunding Revenue Bonds, Series 1998 dated May 1, 1998. The Bonds were issued to finance the cost of advance refunding the City's outstanding Solid Waste Revenue Bonds, Series 1994. The Series 1994 Bonds were redeemed December 1, 2001, at 101%. The Series 1998 Bonds are due in annual installments at varying amounts through December 1, 2009. At December 31, 2002, \$2.045 million of Series 1998 Bonds were outstanding.

In June 1995, the City issued \$9,185,000 of Solid Waste Refunding and Construction Bonds for the purpose of redeeming the 1993 Temporary Solid Waste Revenue Bonds and for funding a portion of the construction costs of the second phase of the City's landfill in accordance with EPA's Subtitle D Regulations. In September 2002, the City issued \$6,305,000 Solid Waste Refunding Revenue Bonds. The 2002 Bonds were issued to refund the outstanding 1995 Bonds. The 1995 Bonds were redeemed December 1, 2002. At December 31, 2002, \$6.025 million of 2002 Bonds were outstanding.

Governmental

On November 21, 1997, the City issued \$45,655,000 of Arkansas Sales and Use Tax Bonds, Series 1997, dated December 1, 1997. The Bonds were issued to finance the costs of acquiring and constructing civic center, library and park improvements. The principal amount of the Bonds was allocated among the three projects at \$20,405,000 for civic center improvements, \$19,840,000 for library improvements, and \$5,410,000 for park improvements. The Bonds are not general obligations of the City, but are special obligations payable solely from collections of a ½% sales and use tax levied by the City. The issuance of the Bonds and the pledging of the tax to the payment of principal of and interest on the Bonds was approved at a special election held October 28, 1997.

Revenue generated by the ½% sales tax, which became effective January 1, 1998, totaled \$7.8 million in 2002. At December 31, 2002, \$73.68 million of bonds were outstanding.

Cash Management

Cash temporarily idle during the year was invested in demand deposits, certificates of deposit, and obligations of the U.S. Treasury in accordance with policies established by the board of directors.

The objective of the City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. At year-end, the City's total bank balance, excluding pension funds, was \$87,496,752 of pooled and nonpooled deposits and this balance was covered by federal depository insurance, by collateral held by the City's agent in the City's name, or by collateral held by the pledging financial institution's agent in the City's name.

Risk Management

The City manages self-insurance programs for providing workers' compensation and health and other medical benefits to employees, retirees, and their dependents and beneficiaries. The retained earnings (deficit) in the Employee Insurance Fund decreased from \$(562,202) in 2001 to \$(493,143) in 2002. Employer and employee contributions to the fund were increased during 2003 to cover increased costs of providing medical benefits.

The City's Workers' Compensation Fund had a retained earnings balance of \$897,036 at December 31, 2002, as compared to a balance of \$901,777 at December 31, 2001. The decrease is a result of increased claims during 2002.

Other Information

Independent Audit

State statute requires an annual audit by independent certified public accountants. The accounting firm of KPMG LLP was selected by the City's board of directors. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Single Audit Act of 1984, the Single Audit Act Amendments of 1996, and related OMB Circular A-133. The Report of Independent Public Accountants on the general purpose financial statements and the combining financial statements, and individual fund statements and schedules is included in the Financial Section of this report. The Report of Independent Public Accountants on the City's internal control system, including the practices and procedures required by Arkansas State statutes, is included in the Other Section. The auditors' reports related specifically to the single audit are included in the Single Audit Section.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fort Smith for its comprehensive annual financial report for the fiscal year ended December 31, 2001. The Certificate of Achievement is the highest form of recognition for excellence in local government financial reporting. This was the seventeenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

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

In addition, the City also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget dated January 1, 2002. This was the fourteenth consecutive year that the City has received this award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, finance, planning, and organization.

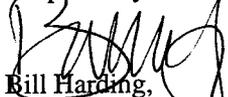
Acknowledgments

The preparation of the comprehensive annual financial report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

We also acknowledge the thorough, professional, and timely manner in which the annual audit was conducted by KPMG LLP.

In closing, we acknowledge the contributions of the Mayor and the board of directors who have consistently supported the City's goal of excellence in all aspects of financial management. Their encouragement and support is greatly appreciated.

Respectfully submitted,



Bill Harding,
City Administrator



Kara Bushkuhl,
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fort Smith,
Arkansas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2001

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

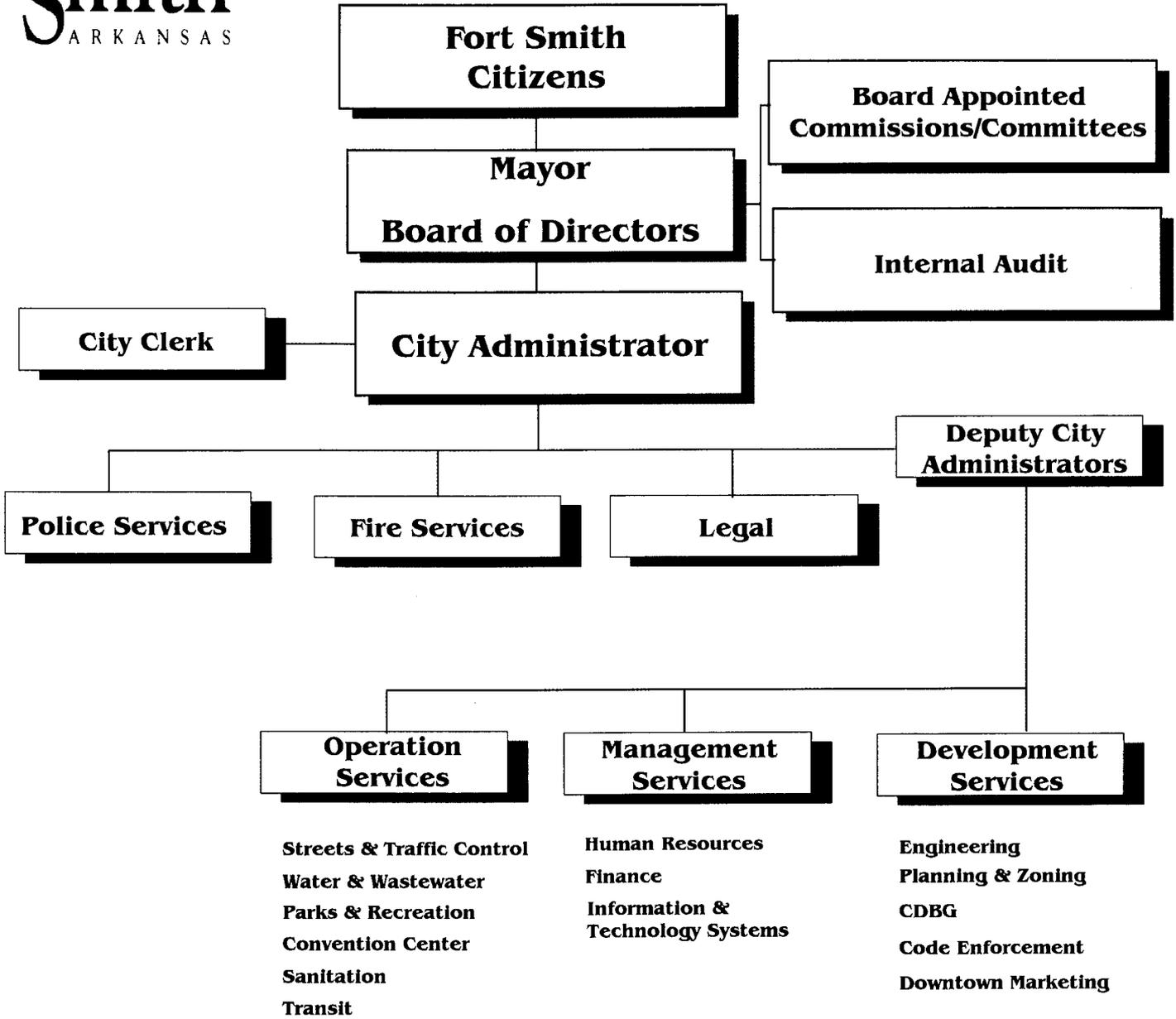


William Patrick Harte
President

Jeffrey L. Esser
Executive Director



Plan of Organization



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717 North Harwood Street
Suite 3100
Dallas, TX 75201-6585

Independent Auditors' Report

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

We have audited the accompanying general purpose financial statements of the City of Fort Smith, Arkansas, as of and for the year ended December 31, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Airport Commission, a discretely presented proprietary component unit of the City which statements reflect total assets and total operating revenues of 94% and 89%, respectively, of the related combined totals of the discretely presented proprietary fund column or the Public Library, a discretely presented governmental component unit of the City which statements reflect total assets and total revenues of 87% and 77%, respectively, of the related combined totals of the discretely presented governmental fund column. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund types and discretely presented component units, where applicable for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Analysis of Funding Progress on page 70 is not a required part of the general purpose financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



In accordance with Government Auditing Standards, we have also issued our report dated May 2, 2003, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements, and Introductory and Statistical Sections, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the general purpose financial statements. The schedule of expenditures of federal and state awards and the combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and, in our opinion, are fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, accordingly, we express no opinion on them.

KPMG LLP

May 2, 2003

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CITY OF FORT SMITH, ARKANSAS

Combined Balance Sheet
 All Fund Types, Account Groups, and Discretely Presented Component Units
 December 31, 2002
 With Comparative Totals for December 31, 2001
 (Continued on Following Page)

Assets and Other Debits	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Cash	\$ 429,548	\$ 760,682	\$ —	\$ 126,919	\$ 1,600	\$ 564,001
Investments	3,336,871	41,940,344	5,912,256	836,557	81,107	2,608,260
Receivables, net of allowance for uncollectibles:						
Taxes	6,252,450	3,549,595	—	—	—	—
Sales taxes	964,747	1,237,449	618,725	—	—	—
Accounts	337,467	59,995	—	337	2,578,449	12,507
Accrued interest	6,919	85,084	—	2,468	4,073	5,927
Due from other funds	17,124	248	—	—	—	1,630
Due from other governments	240,343	112,817	—	—	—	—
Inventory, at cost	—	—	—	—	633,433	22,842
Prepaid items	124,525	23,296	—	—	—	—
Deposits	12,734	863,720	—	—	155,591	—
Restricted assets:						
Cash	—	—	—	—	80,200	—
Investments	—	—	—	—	181,548,384	—
Accounts receivable, net of allowance for uncollectibles	—	—	—	—	28,992	—
Accrued interest	—	—	—	—	2,336,130	—
Sales tax receivable	—	—	—	—	618,725	—
Prepaid items and deposits	—	—	—	—	1,044,711	—
Due from other funds	—	—	—	—	—	—
Fixed assets, net, where applicable, of accumulated depreciation	—	—	—	—	194,428,331	—
Deferred charges	—	—	—	—	1,658,396	—
Amount available in debt service fund	—	—	—	—	—	—
Amount to be provided for retirement of long-term liabilities	—	—	—	—	—	—
Total assets and other debits	\$ 11,722,728	\$ 48,633,230	\$ 6,530,981	\$ 966,281	\$ 385,198,122	\$ 3,215,167

See accompanying notes to combined financial statements.

Combined Balance Sheet
All Fund Types, Account Groups, and Discretely Presented Component Units

(Continued)

Fiduciary Fund Types	Account Groups		Totals		Component Units		Totals				
			(Memorandum Only)				(Memorandum Only)				
			Trust and Agency	General Fixed Assets	General Long-Term Debt	Primary Government		Proprietary	Governmental	Reporting Entity	
						2002	2001			2002	2001
\$ 264,187	\$ —	\$ —	\$ 2,146,937	\$ 1,499,206	\$ 1,676,522	\$ 546,251	\$ 4,369,710	\$ 2,067,475			
991,087	—	—	55,706,482	64,524,453	—	554,509	56,260,991	67,520,907			
—	—	—	9,802,045	8,653,191	—	27,498	9,829,543	8,683,300			
—	—	—	2,820,921	2,775,160	—	114,454	2,935,375	2,954,524			
—	—	—	2,988,755	2,715,637	58,665	—	3,047,420	2,761,438			
1,863	—	—	106,334	176,243	982	599	107,915	181,797			
—	—	—	19,002	58,049	—	—	19,002	58,049			
—	—	—	353,160	885,892	—	—	353,160	885,892			
—	—	—	656,275	519,723	1,859	5,000	663,134	527,412			
—	—	—	147,821	71,289	55,940	45,075	248,836	161,107			
—	—	—	1,032,045	606,183	—	—	1,032,045	606,183			
—	—	—	80,200	208,015	2,014,491	—	2,094,691	4,271,872			
—	—	—	181,548,384	99,265,429	106,971	—	181,655,355	100,777,607			
—	—	—	28,992	10,161	134,569	—	163,561	615,476			
—	—	—	2,336,130	702,042	1,135	—	2,337,265	706,854			
—	—	—	618,725	609,671	—	—	618,725	609,671			
—	—	—	1,044,711	703,357	—	—	1,044,711	703,357			
—	—	—	—	20	—	—	—	20			
—	101,407,016	—	295,835,347	258,719,725	43,342,040	442,040	339,619,427	293,830,613			
—	—	—	1,658,396	753,344	282,026	—	1,940,422	1,056,661			
—	—	5,722,495	5,722,495	5,137,736	—	—	5,722,495	5,137,736			
—	—	10,928,140	10,928,140	20,475,122	—	—	10,928,140	20,475,122			
<u>\$ 1,257,137</u>	<u>\$ 101,407,016</u>	<u>\$ 16,650,635</u>	<u>\$ 575,581,297</u>	<u>\$ 469,069,648</u>	<u>\$ 47,675,200</u>	<u>\$ 1,735,426</u>	<u>\$ 624,991,923</u>	<u>\$ 514,593,073</u>			

CITY OF FORT SMITH, ARKANSAS

Combined Balance Sheet
 All Fund Types, Account Groups, and Discretely Presented Component Units
 December 31, 2002
 With Comparative Totals for December 31, 2001
 (Continued on Following Page)

Liabilities, Equity, and Other Credits	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Liabilities:						
Accounts payable and accrued liabilities	\$ 957,484	\$ 1,480,701	\$ —	\$ —	\$ 1,323,099	\$ 42,109
Retainage payable	—	759,854	—	—	—	—
Notes payable – current	—	—	—	—	—	—
Capital leases payable – current	—	—	—	—	—	—
Liability for accrued vacation and sick leave	—	—	—	—	1,014,079	—
Liability for landfill closure and postclosure care	—	—	—	—	2,653,065	—
Other long-term obligations	—	—	752,793	—	1,347	—
Payable from restricted assets:						
Accrued interest	—	—	55,693	—	1,993,012	—
Revenue bonds payable, current	—	—	—	—	3,155,000	—
Sales and use tax bonds payable, current	—	—	—	—	2,980,000	—
Accounts payable and accrued liabilities	—	—	—	—	4,344,342	—
Deposits	—	—	—	—	1,379,052	—
Retainage payable	—	—	—	—	2,016,529	—
Due to other funds	248	18,754	—	—	—	—
Due to other governments	279,869	—	—	—	—	—
Notes payable	—	—	—	—	—	—
Capital leases payable	—	—	—	—	—	—
Liability for insured events	—	—	—	—	—	1,041,112
Deferred revenues	4,759,595	4,270,939	—	—	—	—
Revenue bonds payable, net	—	—	—	—	152,620,768	—
Sales and use tax bonds payable	—	—	—	—	70,685,101	—
Other	193,244	2,323	—	—	18,371	—
Total Liabilities	6,190,440	6,532,571	808,486	—	244,183,765	1,083,221
Equity and other credits:						
Contributed capital:						
From other municipalities or governmental units	—	—	—	—	11,032,778	1,697,495
In aid of construction	—	—	—	—	30,206,183	—
Investment in general fixed assets	—	—	—	—	—	—
Retained earnings:						
Reserved for bond retirement	—	—	—	—	20,531,059	—
Reserved for landfill closure and postclosure care	—	—	—	—	3,646,014	—
Reserved for asset replacement	—	—	—	—	625,471	—
Reserved for construction	—	—	—	—	102,968	—
Reserved for health insurance and workers – compensation	—	—	—	—	—	897,036
Unreserved	—	—	—	—	74,869,884	(462,585)
Fund balances:						
Reserved for encumbrances	976,549	153,985	—	—	—	—
Reserved for prepaid items	124,525	23,296	—	—	—	—
Reserved for subsequent years – expenditures	—	26,360,128	—	—	—	—
Reserved for employees – pension benefits	—	—	—	—	—	—
Reserved for bond retirement	—	—	5,722,495	—	—	—
Unreserved:						
Designated for subsequent years – expenditures	557,691	15,563,250	—	966,281	—	—
Undesignated	3,873,523	—	—	—	—	—
Total equity and other credits	5,532,288	42,100,659	5,722,495	966,281	141,014,357	2,131,946
Total liabilities, equity, and other credits	\$ 11,722,728	\$ 48,633,230	\$ 6,530,981	\$ 966,281	\$ 385,198,122	\$ 3,215,167

See accompanying notes to combined financial statements.

Combined Balance Sheet
All Fund Types, Account Groups, and Discretely Presented Component Units

(Continued)

Fiduciary Fund Types	Account Groups		Totals		Component Units		Totals		
			(Memorandum Only)				(Memorandum Only)		
	Trust and Agency	General Fixed Assets	General Long-Term Debt	Primary Government		Proprietary	Governmental	Reporting Entity	
				2002	2001			2002	2001
\$ 264,187	\$ —	\$ —	\$ 4,067,580	\$ 4,435,874	\$ 208,310	\$ 52,486	\$ 4,328,376	\$ 4,772,090	
—	—	—	759,854	594,427	—	—	759,854	594,427	
—	—	—	—	—	90,943	—	90,943	—	
—	—	—	—	—	9,177	—	9,177	—	
—	—	1,421,182	2,435,261	3,880,960	792	—	2,436,053	3,882,700	
—	—	—	2,653,065	2,531,814	—	—	2,653,065	2,531,814	
—	—	328,000	1,082,140	1,024,957	—	—	1,082,140	1,024,957	
—	—	—	2,048,705	1,010,403	86,225	—	2,134,930	1,097,401	
—	—	—	3,155,000	2,935,000	140,000	—	3,295,000	3,050,000	
—	—	—	2,980,000	2,785,000	—	—	2,980,000	2,785,000	
—	—	—	4,344,342	2,315,402	308,526	—	4,652,868	3,307,860	
—	—	—	1,379,052	883,296	—	—	1,379,052	883,296	
—	—	—	2,016,529	636,143	—	—	2,016,529	636,143	
—	—	—	19,002	58,069	—	—	19,002	58,069	
—	—	—	279,869	201,568	—	—	279,869	201,568	
—	—	—	—	—	401,647	—	401,647	—	
—	—	576,453	576,453	—	38,718	—	615,171	—	
—	—	—	1,041,112	1,106,925	—	—	1,041,112	1,106,925	
—	—	—	9,030,534	9,141,437	—	—	9,030,534	9,141,437	
—	—	—	152,620,768	48,920,791	6,852,354	—	159,473,122	55,902,559	
—	—	14,325,000	85,010,101	97,755,048	—	—	85,010,101	97,755,048	
—	—	—	213,938	102,915	867,684	—	1,081,622	453,865	
264,187	—	16,650,635	275,713,305	180,320,029	9,004,376	52,486	284,770,167	189,185,159	
—	—	—	12,730,273	13,158,603	20,941,767	—	33,672,040	35,390,977	
—	—	—	30,206,183	31,376,939	—	—	30,206,183	31,376,939	
—	101,407,016	—	101,407,016	98,403,088	—	442,040	101,849,056	98,853,093	
—	—	—	20,531,059	9,741,724	486,406	—	21,017,465	10,228,130	
—	—	—	3,646,014	3,524,763	—	—	3,646,014	3,524,763	
—	—	—	625,471	630,932	—	—	625,471	630,932	
—	—	—	102,968	94,308	—	—	102,968	94,308	
—	—	—	897,036	339,575	—	—	897,036	339,575	
—	—	—	74,407,299	74,014,169	17,242,651	—	91,649,950	86,115,008	
—	—	—	1,130,534	597,410	—	—	1,130,534	597,410	
—	—	—	147,821	71,289	—	45,075	192,896	121,303	
—	—	—	26,360,128	31,281,534	—	—	26,360,128	31,281,534	
992,950	—	—	992,950	942,117	—	—	992,950	942,117	
—	—	—	5,722,495	5,137,736	—	—	5,722,495	5,137,736	
—	—	—	17,087,222	16,215,475	—	1,195,825	18,283,047	17,554,132	
—	—	—	3,873,523	3,219,957	—	—	3,873,523	3,219,957	
992,950	101,407,016	—	299,867,992	288,749,619	38,670,824	1,682,940	340,221,756	325,407,914	
\$ 1,257,137	\$ 101,407,016	\$ 16,650,635	\$ 575,581,297	\$ 469,069,648	\$ 47,675,200	\$ 1,735,426	\$ 624,991,923	\$ 514,593,073	

CITY OF FORT SMITH, ARKANSAS

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances –
 All Governmental Fund Types and Discretely Presented Component Units
 For the Fiscal Year Ended December 31, 2002
 With Comparative Totals for the Fiscal Year Ended December 31, 2001
 (Continued on Following Page)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Revenues:				
Taxes	\$ 4,519,433	\$ 3,162,119	\$ —	\$ —
Sales taxes	11,913,953	15,502,200	7,751,100	—
Licenses and permits	1,178,649	—	—	164,554
Utility franchise fees	4,846,025	—	—	—
Intergovernmental	3,163,206	7,026,190	1,710,644	—
Fines and forfeitures	1,628,873	115,436	—	—
Fees for services	786,492	—	—	—
Interest	82,052	1,169,459	225,137	39,267
Contributions	—	791,586	—	40,000
Miscellaneous	262,346	325,541	—	2,918
Total revenues	<u>28,381,029</u>	<u>28,092,531</u>	<u>9,686,881</u>	<u>246,739</u>
Expenditures:				
Current:				
General government	4,491,178	724,363	—	—
Public safety	17,133,129	2,759,200	—	—
Public works	—	23,652,237	—	50,165
Community services	3,797,475	1,739,032	—	—
Other	1,461,295	278,331	—	—
Capital outlay	1,694,493	349,737	—	1,371,451
Debt service:				
Principal	13,002	—	8,165,000	—
Interest and fiscal charges	—	—	937,122	—
Total expenditures	<u>28,590,572</u>	<u>29,502,900</u>	<u>9,102,122</u>	<u>1,421,616</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(209,543)</u>	<u>(1,410,369)</u>	<u>584,759</u>	<u>(1,174,877)</u>
Other financing sources (uses):				
Operating transfers in	1,923,228	—	—	325,000
Operating Transfers in – Component Units	15,397	—	—	—
Operating transfers out	(860,000)	(1,864,728)	—	—
Operating transfers out – Component Units	(120,000)	—	—	—
Operating transfers to primary government	—	—	—	—
Capital lease financing	589,455	—	—	—
Total other financing sources (uses)	<u>1,548,080</u>	<u>(1,864,728)</u>	<u>—</u>	<u>325,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures, and other financing uses	<u>1,338,537</u>	<u>(3,275,097)</u>	<u>584,759</u>	<u>(849,877)</u>
Fund balances, beginning of year	4,193,751	45,375,756	5,137,736	1,816,158
Fund balances, end of year	<u>\$ 5,532,288</u>	<u>\$ 42,100,659</u>	<u>\$ 5,722,495</u>	<u>\$ 966,281</u>

See accompanying notes to combined financial statements.

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances –
All Governmental Fund Types and Discretely Presented Component Units

(Continued)

Totals (Memorandum Only) Primary Government		Component Units Governmental	Totals (Memorandum Only) Reporting Entity	
2002	2001		2002	2001
\$ 7,681,552	\$ 7,079,863	\$ 1,417,315	\$ 9,098,867	\$ 8,293,178
35,167,253	35,872,020	714,837	35,882,090	36,608,746
1,343,203	1,462,282	—	1,343,203	1,462,282
4,846,025	5,199,799	—	4,846,025	5,199,799
11,900,040	13,943,553	30,182	11,930,222	14,161,465
1,744,309	1,615,757	—	1,744,309	1,615,757
786,492	720,524	95,049	881,541	804,161
1,515,915	2,864,102	17,523	1,533,438	2,891,613
831,586	930,455	10,185	841,771	948,971
590,805	360,903	791	591,596	501,526
<u>66,407,180</u>	<u>70,049,258</u>	<u>2,285,882</u>	<u>68,693,062</u>	<u>72,487,498</u>
5,215,541	4,791,577	—	5,215,541	4,791,577
19,892,329	19,956,251	—	19,892,329	19,956,251
23,702,402	18,805,624	—	23,702,402	18,805,625
5,536,507	4,997,754	1,918,359	7,454,866	6,988,832
1,739,626	2,004,322	499,897	2,239,523	2,343,769
3,415,681	7,133,868	—	3,415,681	7,133,868
8,178,002	9,220,000	—	8,178,002	9,220,000
937,122	1,391,728	—	937,122	1,391,728
<u>68,617,210</u>	<u>68,301,124</u>	<u>2,418,256</u>	<u>71,035,466</u>	<u>70,631,650</u>
(2,210,030)	1,748,134	(132,374)	(2,342,404)	1,855,848
2,248,228	3,285,108	—	2,248,228	3,285,108
15,397	11,410	—	15,397	11,410
(2,724,728)	(4,733,708)	—	(2,724,728)	(4,733,708)
(120,000)	(120,000)	—	(120,000)	(120,000)
—	—	(15,397)	(15,397)	(11,410)
589,455	—	—	589,455	—
<u>8,352</u>	<u>(1,557,190)</u>	<u>(15,397)</u>	<u>(7,045)</u>	<u>(1,568,600)</u>
(2,201,678)	190,944	(147,771)	(2,349,449)	287,248
56,523,401	56,332,457	1,388,671	57,912,072	57,624,824
<u>\$ 54,321,723</u>	<u>\$ 56,523,401</u>	<u>\$ 1,240,900</u>	<u>\$ 55,562,623</u>	<u>\$ 57,912,072</u>

CITY OF FORT SMITH, ARKANSAS

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances –
 Budget and Actual – General and Special Revenue Fund Types
 For the Fiscal Year Ended December 31, 2002 (Note 1)
 With Comparative Totals for the Fiscal Year Ended December 31, 2001
 (Continued on Following Page)

	General Fund				
	Actual	Adjustments to Budgetary Basis	Actual on a Budgetary Basis	Budget	Variance/ Favorable (Unfavorable)
Revenues:					
Taxes	\$ 4,519,433	\$ —	\$ 4,519,433	\$ 4,016,100	\$ 503,333
Sales taxes	11,913,953	—	11,913,953	12,859,086	(945,133)
Licenses and permits	1,178,649	—	1,178,649	1,131,500	47,149
Utility franchise fees	4,846,025	—	4,846,025	5,440,400	(594,375)
Intergovernmental	3,163,206	—	3,163,206	2,907,074	256,132
Fines and forfeitures	1,628,873	—	1,628,873	1,591,500	37,373
Fees for services	786,492	—	786,492	1,043,600	(257,108)
Interest	82,052	—	82,052	92,000	(9,948)
Miscellaneous	262,346	—	262,346	260,163	2,183
Total revenues	<u>28,381,029</u>	<u>—</u>	<u>28,381,029</u>	<u>29,341,423</u>	<u>(960,394)</u>
Expenditures:					
Current:					
General government:					
Administration	2,474,642	23,317	2,497,959	2,642,558	144,599
Legal	1,246,957	21,900	1,268,857	1,367,116	98,259
Finance	769,579	30,363	799,942	837,235	37,293
Public safety:					
Police	9,917,744	31,086	9,948,830	10,480,064	531,234
Fire	7,215,385	272,851	7,488,236	7,489,846	1,610
Public works:					
Operations	—	—	—	—	—
Street	—	—	—	—	—
Traffic control	—	—	—	—	—
Community services:					
Health	79,296	—	79,296	98,171	18,875
Parks and recreation	3,718,179	419,180	4,137,359	4,820,656	683,297
Other	1,461,295	177,852	1,639,147	1,903,060	263,913
Capital outlay	1,694,493	—	1,694,493	1,773,022	78,529
Debt Service					
Principal	13,002	—	13,002	13,100	98
Total expenditures	<u>28,590,572</u>	<u>976,549</u>	<u>29,567,121</u>	<u>31,424,828</u>	<u>1,857,707</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(209,543)</u>	<u>(976,549)</u>	<u>(1,186,092)</u>	<u>(2,083,405)</u>	<u>897,313</u>
Other financing sources (uses):					
Operating transfers in	1,923,228	—	1,923,228	1,923,535	(307)
Operating transfers in – Component Units	15,397	—	15,397	15,800	(403)
Operating transfers out	(860,000)	—	(860,000)	(860,000)	—
Operating transfers out – Component Units	(120,000)	—	(120,000)	(120,000)	—
Capital Lease financing	589,455	—	589,455	—	589,455
Total other financing sources (uses)	<u>1,548,080</u>	<u>—</u>	<u>1,548,080</u>	<u>959,335</u>	<u>588,745</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>1,338,537</u>	<u>(976,549)</u>	<u>361,988</u>	<u>(1,124,070)</u>	<u>1,486,058</u>
Fund balances, beginning of year	<u>4,193,751</u>	<u>—</u>	<u>4,193,751</u>	<u>4,193,751</u>	<u>—</u>
Fund balances, end of year	<u>\$ 5,532,288</u>	<u>\$ (976,549)</u>	<u>\$ 4,555,739</u>	<u>\$ 3,069,681</u>	<u>\$ 1,486,058</u>

See accompanying notes to combined financial statements.

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual – General and Special Revenue Fund Types

(Continued)

Special Revenue (Street Maintenance Fund only)				
Actual	Adjustments to Budgetary Basis	Actual on a Budgetary Basis	Budget	Variance/ Favorable (Unfavorable)
\$ 1,355,366	\$ —	\$ 1,355,366	\$ 1,193,000	\$ 162,366
—	—	—	—	—
—	—	—	—	—
3,774,188	—	3,774,188	3,691,868	82,320
—	—	—	—	—
149,765	—	149,765	325,000	(175,235)
29,695	—	29,695	15,000	14,695
<u>5,309,014</u>	<u>—</u>	<u>5,309,014</u>	<u>5,224,868</u>	<u>84,146</u>
312,144	8,060	320,204	336,007	15,803
38,384	—	38,384	49,770	11,386
373,835	20,751	394,586	409,733	15,147
—	—	—	—	—
—	—	—	—	—
302,285	—	302,285	346,912	44,627
2,087,933	1,199	2,089,132	2,415,200	326,068
1,370,489	10,566	1,381,055	1,565,070	184,015
—	—	—	—	—
202,542	17,669	220,211	228,242	8,031
79,660	95,740	175,400	216,028	40,628
322,322	—	322,322	373,000	50,678
—	—	—	—	—
<u>5,089,594</u>	<u>153,985</u>	<u>5,243,579</u>	<u>5,939,962</u>	<u>696,383</u>
219,420	(153,985)	65,435	(715,094)	780,529
—	—	—	—	—
—	—	—	—	—
(85,500)	—	(85,500)	(85,500)	—
—	—	—	—	—
—	—	—	—	—
<u>(85,500)</u>	<u>—</u>	<u>(85,500)</u>	<u>(85,500)</u>	<u>—</u>
133,920	(153,985)	(20,065)	(800,594)	780,529
5,651,378	—	5,651,378	5,651,378	—
<u>\$ 5,785,298</u>	<u>\$ (153,985)</u>	<u>\$ 5,631,313</u>	<u>\$ 4,850,784</u>	<u>\$ 780,529</u>

CITY OF FORT SMITH, ARKANSAS

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings --
 All Proprietary Fund Types and Discretely Presented Component Units
 For the Fiscal Year Ended December 31, 2002
 With Comparative Totals for the Fiscal Year Ended December 31, 2001
 (Continued on Following Page)

	Proprietary Fund Types	
	Enterprise	Internal Service
Operating revenues:		
Water service	\$ 14,473,460	\$ —
Sewer service	8,724,809	—
Charges for services	10,051,988	5,832,068
Other	33,598	—
Total operating revenues	<u>33,283,855</u>	<u>5,832,068</u>
Operating expenses:		
Personnel services	13,476,046	—
Contractual services	2,493,225	512,595
Materials and supplies	4,675,879	366,141
Heat, light, and power	1,136,487	—
Depreciation	9,421,867	—
Premium payments	—	513,292
Claims for insured events	—	4,952,953
Miscellaneous	—	—
Total operating expenses	<u>31,203,504</u>	<u>6,344,981</u>
Operating income (loss)	<u>2,080,351</u>	<u>(512,913)</u>
Nonoperating revenues (expenses):		
Interest revenue	5,212,510	82,036
Increase in fair value of investments	832,725	—
Interest expense and fiscal charges	(6,096,438)	—
Sales tax revenue for bond redemption	7,751,100	—
Other nonoperating revenues (expenses), net	(173,989)	—
Total nonoperating revenues, net	<u>7,525,908</u>	<u>82,036</u>
Income (loss) before operating transfers and capital contributions	9,606,259	(430,877)
Operating transfers in	288,600	500,000
Operating transfers out	(312,100)	—
Capital contributions	613,408	—
Net income	<u>10,196,167</u>	<u>69,123</u>
Depreciation on contributed assets	1,599,086	—
Retained earnings, beginning of year	87,980,143	365,328
Retained earnings, end of year	<u>\$ 99,775,396</u>	<u>\$ 434,451</u>

See accompanying notes to combined financial statements.

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings –
All Proprietary Fund Types and Discretely Presented Component Units

(Continued)

Totals (Memorandum Only) Primary Government		Component Units	Totals (Memorandum Only) Reporting Entity	
2002	2001	Proprietary	2002	2001
\$ 14,473,460	\$ 12,229,508	\$ —	\$ 14,473,460	\$ 12,229,508
8,724,809	7,985,242	—	8,724,809	7,985,242
15,884,056	14,974,839	2,024,412	17,908,468	16,998,971
33,598	30,073	278,478	312,076	392,525
<u>39,115,923</u>	<u>35,219,662</u>	<u>2,302,890</u>	<u>41,418,813</u>	<u>37,606,246</u>
13,476,046	12,569,908	902,767	14,378,813	13,397,041
3,005,820	2,801,336	585,191	3,591,011	3,477,121
5,042,020	5,522,783	124,093	5,166,113	5,669,025
1,136,487	1,178,098	120,441	1,256,928	1,287,516
9,421,867	9,191,374	1,887,300	11,309,167	10,954,327
513,292	421,714	—	513,292	421,714
4,952,953	4,548,243	—	4,952,953	4,548,243
—	—	53,607	53,607	54,652
<u>37,548,485</u>	<u>36,233,456</u>	<u>3,673,399</u>	<u>41,221,884</u>	<u>39,809,639</u>
<u>1,567,438</u>	<u>(1,013,794)</u>	<u>(1,370,509)</u>	<u>196,929</u>	<u>(2,203,393)</u>
5,294,546	2,792,884	59,168	5,353,714	2,980,319
832,725	169,325	186	832,911	169,325
(6,096,438)	(3,407,633)	(215,682)	(6,312,120)	(3,542,003)
7,751,100	4,522,710	—	7,751,100	4,522,710
(173,989)	228,569	24,659	(149,330)	176,882
<u>7,607,944</u>	<u>4,305,855</u>	<u>(131,669)</u>	<u>7,476,275</u>	<u>4,307,233</u>
9,175,382	3,292,061	(1,502,178)	7,673,204	2,103,840
788,600	2,320,000	120,000	908,600	2,440,000
(312,100)	(871,400)	—	(312,100)	(871,400)
<u>613,408</u>	<u>1,192,872</u>	<u>5,233,383</u>	<u>5,846,791</u>	<u>6,029,955</u>
10,265,290	5,933,533	3,851,205	14,116,495	9,702,395
1,599,086	1,582,685	1,290,607	2,889,693	2,891,244
<u>88,345,471</u>	<u>80,829,253</u>	<u>12,587,245</u>	<u>100,932,716</u>	<u>88,339,077</u>
<u>\$ 100,209,847</u>	<u>\$ 88,345,471</u>	<u>\$ 17,729,057</u>	<u>\$ 117,938,904</u>	<u>\$ 100,932,716</u>

CITY OF FORT SMITH, ARKANSAS

Combined Statement of Cash Flows –
 All Enterprise Funds, Internal Service Funds, and Discretely Presented Component Units
 For the Fiscal Year Ended December 31, 2002
 With Comparative Totals for the Fiscal Year Ended December 31, 2001
 (Continued on Following Page)

	Proprietary Fund Types	
	Enterprise	Internal Service
Cash flows from operating activities:		
Cash received from customers	\$ 32,983,476	\$ —
Cash received from service users	—	370,171
Cash received from city and employee contributions	—	5,455,715
Cash payments for goods and services	(8,452,302)	(370,318)
Cash payments to employees	(13,346,436)	—
Cash payments for premiums and other operating expenses	—	(549,844)
Cash payments for claims paid	—	(5,431,903)
Cash received from other operating revenues	160,318	—
Net cash provided by (used for) operating activities	<u>11,345,056</u>	<u>(526,179)</u>
Cash flows from noncapital financing activities:		
Operating transfers-in from other funds	288,600	500,000
Operating transfers-out to other funds	(312,100)	—
Net cash provided by (used for) noncapital financing activities	<u>(23,500)</u>	<u>500,000</u>
Cash flows from capital and related financing activities:		
Proceeds from bonds	120,467,041	—
Proceeds from sales tax	7,742,046	—
Proceeds from sale of fixed assets	168,719	—
Acquisition and construction of capital assets	(38,028,178)	—
Notes payable	—	—
Capital leases	—	—
Principal paid on bonds	(21,350,000)	—
Interest and fiscal charges paid on bonds	(7,267,787)	—
Net cash provided by (used for) capital and related financing activities	<u>61,731,841</u>	<u>—</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investment securities	305,438,559	1,426,734
Outlays for purchases of investment securities	(383,248,412)	(2,082,808)
Interest on investments	4,449,527	82,212
Net cash provided by (used for) investing activities	<u>(73,360,326)</u>	<u>(573,862)</u>
Net increase (decrease) in cash and restricted cash	(306,929)	(600,041)
Cash and restricted cash, beginning of year	388,729	1,164,042
Cash and restricted cash, end of year	<u>\$ 81,800</u>	<u>\$ 564,001</u>

See accompanying notes to combined financial statements.

Combined Statement of Cash Flows –
All Enterprise Funds, Internal Service Funds, and Discretely Presented Component Units

(Continued)

Totals (Memorandum Only) Primary Government		Component Units Proprietary	Totals (Memorandum Only) Reporting Entity	
2002	2001		2002	2001
\$ 32,983,476	\$ 30,818,201	\$ 1,932,486	\$ 34,915,962	\$ 32,727,354
370,171	410,225	—	370,171	410,225
5,455,715	4,761,012	—	5,455,715	4,761,012
(8,822,620)	(10,109,191)	(967,394)	(9,790,014)	(10,865,804)
(13,346,436)	(12,467,044)	(900,219)	(14,246,655)	(13,298,120)
(549,844)	(421,714)	(53,607)	(603,451)	(476,366)
(5,431,903)	(4,765,276)	—	(5,431,903)	(4,765,276)
160,318	182,045	283,929	444,247	546,926
10,818,877	8,408,258	295,195	11,114,072	9,039,951
788,600	2,320,000	120,000	908,600	2,440,000
(312,100)	(871,400)	—	(312,100)	(871,400)
476,500	1,448,600	120,000	596,500	1,568,600
120,467,041	80,080,627	—	120,467,041	80,080,627
7,742,046	3,913,039	—	7,742,046	3,913,039
168,719	101,612	—	168,719	102,612
(38,028,178)	(23,934,710)	(4,762,402)	(42,790,580)	(25,289,074)
—	—	492,590	492,590	—
—	—	47,895	47,895	—
(21,350,000)	(4,740,000)	(115,000)	(21,465,000)	(4,810,000)
(7,267,787)	(3,421,927)	(407,395)	(7,675,182)	(3,832,052)
61,731,841	51,998,641	(4,744,312)	56,987,529	50,165,152
306,865,293	128,293,796	4,108,141	310,973,434	138,070,818
(385,331,220)	(191,650,765)	(352,934)	(385,684,154)	(197,745,370)
4,531,739	2,627,847	157,869	4,689,608	3,265,531
(73,934,188)	(60,729,122)	3,913,076	(70,021,112)	(56,409,021)
(906,970)	1,126,377	(416,041)	(1,323,011)	4,364,682
1,552,771	426,394	4,107,054	5,659,825	1,295,143
\$ 645,801	\$ 1,552,771	\$ 3,691,013	\$ 4,336,814	\$ 5,659,825

CITY OF FORT SMITH, ARKANSAS

Combined Statement of Cash Flows –
 All Enterprise Funds, Internal Service Funds, and Discretely Presented Component Units
 For the Fiscal Year Ended December 31, 2002
 With Comparative Totals for the Fiscal Year Ended December 31, 2001
 (Continued on Following Page)

	Proprietary Fund Types	
	Enterprise	Internal Service
Reconciliation of operating loss to net cash provided by operating activities:		
Operating income (loss)		
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	9,421,867	—
Miscellaneous revenue (expense)	(723,281)	—
Changes in assets and liabilities:		
Accounts receivable	(292,537)	(5,407)
Due from other funds	20	(775)
Inventory	(138,108)	1,556
Prepaid items	(447,815)	—
Accounts payable and accrued liabilities	1,340,679	(62,895)
Deposits	25,756	120,068
Liability for accrued vacation and sick leave	76,977	—
Due to other funds	—	—
Liability for insured events	—	(65,813)
Other liabilities	1,147	—
Total adjustments	<u>9,264,705</u>	<u>(13,266)</u>
Net cash provided by (used for) operating activities	<u>\$ 11,345,056</u>	<u>\$ (526,179)</u>

Noncash investing, capital, and financing activities:

Enterprise Funds:

Water and Sewer Fund received contributions of capital assets of \$613,408 and \$1,192,872 for 2002 and 2001, respectively, and recognized an \$821,666 increase in fair value of investments in 2002 and a \$170,241 increase in fair value of investments in 2001. The 2002 advance refunding of water and sewer revenue bonds results in a cash flow difference of \$13,728 for 2002.

Sanitation Fund recognized a \$11,069 increase in fair value of investments in 2002 and a \$916 decrease in fair value of investments in 2001. The 1998 advance refunding of solid waste revenue bonds results in a cash flow difference of \$36,683 for 2002 and \$35,305 for 2001. The 2002 refunding of solid waste revenue bonds results in a cash flow difference of \$114,279 for 2002.

Component units:

Airport Commission received hangar improvements provided by the tenant of \$229,427 and \$38,220 for 2002 and 2001, respectively. The Airport Commission has a promissory note with the City of \$492,590 in 2002.

The Parking Authority has borrowing under a capital lease of \$47,895 in 2002.

See accompanying notes to combined financial statements.

Combined Statement of Cash Flows –
 All Enterprise Funds, Internal Service Funds, and Discretely Presented Component Units

(Continued)

Totals (Memorandum Only) Primary Government		Component Units Proprietary	Totals (Memorandum Only) Reporting Entity	
2002	2001		2002	2001
\$ 1,567,438	\$ (1,013,794)	\$ (1,370,509)	\$ 196,929	\$ (2,068,138)
9,421,867	9,191,374	1,887,300	11,309,167	10,954,327
(723,281)	165,754	21	(723,260)	164,899
(297,944)	715,847	(12,864)	(310,808)	711,453
(755)	7,041	—	(755)	7,041
(136,552)	79,588	830	(135,722)	80,162
(447,815)	(534,238)	(16,136)	(463,951)	(532,499)
1,277,784	(265,357)	(118,867)	1,158,917	(222,987)
145,824	44,740	—	145,824	44,740
76,977	61,791	(948)	76,029	52,742
—	(2,976)	—	—	(2,976)
(65,813)	(33,471)	—	(65,813)	(33,471)
1,147	(8,041)	(73,632)	(72,485)	(115,342)
9,251,439	9,422,052	1,665,704	10,917,143	11,108,089
\$ 10,818,877	\$ 8,408,258	\$ 295,195	\$ 11,114,072	\$ 9,039,951

CITY OF FORT SMITH, ARKANSAS

Statement of Changes in Plan Net Assets –
Municipal Court Retirement Pension Trust Fund
For the Fiscal Year Ended December 31, 2002
With Comparative Totals for the Fiscal Year Ended December 31, 2001

	<u>2002</u>	<u>2001</u>
Additions:		
Court fines and fees	\$ 54,863	\$ 54,949
Investment earnings	24,607	44,638
Total additions	<u>79,470</u>	<u>99,587</u>
Deductions:		
Benefit payments	<u>28,637</u>	<u>9,419</u>
Total deductions	<u>28,637</u>	<u>9,419</u>
Increase in net assets	50,833	90,168
Net assets, beginning of year	<u>942,117</u>	<u>851,949</u>
Net assets, end of year	<u>\$ 992,950</u>	<u>\$ 942,117</u>

See accompanying notes to financial statements.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

(1) Summary of Significant Accounting Policies

The financial statements of the City of Fort Smith, Arkansas (the City), have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body accepted in the United States for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below:

(a) Reporting Entity

The City is a municipality governed by an elected mayor and a seven-member board of directors (BOD). As required by GAAP, these financial statements present the City (the Primary Government) and its component units. The component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City based upon the criteria of GASB Statement 14, The Financial Reporting Entity. Generally, GASB Statement 14 requires entities upon which the City is able to impose its will, or that are fiscally dependent upon the City, to be included in the City's financial reporting entity. Additionally, those entities that the nature and significance of their relationship with the City is such that exclusion from the City's financial reporting entity would render the City's financial statements incomplete or misleading, should also be included in the City's reporting entity.

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

All entities that are not included as "Blended Component Units," "Discretely Presented Component Units," or "Related Organizations" below are excluded from the City's financial reporting entity.

The following is included as part of the primary government reporting entity:

Discretely Presented Component Units

Proprietary

Airport Commission

The Airport Commission manages the Fort Smith Regional Airport and consists of seven members as appointed by the Mayor and confirmed by the BOD. Debt is issued in the name of the City and the tax rate on aviation fuel must be approved by the BOD. The Airport Commission is an enterprise fund and is discretely presented in the City's general purpose financial statements. Financial statements of the Airport Commission can be obtained from the Airport's administrative office located at 5600 Airport Boulevard, Fort Smith, Arkansas 72903, or from the City Clerk's office.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

Fort Smith Parking Authority (the Authority)

The Authority's governing board is appointed by the City's BOD; the operation and administration of the Authority's property is conducted by City personnel; and the legal liability for the Authority's revenue bond obligation remains with the City. In addition, the City provides a subsidy to fund the Authority's operations; however, the Authority functions almost entirely for the benefit of residents and other customers. The Authority is an enterprise fund and is discretely presented in the City's general purpose financial statements. Separate financial statements are not prepared for the Authority.

Governmental

Advertising and Promotion Commission (the Commission)

The Commission was established during 1989 to promote the City and increase tourism. The Commission is governed by seven members appointed by the City's BOD. The Mayor and one City board member serve as two of the seven members of the Commission. The City levies taxes for the Commission's revenue, performs administrative services for collection of taxes and provides financial services to the Commission. However, the Commission functions for the benefit of the citizens and visitors to the City. The Commission is a governmental fund and is discretely presented in the City's general purpose financial statements. Separate financial statements are not prepared for the Commission.

Public Library

The board of trustees for the Fort Smith Public Library manages the Public Library and consists of seven members as appointed by the Mayor and confirmed by the BOD. Debt is issued in the name of the City and the Public Library's ad valorem tax is levied by the City annually. The Public Library is a governmental fund and is discretely presented in the City's general purpose financial statements. Financial statements of the Public Library can be obtained from the Library's administrative office located at 61 South 8 Street, Fort Smith, Arkansas 72901, or from the City Clerk's office. The Public Library financial statements include a General Fund and a General Fixed Assets Account Group.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

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

Condensed Financial Statements – Discretely Presented Component Units

	Balance Sheets				
	<u>Proprietary</u>		<u>Governmental</u>		
	<u>Airport Commission</u>	<u>Parking Authority</u>	<u>Advertising and Promotion</u>	<u>Public Library</u>	<u>Total</u>
Assets:					
Current assets	\$ 3,937,382	\$ 113,752	\$ 232,662	\$ 946,270	\$ 5,230,066
Sales taxes receivable from the City	—	—	—	114,454	114,454
Fixed assets, net of accumulated depreciation, as applicable	40,776,078	2,565,962	—	442,040	43,784,080
Deferred charges	<u>254,840</u>	<u>27,186</u>	<u>—</u>	<u>—</u>	<u>282,026</u>
Total assets	<u>\$ 44,968,300</u>	<u>\$ 2,706,900</u>	<u>\$ 232,662</u>	<u>\$ 1,502,764</u>	<u>\$ 49,410,626</u>
Liabilities:					
Current liabilities	\$ 649,007	\$ 93,684	\$ 7,670	\$ 44,816	\$ 795,177
Bonds payable	5,200,668	1,791,686	—	—	6,992,354
Other	<u>1,269,331</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,269,331</u>
Total liabilities	<u>7,119,006</u>	<u>1,885,370</u>	<u>7,670</u>	<u>44,816</u>	<u>9,056,862</u>
Equity and other credits:					
Contributed capital	20,531,472	410,295	—	—	20,941,767
Investment in general fixed assets	—	—	—	442,040	442,040
Retained earnings	17,317,822	411,235	—	—	17,729,057
Fund balances	<u>—</u>	<u>—</u>	<u>224,992</u>	<u>1,015,908</u>	<u>1,240,900</u>
Total equity and other credits	<u>37,849,294</u>	<u>821,530</u>	<u>224,992</u>	<u>1,457,948</u>	<u>40,353,764</u>
Total liabilities and equity and other credits	<u>\$ 44,968,300</u>	<u>\$ 2,706,900</u>	<u>\$ 232,662</u>	<u>\$ 1,502,764</u>	<u>\$ 49,410,626</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

Statements of Revenues, Expenses, and Changes in Retained Earnings

	<u>Airport Commission</u>	<u>Parking Authority</u>	<u>Total</u>
Operating revenues	\$ 2,058,525	\$ 244,365	\$ 2,302,890
Operating expenses:			
Depreciation	1,810,974	76,326	1,887,300
Other	<u>1,632,325</u>	<u>153,774</u>	<u>1,786,099</u>
Operating income (loss)	(1,384,774)	14,265	(1,370,509)
Other nonoperating revenue (expense)	(40,846)	(90,823)	(131,669)
Net transfer in from the City	—	120,000	120,000
Capital contributions	<u>5,233,383</u>	<u>—</u>	<u>5,233,383</u>
Net income	3,807,763	43,442	3,851,205
Depreciation on contributed assets			
	1,290,607	—	1,290,607
Retained earnings, beginning	<u>12,219,452</u>	<u>367,793</u>	<u>12,587,245</u>
Retained earnings, ending	<u>\$ 17,317,822</u>	<u>\$ 411,235</u>	<u>\$ 17,729,057</u>

	<u>Advertising and Promotion</u>	<u>Public Library</u>	<u>Total</u>
Revenues	\$ 522,673	\$ 1,763,209	\$ 2,285,882
Current expenditures	<u>499,897</u>	<u>1,926,324</u>	<u>2,426,221</u>
Excess (deficiency) of revenues over (under) expenditures	22,776	(163,115)	(140,339)
Transfer out to City of Fort Smith	(15,397)	—	(15,397)
Fund balances, beginning	<u>217,613</u>	<u>1,621,063</u>	<u>1,838,676</u>
Fund balances, ending	<u>\$ 224,992</u>	<u>\$ 1,457,948</u>	<u>\$ 1,682,940</u>

Related Organizations

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

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

(b) ***Fund Accounting***

The accounts of the City are maintained on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity or retained earnings, as appropriate, and revenues and expenses or expenditures, as appropriate. The City's resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report as follows:

Governmental Fund Types

General Fund

The General Fund is the principal fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid through other funds.

Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Sales Tax Fund is the primary source of revenue of the Special Revenue Funds. Other major funds include the Street Maintenance Fund, Arkansas Local Police and Fire Retirement System (LOPFI) Contribution Fund, and funds that account for grants received from the Department of Housing and Urban Development – Community Development Block Grant Fund and the HOME Investment Partnership Act Fund. Additionally, the special grant fund consists of grants received from various other federal and state governmental entities.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds

The Capital Projects Funds are used to account for the acquisition of capital facilities being financed from bond proceeds, intergovernmental revenues, contributed capital, or transfers from other funds, other than those recorded in the Proprietary Fund Types.

Proprietary Fund Types

Enterprise Funds

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. These funds include the water and sewer and sanitation funds.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

Internal Service Funds

The Internal Service Funds are used to account for the financing of materials and services provided by one department of the City to other departments of the City on a cost-reimbursement basis. These funds include the working capital fund (i.e., vehicle maintenance, office supplies, and operating equipment) and the City's self-insurance programs (employee insurance and workers' compensation).

Fiduciary Fund Types

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. These include Pension Trust Funds and Agency Funds. Pension Trust Funds are accounted for in essentially the same manner as Proprietary Funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups

General Fixed Assets Account Group

The General Fixed Assets Account Group represents a summary of the fixed assets of the City, other than assets of the Proprietary Funds. Capital outlays in funds other than Proprietary Funds are recorded as expenditures of those funds at the time of purchase and are subsequently recorded for control purposes in the General Fixed Assets Account Group.

General Long-Term Debt Account Group

The General Long-Term Debt Account Group represents a summary of the long-term liabilities of the City paid principally by taxes levied by the City. This account group does not include debt accounted for in the Proprietary Funds or in the discretely presented component units.

(c) *Basis of Accounting*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses), in net current assets.

All Enterprise Funds, Internal Service Funds, and Pension Trust Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets), is segregated into contributed capital and retained earnings components. Proprietary Fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses), in net total assets.

The City has adopted the provisions of GASB Statement 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. Accordingly, only Financial Accounting Standards Board statements issued on or before November 30, 1989, and all applicable GASB Statements are applied.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

The Accrual Basis

The accrual basis of accounting is utilized by Enterprise Fund types, Internal Service Funds, Pension Funds, and discretely presented proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Modified Accrual Basis

The modified accrual basis is used for all other funds. Modifications in the accrual basis for these funds include the following:

1. Revenues are recognized when they become both measurable and available for use during the year. Under the modified accrual basis of accounting, "available" means due within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Significant revenues which have been accrued under the modified accrual basis of accounting include ad valorem taxes, sales taxes, utility franchise fees, grant revenues, and interest. Other revenue sources from licenses and permits, fines and forfeitures, service charges, and other miscellaneous revenues are recognized as the cash is received.
2. Expenditures are recognized when the related fund liability is incurred, except for interest and principal on general long-term debt, which are recorded when due or otherwise payable.
3. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

(d) Budgets and Budgetary Accounting

The BOD adheres to the following procedures in establishing the budgets reflected in the financial statements:

1. By December 1 of each year, the City Administrator is required to submit to the BOD a proposed budget for the fiscal year beginning on the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to February 1, the budget is legally adopted by the BOD.
4. The City Administrator is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures of any department must be approved by the BOD. Budget amounts in the accompanying financial statements include transfers and revisions to the original budget totaling approximately \$848,000 in 2002 which were primarily from providing funds for a water and sewer line in Chaffee Crossing, a housing project, the hiring of two court bailiffs, a softball field relocation project, and settlement of a construction contract dispute. For budgetary purposes, unencumbered appropriations lapse at year-end.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

5. Annual budgets are legally adopted for the General Fund, for the Street Maintenance Fund in the Special Revenue Funds and for the Water and Sewer Operating and Sanitation Operating Funds. Budgets for the other Special Revenue Funds, Debt Service Fund, and Capital Projects Funds are normally established pursuant to the terms of the bond indentures, or the related federal and state grant awards, on a program or project basis. Accordingly, the Street Maintenance Fund is the only Special Revenue Fund for which an annual operating budget is prepared as a part of the City's annual operating budget, and a comparison of budget to actual is presented in the financial statements.

6. The budgets for the General Fund, Street Maintenance Fund, Water and Sewer Operating Fund, and the Sanitation Operating Fund are prepared on a basis which differs from GAAP. The difference between budget and GAAP basis for Governmental Fund types is that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP) and advances and interfund payables are recorded as expenditures when repaid (budget) rather than recognized as interfund liabilities (GAAP). For Enterprise Fund types, the major differences between budget and GAAP basis are that encumbrances are recorded as the equivalent of expenses (budget) as opposed to no accounting recognition (GAAP), capital outlays are recorded as expenses (budget) as opposed to being capitalized (GAAP), and depreciation is not recorded as an expense for budgetary purposes. Accordingly, encumbrances, capital outlays, and depreciation have been reflected in the budget versus actual statements as budget adjustments, as appropriate, depending on fund type, to provide a more meaningful comparison. Budget versus actual comparisons are presented at the departmental level, the legal level of budgetary control. A reconciliation of entity differences between budgeted and nonbudgeted fund balances at December 31, 2002, is as follows below:

	Special Revenue Funds
Fund balance – budgeted funds, December 31, 2002	\$ 5,785,728
Fund balance – nonbudgeted funds, December 31, 2002	36,314,931
Fund balance – December 31, 2002	\$ 42,100,659

(e) Cash and Investments

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

Pension trust fund investments consist primarily of certificates of deposit which are carried at fair value.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

(f) Inventories

Inventories, consisting primarily of gasoline and waterline materials, are valued at cost. Cost is determined using a first-in, first-out method.

(g) Fixed Assets

Enterprise Funds

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

Improvements other than buildings in the sanitation funds include the construction of improvements to the municipal solid waste landfill. The City depreciates improvements other than buildings on the units-of-production method.

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

Fixed assets	Useful life (years)
Enterprise Funds:	
Water and Sewer System:	
Water system	10 to 50
Sewer system	10 to 50
Machinery and equipment	3 to 10
Sanitation:	
Buildings	35
Leasehold improvements	10 to 30
Machinery and equipment	3 to 10
Discretely Presented Component Units-Proprietary:	
Airport Commission:	
Buildings and improvements	10 to 30
Improvements other than buildings	5 to 20
Machinery and equipment	3 to 15
Furniture and fixtures	3 to 10
Ramps, runways, taxiways, and improvements	3 to 50
Parking Authority:	
Buildings	30
Machinery and equipment	3 to 10

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

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

Interest is capitalized on Enterprise Fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Interest capitalized in 2002 approximated \$3,413,000.

General Fixed Assets

General fixed assets are recorded as expenditures in the General, Special Revenue, and Capital Projects Funds when acquired. Such assets are capitalized at historical cost in the General Fixed Assets Account Group. Significant gifts or contributions of assets are recorded in the General Fixed Assets Account Group at the fair market value at the date of acquisition. Public domain (infrastructure) general fixed assets consisting of streets, curbs, sidewalks, gutters, and drainage systems are not capitalized. No depreciation is provided on general fixed assets.

(h) Contributed Capital

Proprietary Fund Types

Contributed capital is recorded at the fair value of the asset contributed as of the date of contribution. The activity during the year is summarized below:

	<u>Primary Government</u>		<u>Component Unit</u>		<u>Total Reporting Entity</u>
	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Airport Commission</u>	<u>Parking Authority</u>	
Contributed capital, beginning of year	\$ 42,838,047	\$ 1,697,495	\$ 21,822,079	\$ 410,295	\$ 66,767,916
Depreciation on contributed capital assets	(1,599,086)	—	(1,290,607)	—	(2,889,693)
Contributed capital, end of year	<u>\$ 41,238,961</u>	<u>\$ 1,697,495</u>	<u>\$ 20,531,472</u>	<u>\$ 410,295</u>	<u>\$ 63,878,223</u>

(i) Property Tax Revenue

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

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

The City is permitted by Arkansas State Law to levy taxes up to \$0.50 per \$100 of assessed valuation on real and personal property for general governmental services, \$0.50 per \$100 of assessed valuation on real and personal property for the payment of principal and interest on long-term debt, \$0.10 per \$100 of assessed valuation on real and personal property for the police pension funds and \$0.10 per \$100 of assessed valuation on real and personal property for the fire pension funds. The combined tax rate levied

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

by the City in 2002 to finance the above operations was \$0.70 per \$100 of assessed valuation on real and personal property, leaving a tax margin of \$0.50 per \$100 of assessed valuation on real and personal property. Approximately \$4,696,165 of additional taxes could be raised per year based on the current year's assessed value of \$643,415,789 for real property and \$295,817,178 for personal property before the limit is reached.

(j) *Compensated Absences*

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

The City records a liability for compensated absences as the employee earns benefits attributable to services already rendered that are not contingent on a specific event that is outside the control of the City. Additionally, the City accrues benefits for earned sick leave only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies. As of December 31, 2002, the liability for accrued vacation and accrued sick leave for the primary government is \$2,435,261. The amounts applicable to the Enterprise Funds \$1,014,079 have been recorded in those funds, and the amounts applicable to other funds \$1,421,182 have been recorded in the General Long-Term Debt Account Group. The amount expected to be paid from current resources is not significant. Accrued vacation and sick leave liability activity for the year consisted of the current year accruals net of vacation and sick leave taken.

(k) *Risk Management*

Prior to fiscal year 1997, the City only maintained a health self-insurance plan, which was funded by the City and administered by an insurance company. Effective January 1, 1997, City employees were granted the option of choosing medical plan coverage provided by an HMO Plan or continue in the self-insured plan. In 1998, all participants were required to participate in the self-insured plan. These plans provide certain healthcare benefits to active and retired City employees. Substantially all regular, full-time City employees are eligible for these benefits. The City's cost of providing these benefits, including premiums, totaled \$5,703,800 in 2002, and are included in operating expenses in the Employee Insurance Fund. The costs for providing these benefits to retired employees is not identified separately from the costs attributable to the active employees. The City contributes fully for each employee and shares the contribution for any dependents. Retired employees may continue coverage under the City's policy, but must bear the entire cost of these contributions.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

The City also makes contributions to fund a self-insured workers' compensation program. The City contributed \$239,770 in 2002, to fund this program. There have been no significant reductions in insurance coverage from coverage in the prior year and there were no settlements that exceeded insurance coverage in the past three fiscal years.

(l) Sales Taxes

In November 1985, the City began assessing a 1% sales and use tax on retail sales in the City. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes for this purpose remitted to the City or in control of the taxing authority at year-end totaled \$15,502,200 for fiscal years 2002, and are included in the Sales Tax Fund's sales tax revenues in the accompanying financial statements. Sales tax revenues are restricted for repair, maintenance, and improvement of City streets, bridges, and associated drainage.

In August 1994, Sebastian County began assessing a 1% sales and use tax on retail sales in the county. Each city within Sebastian County receives a portion of the tax based upon population of the city. Currently, the City receives approximately 73% of the county tax. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes for the purposes specified below remitted to the City or in control of the taxing authority totaled \$11,913,953 for fiscal year 2002. These taxes are included in the General Fund's sales tax revenues.

In January 1998, the City began assessing a 1/2% sales and use tax on retail sales in the City. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes for this purpose remitted to the City or in control of the taxing authority at year-end totaled \$7,751,100 for fiscal year 2002, and are included in the debt service fund sales tax revenues in the accompanying financial statements. Sales tax revenues are restricted for the repayment of the Sales and Use Tax Construction Bonds, Series 1997, which are funding the Civic Center, Library, and Riverfront Park improvements. The bonds are anticipated to be retired by 2004.

In May 2001, the City began assessing a 1/2% sales and use tax on retail sales in the City. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes for this purpose remitted to the City or in control of the taxing authority at year-end totaled \$7,751,100 for fiscal 2002, and are included in the enterprise funds nonoperating revenue in the accompanying financial statements. Sales tax revenues are restricted for the repayment of the Sales and Use Tax Construction Bonds, Series 2001, which are funding wastewater improvements and a portion of the Lake Fort Smith Water Project. Once the Sales and Use Tax Construction Bonds, Series 1997, are redeemed, the 1/2% sales tax pledged for those bonds will be pledged to the repayment of the Series 2001 Bonds. The Series 2001 Bonds are expected to be retired by 2008.

(m) "Memorandum Only" Total Columns

Total columns on the combined statements are captioned as "memorandum only" to indicate that they are presented only to facilitate analysis. Data in these columns do not present financial position, results of operations, or changes in cash flows in conformity with GAAP, nor are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

(n) Statements of Cash Flows

For purposes of the statement of cash flows, the Enterprise Funds, Internal Service Funds, and discretely presented proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents, which are classified as cash and restricted cash in the accompanying balance sheet.

(2) Cash and Investments

The City maintains a cash and investment pool that is available for use by all City funds. The Municipal Court Retirement System is the only City pension fund to participate in the pool. In addition, investments are separately held by some of the City's funds.

The City follows GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The investments and deposits of the primary government are stated at quoted fair values. As a result, an unrealized gain of approximately \$923,200 is recorded as an increase in fair value of investments for the primary government in 2002.

(a) Deposits

State and City statutes authorize the City's funds to be deposited in demand deposits or certificates of deposit. The City's deposits at the carrying value and the bank balance at year-end are shown on the following page.

The City's deposits are categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes deposits that are insured or collateralized with securities held by the City or its agent in the City's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. Category 3 are uncollateralized.

The bank balance and carrying amount of the City's deposits held as of December 31, 2002, were as follows:

Pooled and Nonpooled Funds

Description	Category			Bank Balance	Carrying Amount
	1	2	3		
Demand deposits	\$ 25,214,868	\$ —	\$ —	\$ 25,214,868	\$ 26,530,264
Certificates of deposit	60,902,199	—	—	60,902,199	60,966,488
	<u>\$ 86,117,067</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 86,117,067</u>	<u>\$ 87,496,752</u>

Pension Funds

Description	Category			Bank Balance	Carrying Amount
	1	2	3		
Certificates of deposit	\$ 992,950	\$ —	\$ —	\$ 992,950	\$ 992,950

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

Component Units

At year-end, the carrying amount of the Airport Commission's deposits was \$3,692,057 and the bank balance was \$2,437,786. Of the bank balance, \$100,000 was covered by federal depository insurance (Category 1), and \$2,337,786 was covered by collateral held by the pledging bank's agent in the Airport Commission's name (Category 2).

At year-end, the carrying amount and the bank balance of the Parking Authority's deposits was \$108,044. The balance was covered by collateral held by the pledging bank's agent in the City's name (Category 2).

At year-end, the carrying amount and the bank balance of the Advertising and Promotion Commission's deposits was \$205,164 and was covered by collateral held by the City's agent in the City's name (Category 1).

At year-end, the carrying amount of the Public Library's deposits was \$703,875 and the bank balance was \$646,226. Of the bank balance, \$252,881 was covered by federal depository insurance (Category 1) and \$393,345 was collateralized by securities held by the pledging financial institution's trust department or agent in the Public Library's name (Category 2).

(b) Investments

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

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name.

The City's investments, including accrued interest, held as of December 31, 2002, were as follows:

Pooled and Nonpooled Funds

Description	Category			Bank balance	Carrying amount
	1	2	3		
U.S. Treasury Bills	\$ 7,270,049	\$ —	\$ —	\$ 7,270,049	\$ 7,270,049
U.S. Treasury Notes	146,164,716	—	—	146,164,716	146,164,716
	<u>\$ 153,434,765</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 153,434,765</u>	<u>\$ 153,434,765</u>

Component Units

At year-end, the Public Library held \$249,813 in mutual funds. The Public Library investments are not classified as to collateral risk because the investments are not evidenced by securities that exist in book entry or physical form. The Public Library reports investments at fair value.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

Total deposits and investments, including accrued interest, are presented on the combined balance sheet in the Totals (Memorandum Only) column as follows:

Primary government:	
Cash	\$ 2,146,937
Investments	55,706,482
Accrued interest	106,334
Restricted – cash	80,200
Restricted – investment	181,548,384
Restricted – accrued interest receivable	<u>2,336,130</u>
Total primary government	<u>241,924,467</u>
Component units:	
Airport Commission:	
Cash	1,676,522
Accrued interest	982
Restricted – cash	2,014,491
Restricted – accrued interest receivable	<u>62</u>
Total Airport Commission	<u>3,692,057</u>
Parking Authority:	
Restricted – investment	106,971
Restricted – accrued interest receivable	<u>1,073</u>
Total Parking Authority	<u>108,044</u>
Advertising and Promotion Commission:	
Cash	25
Investments	204,696
Accrued interest	<u>443</u>
Total Advertising and Promotion Commission	<u>205,164</u>
Public Library:	
Cash	546,226
Investments	349,813
Accrued interest	<u>156</u>
Total Public Library	<u>896,195</u>
Total Reporting Entity	\$ <u><u>246,825,927</u></u>

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

(3) Fixed Assets

General Fixed Assets

Primary Government

General fixed assets balances and transactions for the year ended December 31, 2002, are summarized below:

	<u>December 31, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>December 31, 2002</u>
Land	\$ 10,785,625	\$ 113,025	\$ —	\$ —	\$ 10,898,650
Buildings	64,239,850	1,350,116	—	—	65,589,966
Improvements other than buildings	5,572,080	257,695	—	102,493	5,932,268
Machinery and equipment	17,703,040	1,521,820	462,753	—	18,762,107
Construction-in-progress	102,493	224,025	—	(102,493)	224,025
	<u>\$ 98,403,088</u>	<u>\$ 3,466,681</u>	<u>\$ 462,753</u>	<u>\$ —</u>	<u>\$ 101,407,016</u>
Investment in general fixed assets:					
From bond issues	\$ 62,210,996	\$ —	\$ —	\$ —	\$ 62,210,996
From current revenue	32,135,232	3,415,681	462,753	—	35,088,160
From contributions	4,056,860	51,000	—	—	4,107,860
	<u>\$ 98,403,088</u>	<u>\$ 3,466,681</u>	<u>\$ 462,753</u>	<u>\$ —</u>	<u>\$ 101,407,016</u>
Total	<u>\$ 98,403,088</u>	<u>\$ 3,466,681</u>	<u>\$ 462,753</u>	<u>\$ —</u>	<u>\$ 101,407,016</u>

Additions consisted of expenditures from the General Fund \$1,694,493, the Special Revenue Funds \$349,737, the Capital Projects Funds \$1,371,451, and contributions \$51,000.

Component Unit

The Public Library fixed assets balance and transactions for the year ended December 31, 2002, are summarized below:

	<u>December 31, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>December 31, 2002</u>
Land	\$ 422,132	\$ —	\$ —	\$ 422,132
Furniture and fixtures	441,738	5,338	—	447,076
Vehicles	135,952	—	—	135,952
Less allowance for depreciation	<u>(549,817)</u>	<u>(13,303)</u>	<u>—</u>	<u>(563,120)</u>
Investment in general fixed assets	<u>\$ 450,005</u>	<u>\$ (7,965)</u>	<u>\$ —</u>	<u>\$ 442,040</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

Enterprise Funds

Fixed assets of these funds are as follows:

	December 31
	2002
Water and sewer:	
Land	\$ 8,179,370
Machinery	6,812,565
Water system	109,666,690
Sewer system	80,967,414
Less accumulated depreciation	<u>(74,235,121)</u>
	131,390,918
Construction-in-progress	<u>50,681,485</u>
Total water and sewer	<u>182,072,403</u>
Sanitation:	
Land	373,772
Buildings	1,334,375
Improvements other than buildings	14,449,140
Leasehold improvements	709,952
Machinery and equipment	12,478,126
Less accumulated depreciation	<u>(17,551,659)</u>
	11,793,706
Construction-in-progress	<u>562,222</u>
Total sanitation	<u>12,355,928</u>
Total for enterprise funds	<u>\$ 194,428,331</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

Component Units

	<u>December 31 2002</u>
Airport Commission:	
Land	\$ 6,010,552
Buildings and improvements	15,928,214
Improvements other than buildings	5,940,776
Machinery and equipment	1,059,803
Furniture and fixtures	859,619
Ramps, runways, taxiways, and improvements	34,089,247
Less accumulated depreciation	<u>(23,128,836)</u>
	40,759,375
Construction-in-progress	<u>16,703</u>
Total airport commission	<u>40,776,078</u>
Parking Authority:	
Land	1,654,161
Building	1,700,743
Machinery and equipment	97,307
Less accumulated depreciation	<u>(886,249)</u>
Total parking authority	<u>2,565,962</u>
Total for component units	<u><u>\$ 43,342,040</u></u>

Construction-in-progress is composed of the following:

	<u>Primary Appropriation</u>	<u>Expended to December 31, 2002</u>	<u>Committed</u>
Primary government:			
Water and sewer capital improvements	\$ 221,625,317	\$ 50,681,485	\$ 170,943,832
Solid waste capital improvements	<u>2,979,100</u>	<u>562,222</u>	<u>2,416,878</u>
Total	<u><u>\$ 224,604,417</u></u>	<u><u>\$ 51,243,707</u></u>	<u><u>\$ 173,360,710</u></u>
Component unit:			
Airport Commission	<u><u>\$ 351,941</u></u>	<u><u>\$ 16,703</u></u>	<u><u>\$ 335,238</u></u>

The City does not anticipate additional financing with the Water and Sewer capital improvements in relation to the Lake Fort Smith water expansion project and distribution lines. The 2002 Water and Sewer Construction Revenue Bonds were issued for this purpose. The City anticipates additional financing for the sewer rehabilitation through the issuance of revenue bonds during 2004. Additionally, the Airport Commission does not anticipate additional financing associated with capital improvements other than through grant funding.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

(4) Short-Term Debt

(a) Operating Leases

The City leases administrative office space under a noncancelable operating lease. Total cost for the lease was \$150,000 for the year ended December 31, 2002. The future minimum lease payments for the lease are as follows:

2003	\$ 165,000
2004	168,000
2005	168,000
2006	<u>28,000</u>
Total	<u>\$ 529,000</u>

(b) Capital Leases

Primary Government

The City entered into lease agreements as lessee for financing the acquisition of a ladder truck for the Fire Department and police communication equipment during 2002. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the general fixed asset account group.

The assets acquired through capital leases are as follows:

Machinery and equipment	\$ <u>589,455</u>
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The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2002 were as follows:

2003	\$ 207,067
2004	207,068
2005	207,066
2006	<u>13,002</u>
Total minimum lease payments	634,203
Less interest	<u>(57,750)</u>
Present value of minimum lease payments	<u>\$ 576,453</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

Component Unit

Parking Authority

The Parking Authority entered into a lease agreement as lessee for financing the acquisition of parking meter equipment during 2002. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date in the Parking Authority Fund fixed assets.

The assets acquired through the capital lease are as follows:

Machinery and equipment	\$	50,835
Less accumulated depreciation		<u>(3,389)</u>
Total	\$	<u>47,446</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2002 were as follows:

2003	\$	11,779
2004		11,779
2005		11,779
2006		11,779
2007		<u>7,853</u>
Total minimum lease payments		54,969
Less interest		<u>(7,074)</u>
Present value of minimum lease payments	\$	<u>47,895</u>

(c) **Notes Payable**

Airport Commission

In November 2002, the Airport Commission executed a short-term promissory note with the City for financing the construction costs and the operations of the passenger car parking lot facility at the airport terminal. The promissory note is held by BancorpSouth Bank. Under the agreement with the City, the Airport Commission will make monthly payments on the note directly to the bank.

The note payable to the City is payable in monthly installments of \$9,398 including interest at the current rate of 4.84%. The current portion of the note is \$90,943 and the long-term portion is \$401,647 for a total notes payable due of \$492,590 at December 31, 2002.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

Maturities of the notes payable for succeeding years are as follows:

2003		\$	90,943
2004			95,391
2005			100,165
2006			105,122
2007			<u>100,969</u>
	Total		492,590
Interest			<u>61,964</u>
	Total principal	\$	<u><u>554,554</u></u>

In accordance with Amendment 78 of the Arkansas Constitution, Arkansas state statutes limit the amount of short-term financing, including capital leases, the City may have in any fiscal year to five percent (5%) of the assessed valuation of property within the City. The limit applies to the reporting entity. The total short-term financing as of December 31, 2002 was \$1,181,762. The limit as of December 31, 2002 was \$50.5 million, therefore, the City is in compliance with state statutes for short-term financing at December 31, 2002.

(5) Long-Term Debt

(a) General Long-Term Debt

General long-term debt balances and transactions for the year ended December 31, 2002, are summarized below:

	<u>December 31,</u> <u>2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2002</u>
Accrued vacation and sick leave	\$ 2,943,858	\$ 54,618	\$ 1,577,294	\$ 1,421,182
1997 sales and use tax bonds payable	22,490,000	—	8,165,000	14,325,000
Litigation settlement accrual	179,000	149,000	—	328,000
Capital leases payable	—	<u>589,455</u>	<u>13,002</u>	<u>576,453</u>
Total	\$ <u>25,612,858</u>	\$ <u>793,073</u>	\$ <u>9,755,296</u>	\$ <u>16,650,635</u>

On November 1, 1997, the City issued \$45,655,000 Arkansas Sales and Use Tax Bonds, Series 1997, dated December 1, 1997. The Bonds were issued to finance the costs of acquiring and constructing civic center, library, and park improvements. The principal amount of the Bonds was allocated among the three projects at \$20,405,000 for civic center improvements, \$19,840,000 for library improvements, and \$5,410,000 for park improvements. The Bonds are not general obligations of the City, but are special obligations payable solely from collections from a one-half percent (1/2%) sales and use tax levied by the City beginning January 1, 1998. The issuance of the Bonds and the pledging of the tax to the payment of principal of and interest on the Bonds was approved at a special election held October 28, 1997.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

The Bonds mature on December 1 of each year through December 1, 2007, with interest ranging from 4% to 6% payable semiannually. The Bonds are subject to extraordinary redemption from surplus tax receipts and proceeds of the Bonds not needed for the purposes intended at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date. The bond ordinance requires a debt service reserve in the amount of \$2,725,000 be maintained during the life of the Bonds.

The bond proceeds are subject to the arbitrage provisions of the Internal Revenue Tax Act of 1986. Accordingly, excess arbitrage earnings of approximately \$753,000 were estimated at December 31, 2002 and 2001, respectively, and are included in the 1997 Sales and Use Tax Bond Fund, a debt service fund, as other long term obligations.

Debt service requirements of the 1997 Sales and Use Tax Bonds at December 31, 2002 were as follows:

		<u>Sales & Use Tax Bonds</u>	
		<u>Principal</u>	<u>Interest</u>
2003	\$	3,770,000	\$ 668,315
2004		3,940,000	500,550
2005		4,115,000	323,250
2006		<u>2,500,000</u>	<u>117,500</u>
Total	\$	<u>14,325,000</u>	<u>\$ 1,609,615</u>

(b) Enterprise Funds Revenue Bonds and Sales and Use Tax Bonds

The following is a summary of revenue bond and sales and use tax bond transactions of the City for the year ended December 31, 2002:

Bonds outstanding, December 31, 2001	\$ 131,170,000
Issuances	118,060,000
Maturities	<u>(21,350,000)</u>
Bonds outstanding, December 31, 2002	<u>\$ 227,880,000</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

Revenue bonds and sales and use tax bonds outstanding at December 31, 2002, are comprised of the following individual issues:

Water and Sewer:

\$27,215,000 of Series 1994 Water and Sewer Refunding and Construction Revenue Bonds; \$20,675,000 of which are serial bonds due in annual installments at varying amounts through October 1, 2009; interest ranging from 3.70% to 5.75% payable semiannually; \$6,540,000 of which are term bonds due October 1, 2012, with interest at 6% payable semiannually	\$ 10,530,000
\$26,415,000 of Series 1999 Water and Sewer System Revenue Bonds; \$18,815,000 of which are serial bonds due in annual installments at varying amounts through October 1, 2015, with interest ranging from 3.80% to 5.375% payable semiannually; \$7,600,000 of the bonds are term bonds due October 1, 2019, with interest at 5.65% payable semiannually	23,845,000
\$80,000,000 of Series 2001 Sales and Use Tax Bonds due in annual installments at varying amounts through December 1, 2012; interest ranging from 2.25% to 4.4% payable semiannually	73,680,000
\$82,590,000 of Series 2002A Water and Sewer Refunding and Construction Revenue Bonds; \$69,350,000 of which are serial bonds due in annual installments at varying amounts through October 1, 2019 with interest ranging from 5% to 5.25% payable semiannually; \$13,240,000 of which are term bonds due October 1, 2021 with an interest rate of 5% payable semiannually	82,590,000
\$7,835,000 of Series 2002B Water and Sewer Refunding and Construction Revenue Bonds; due in annual installments at varying amounts through October 1, 2012 with interest ranging from 2.25% to 5.25% payable semiannually	7,835,000
\$21,330,000 of Series 2002C Water and Sewer Revenue Bonds; due in annual installments at varying amounts through October 1, 2023 with interest ranging from 3% to 5.25% payable semiannually	21,330,000

Sanitation:

\$3,055,000 of Series 1998 Solid Waste Refunding Revenue Bonds due in annual installments at varying amounts through December 1, 2009, with interest ranging from 3.65% to 4.55% payable semiannually	2,045,000
\$6,305,000 of Series 2002 Solid Waste Revenue Refunding Bonds due in annual installments at varying amounts through December 1, 2011, with interest ranging from 1.4% to 4.05% payable semiannually	<u>6,025,000</u>

Bonds outstanding, December 31, 2002 227,880,000

Less:

Unamortized bond premium, net	2,814,441
Deferred amount on refunding	<u>(1,253,572)</u>

Net bonds outstanding, December 31, 2002 \$ 229,440,869

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

Revenue bonds, net	\$ 155,775,768
Sales and use tax bonds, net	<u>73,665,101</u>
	<u>\$ 229,440,869</u>

Water and Sewer –

On July 1, 1994, the City issued \$27,215,000 in Water and Sewer Refunding and Construction Revenue Bonds, Series 1994, to be used for construction and improvements to the Water and Sewer Systems in accordance with the City's Capital Improvement Plan, and to advance refund the Series 1987 and 1977 bonds. The net proceeds provided by the refunding debt were used to purchase securities that were placed in an irrevocable trust which will provide resources for all future debt payments on the refunded debt. The refunded debt is considered defeased and the related liabilities have been removed from the Water and Sewer Fund balance sheet. The 1977 and 1987 bonds were redeemed on October 1, 1994, and April 1, 1997, respectively. The reacquisition price exceeded the carrying amount of the old debt by \$1,680,000. The unamortized amount is netted against the previously outstanding debt and is being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method. The remaining unamortized deferred amount on refunding was \$227,094 as of December 31, 2002.

The Series 1994 Revenue Bonds may be redeemed at the option of the City in whole on any date or in part on any interest payment date, from funds from any source, in inverse order of maturity on and after April 1, 2004, at a redemption price of 101% for the period April 1, 2004, through March 31, 2005, 100.5% for the period April 1, 2005, through March 31, 2006, and 100% April 1, 2006, and thereafter.

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

The Series 1999 Bonds may be redeemed at the option of the City, on and after October 1, 2009, in whole on any date or in part on any interest payment date, from any source, in inverse order of maturity at a redemption price equal to the principal amount being redeemed plus accrued interest to the date of redemption.

On February 5, 2002 and October 15, 2002, the City issued \$111,755,000 Water and Sewer Refunding and Construction Revenue Bonds. The bonds were issued in three series. The 2002A Bonds were issued in the amount of \$82,590,000 for the purpose of financing a portion of the costs of the acquisition, construction, and equipping of extensions, betterments, and improvements to the City's water system with \$74.4 million of the issue allocated to finance a portion of the cost of the Lake Fort Smith water supply expansion project. The 2002B Bonds were issued in the amount of \$7,835,000 to advance refund \$1.1 million in principal amount of the 1994 Bonds to be refunded maturing October 1, 2009 and \$6.54 million in principal amount of the 1994 Bonds to be refunded maturing October 1, 2012. A portion of the 1994 Bonds remain nonrefunded. The refunded debt is considered defeased and the related liabilities have

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

been removed from the Water and Sewer Fund balance sheet. The balance of the defeased debt at December 31, 2002 is \$7,640,000. The reacquisition price exceeded the carrying amount of the old debt by \$589,000. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method. The remaining unamortized deferred amount on refunding was \$510,305 as of December 31, 2002. The City completed the advance refunding to reduce its total debt service payments over the next ten and one-half (10 ½) years by \$378,570 and to obtain an economic gain of \$298,355. The 2002C Bonds were issued in the amount of \$21,330,000 to provide financing for a portion of the Lake Fort Smith water supply expansion project.

The Series 1994 , 1999 and 2002 Revenue Bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the authorizing bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system, second to establish and maintain the revenue bond funds, and third to pay the cost of replacements made necessary by the depreciation of the system. Any remaining revenues may then be used for redemption of the bonds prior to maturity, as discussed above, for the purchase of bonds at a price not to exceed par and accrued interest, for construction, extension, betterments and improvements to the system, or for any other lawful purpose.

The ordinances also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2002, the City is in compliance with all applicable requirements.

Restricted accounts required by the bond ordinances are as follows:

Bond Retirement – The City is required to restrict funds for the payment of principal, interest, and trustee and paying agents' fees up to a maximum of \$2,468,640 related to the Series 1994 Bonds, \$2,179,462 related to the Series 1999 Bonds and \$11,156,226 related to the Series 2002 Bonds. The City held surety bonds valued at \$2,468,640, \$2,179,462 and \$11,156,226 at December 31, 2002, for this purpose.

Asset Replacement – 3% of the gross revenues of the water and sewer system for the then preceding month plus \$5,000 per month until the sum of \$500,000 has been accumulated in the Depreciation Fund. Amounts are to be used for replacements made necessary by the depreciation of the system. The City has accumulated \$500,000 for asset replacement as of December 31, 2002.

On June 7, 2001, the City issued \$46,000,000 Sales and Use Tax Bonds and on October 17, 2001, issued \$34,000,000 Sales and Use Tax Bonds. The bonds are payable solely from collections from a one-half percent (½%) local sales and use tax levied by the City beginning May 1, 2001. In addition, the repayment of the bonds will be paid by collections of the one-half percent (½%) local sales and use tax levied by the City on January 1, 1998, for the Series 1997 Sales and Use Tax Bonds once the 1997 Bonds are redeemed. The issuance of the bonds and the pledging of the taxes to the payment of and interest on the Bonds was approved at a special election held March 20, 2001.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

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The 2001 Bond principal is allocated at \$30,000,000 for wastewater improvements including particularly, without limitation, the expansion of wastewater treatment plants and any land acquisition therefore. The remaining \$50,000,000 principal is allocated for water improvements including extensions, betterments, and improvements to the City's water system, including particularly, without limitation, the Lake Fort Smith water supply expansion project, related road, and state park relocation improvements and land acquisition for buffer zone and other purposes related to the water supply expansion project.

The 2001 Bonds are subject to extraordinary redemption from surplus tax receipts and proceeds of the Bonds not needed for purposes intended at a purchase price equal to the principal amount being redeemed plus accrued interest to the redemption date. On December 1, 2002, the City paid principal due of \$2,785,000 and called \$1,600,000 bonds prior to maturity.

Bond Retirement – The City is required to maintain a debt service reserve equal to \$4,000,000 during the life of the 2001 Bonds. The City held investments equal to this amount in the Water and Sewer Fund at December 31, 2002.

Sanitation –

In November 1994, the City issued \$3,560,000 in Solid Waste Refunding Revenue Bonds for the purpose of providing a portion of the funds to construct the second phase of the City's landfill. In June 1995, the City issued \$9,185,000 of Solid Waste Refunding and Construction Bonds to redeem the previously outstanding 1993 Temporary Solid Waste Revenue Bonds and to provide financing for future expansion of the Municipal Solid Waste Landfill. In April 1998, the City issued \$3,055,000 of Solid Waste Refunding Revenue Bonds to advance refund the outstanding Series 1994 Solid Waste Revenue Bonds. The net proceeds provided by the refunding debt were used to purchase securities that were placed in an irrevocable trust, which were used to redeem the debt on December 1, 2001, at 101%. The refunded debt is defeased and the related liabilities have been removed from the Sanitation Fund balance sheet. In accordance with GASB Statement 23, the unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method. The remaining unamortized deferred amount on refunding was \$176,881 as of December 31, 2002.

On September 3, 2002, the City issued \$6,305,000 Solid Waste Refunding Revenue Bonds. The Series 2002 Bonds were issued to refund the outstanding the Series 1995 Bonds. The 1995 Bonds were redeemed at 101% on December 1, 2002. The refunded debt is considered defeased and the related liabilities have been removed from the Sanitation Fund balance sheet. The reacquisition price exceeded the carrying amount of the old debt by \$376,991. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method. The remaining unamortized deferred amount on refunding was \$339,292 as of December 31, 2002. The City completed the current refunding to reduce its total debt service payments over the next ten (10) years by \$1,020,312 and to obtain an economic gain of \$467,675.

The Series 1998 Solid Waste Bonds may be redeemed at the option of the City on and after December 1, 2003, in whole on any date or in part on any interest payment date, in inverse order of maturity at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

There was no defeased debt at December 31, 2002. The Series 1998 and 2002 Revenue Bonds are collateralized by the revenue of the solid waste system and the various special funds established by the authorizing ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system, second to establish and maintain the revenue bond funds, and third to pay the cost of replacements made necessary by the depreciation of the system. Any remaining revenues may then be used for redemption of the bonds prior to maturity, as discussed above, for the purchase of bonds not to exceed par and accrued interest, for construction, betterments, and improvements to the system or for any other lawful purpose.

The ordinances also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. As of December 31, 2002, the City is in compliance with all applicable requirements. Restricted accounts required by the bond ordinance are as follows:

Bond Retirement – The City is required to restrict funds for the payment of principal, interest, and trustee and paying agents' fees of \$726,731 as of December 31, 2002. Of this amount, \$175,121 is related to the Series 1998 Bonds and \$551,610 is related to the Series 2002 Bonds. The City held investments equal to these amounts in the Sanitation Fund at December 31, 2002.

Maturity Schedule

Aggregate debt service requirements at December 31, 2002 for enterprise fund related bonds were as follows:

	Water and Sewer		Sanitation	
	Principal	Interest	Principal	Interest
2003	\$ 5,350,000	\$ 10,263,095	\$ 785,000	\$ 284,005
2004	8,480,000	10,163,482	805,000	264,413
2005	10,815,000	9,780,772	820,000	241,942
2006	16,180,000	9,305,511	850,000	216,402
2007	16,885,000	8,601,556	875,000	187,828
2008-2012	84,330,000	31,245,772	3,935,000	403,715
2013-2017	39,325,000	16,224,356	—	—
2018-2022	36,720,000	5,181,955	—	—
2023	1,725,000	86,250	—	—
Total	\$ 219,810,000	\$ 100,852,749	\$ 8,070,000	\$ 1,598,305

(c) Component Units

Airport Commission –

On September 9, 1999, the Airport Commission issued \$5,290,000 of City of Fort Smith, Arkansas Airport Refunding and Improvement Revenue Bonds, Series 1999, dated October 1, 1999. Together with \$177,855 of existing funds, approximately \$4,514,415 of the net proceeds are being used to construct a new terminal, and \$269,275 was used to redeem \$260,000 of Series 1978 Bonds on December 1, 1999.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

At December 31, 2002, bonds payable were \$5,245,000. The bonds are due in annual installments at varying amounts through October 1, 2029, with interest ranging from 4.80% to 6.25%, payable semiannually. The bonds outstanding net of unamortized discount at December 31, 2002, were \$5,200,668.

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

	Principal	Interest
Year ending December 31:		
2003	\$ 65,000	\$ 317,580
2004	90,000	314,395
2005	95,000	309,850
2006	100,000	304,863
2007	105,000	299,563
2008-2012	620,000	1,404,408
2013-2017	825,000	1,201,374
2018-2022	1,110,000	913,892
2023-2027	1,495,000	522,500
2028-2029	740,000	70,000
Total payments	5,245,000	\$ 5,658,425
Less unamortized bond discount	44,332	
Net bonds outstanding, December 1, 2002	\$ 5,200,668	

The Series 1999 Bonds are subject to optional, extraordinary, and mandatory sinking fund redemption. The Commission may prepay all or a portion of the bonds in inverse order of maturity in whole at any time or in part on any interest payment date on or after October , 2009, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date. The Series 1999 Bonds must be redeemed from proceeds not needed for the purposes intended on any interest payment date, in whole or in part, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date, in inverse order of maturity. To the extent not previously redeemed, the Series 1999 Bonds maturing on October , 2021, and October , 2029, are subject to mandatory sinking fund redemption. The bond covenants require the maintenance of the following restricted account:

Bond Retirement – The Airport Commission is required to maintain funds for the payment of principal, interest, and trustee and paying agents' fees of \$406,930 as of December 31, 2002. The Airport Commission held investments equal to this amount at December 31, 2002.

Parking Authority –

On November , 1998, the City issued \$2,025,000 of Parking Facilities and Refunding and Improvement Revenue Bonds, Series 1998. Together with \$675,000 of existing funds, approximately \$2,072,000 of the net proceeds are being used to acquire and improve off-street parking facilities, including necessary demolition, and \$849,000 was used to redeem \$825,000 of Series 1991 Bonds on January , 1999. In accordance with GASB Statement 23, the unamortized amount was netted against the new debt and was being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method, since the refunded debt's life is the same as the new debt.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

The Parking Facilities Refunding and Improvement Revenue Bonds are collateralized by the revenues derived from the operations of parking facilities and by the revenues derived from parking meters located in the City. The restricted account required by the bond ordinance is as follows:

Bond Retirement – The Parking Authority is required to maintain funds for the payment of principal, interest, and trustee and paying agents' fees of \$79,476. As of December 31, 2002, the Parking Authority held investments equal to this amount.

The Series 1998 Bonds are subject to optional, extraordinary, and mandatory sinking fund redemption. The City may prepay all or a portion of the bonds in inverse order of maturity in whole at any time or in part on any interest payment date on and after December 1, 2003, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date. The Series 1998 Bonds must be redeemed from proceeds not needed for the purposes intended on any interest payment date, in whole or in part, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date, in inverse order of maturity. To the extent not previously redeemed, the Series 1998 Bonds maturing on December 1, 2015, and December 1, 2019, are subject to mandatory sinking fund redemption.

At December 31, 2002, Parking Authority Revenue Bonds payable was \$1,820,000. The bonds are due in annual installments at varying amounts through December 1, 2019, with interest ranging from 3.80% to 4.75%, payable semiannually. The bonds outstanding net of unamortized discount and deferred amount on refunding at December 31, 2002, was \$1,791,686.

Debt service requirements for the bonds at December 31, 2002 were as follows:

	<u>Principal</u>	<u>Interest</u>
2003	\$ 75,000	\$ 81,955
2004	75,000	78,918
2005	80,000	75,842
2006	85,000	72,523
2007	90,000	68,952
2008-2012	500,000	284,287
2013-2017	625,000	159,583
2018-2022	<u>290,000</u>	<u>20,900</u>
Total payments	1,820,000	\$ <u><u>842,960</u></u>
Less unamortized bond discount	<u>28,314</u>	
Net bonds outstanding, December 31, 2002	\$ <u><u>1,791,686</u></u>	

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

(d) Conduit Debt Obligations

From time to time, the City has issued Industrial Development Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the state, the City nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2002, there was one series of Industrial Development Revenue Bonds outstanding with an aggregate principal amount payable of \$1,000,000, one series of Fair and Exhibition Facilities Bonds outstanding with an aggregate principal amount payable of \$3,000,000, and one series of Tourism Bonds outstanding with an aggregate principal amount payable of \$2,200,000.

(6) Risk Management

The City is exposed to various risks of loss related to the City's self-insurance of workers' compensation and health and other medical benefits provided to employees and retirees, and their dependents and beneficiaries. The City accounts for these programs through the Employee Insurance Fund and Workers' Compensation Fund. Each fund is an internal service fund. In addition, the City limits property and casualty losses and manages risk through the purchase of insurance policies with several different carriers.

All funds of the City participate in the City's insurance programs described in note 1 and make payments to the respective self-insurance funds based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for future claims. The Airport Commission participates in the City's health plans by making contributions as required by the City. At December 31, 2002, the retained earnings (deficit) balances were \$(493,143) and \$897,036 in the Employee Insurance and Workers' Compensation Funds, respectively. The claims liability balances of \$831,767 and \$209,345 reported in the Health Insurance and Workers' Compensation Funds, respectively, are based on the requirements of GASB Statement 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The claims liability includes the effects of specific incremental claims, adjustment expenses, and if probable and material, salvage and subrogation. These liabilities include accruals for claims incurred but not reported, based upon the City's historical claims rate. These liabilities are the City's best estimate based on available information. Changes in the reported liabilities during 2002 are detailed below:

	<u>Employee Insurance</u>		<u>Workers' Compensation</u>
Self-insurance liability, December 31, 2000	\$ 874,333	\$	266,063
Current year claims and changes in estimate	4,670,262		266,224
Claim payments	<u>(4,670,262)</u>		<u>(299,695)</u>
Self-insurance liability, December 31, 2001	874,333		232,592
Current year claims and changes in estimate	4,742,358		144,782
Claim payments	<u>(4,784,924)</u>		<u>(168,029)</u>
Self-insurance liability, December 31, 2002	\$ <u>831,767</u>	\$	<u>209,345</u>

(7) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by International City Management Association Retirement Corporation (ICMARC). In 1997, the City implemented the requirements of GASB No. 32, *Accounting and Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. In accordance with this statement and recent tax law changes, the City has amended their trust agreements which establish that all assets and income of the trust are for the exclusive benefit of eligible employees and their beneficiaries. Due to the implementation of these changes, the City does not have any fiduciary responsibility or administrative duties relating to the deferred compensation plan other than remitting employees' contributions to the trustees. Accordingly, the City has not presented the assets and liabilities from the plan in these General Purpose Financial Statements. Deferred compensation investments are held by outside trustees. Plan investments are chosen by the individual (employee) participant and include mutual funds whose focus is on stocks, bonds, treasury securities, money market-type investments or a combination of these.

The Plan, available to all permanent City employees, permits them to defer until future years up to 25% of annual gross earnings not to exceed \$11,000. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

(8) Pension Plans

(a) Public Employees Retirement System

Plan Description

Effective April 1, 1997, the Public Employees' Retirement System (PERS) was converted to a money purchase retirement plan, a defined contribution plan, that is qualified under Section 401(a) of the Internal Revenue Code (the 401(a) Plan). The International City Management Association Retirement Corporation

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

(ICMARC) serves as administrator of the 401(a) Plan. All full-time, nonuniformed employees with the exception of the two municipal judges and the Municipal Court Clerk are covered by the 401(a) Plan. Each participant has a plan account to which the contributions are made and each participant manages their account by selecting 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 BOD and ICMARC. Approval from both the BOD and ICMARC is required for 401(a) Plan amendments. Employees make no contributions to the 401(a) Plan; however, the City makes contributions equal to 10% of each covered employee's earnings. Employer contributions to the PERS plan totaled approximately \$1,760,000 for 2002.

The present value of each PERS active member at March 31, 1997, was transferred to ICMARC in the participant's name. An annuity contract from an insurance company was purchased to continue to provide benefit payments to beneficiaries of PERS. The remaining balance of approximately \$1,700,000 was transferred to the Employee Insurance Fund to provide for future employee benefits. Additionally, the contract was purchased whereby all beneficiaries will receive a 3% cost of living adjustment every three years beginning January 1, 1998. The present value of the deferred vested members of PERS may be withdrawn or rolled into a qualified plan at the member's choice.

Municipal Judge and Court Clerk's Retirement System

The City sponsors and administers the Municipal Judge and Court Clerk's Retirement System (the Plan), a single-employer defined benefit public employees retirement system, for municipal court judges and the municipal court clerk. The Plan was established by the City in accordance with Arkansas statutes and is included in the City's primary financial reporting entity as a separate pension trust fund. Benefits of one-half of the highest annual salary after 20 years of service are payable at termination and for the remainder of the participant's natural life. Covered payroll of the system for the fiscal year ended December 31, 2002 was \$222,178.

At December 31, 2002, the Plan had no active vested members, three nonvested, and two retirees. Funding for the system is provided by the assessment of a fee of \$1.00 for entering upon the records of the Court each criminal case and each moving traffic violation and \$0.20 for each summons in a civil action. Total contributions from fines and forfeitures in 2002 amounted to \$54,863. The City and Plan members are not required to make contributions to the Plan. No actuarial information was obtained for the Plan. Accordingly, information concerning net assets and covered payroll as a percentage of funded excess actuarial liability, as well as other related disclosures which are required by GAAP, are not presented as it involves actuarial information which is unavailable.

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period that the contributions are due. The Plan does not issue separate financial statements.

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

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

The Fire Relief and Pension Plan and the Police Relief and Pension Plan (the Old Plans) are agent multi-employer defined benefit pension plans for employees of the Fire and Police Department who were hired prior to January 1, 1983. The Old Plans were established in accordance with Arkansas statutes and were closed, by state law, to new employees effective January 1, 1983. On September 20, 1990, the City entered into an agreement with LOPFI whereby LOPFI assumed responsibility for administration and a portion of the obligation of the Old Plans pursuant to Act 364 of 1981, as amended, and Act 655 of 1983 of the General Assembly of the State of Arkansas. Per the Agreement between the City and LOPFI, the City will contribute an actuarially determined rate sufficient to support the current plan benefit levels and fund the Old Plans' net pension obligation over a 40-year period. The Old Plans' benefit structure remains unchanged under the administration by LOPFI. The Old Plans do not issue separate stand-alone financial statements.

Members and participants of the old plans at December 31, 2002, are:

	<u>Fire</u>	<u>Police</u>
Active members:		
Vested	21	15
Nonvested	—	—
Retirees and beneficiaries	<u>131</u>	<u>102</u>
Total	<u><u>152</u></u>	<u><u>117</u></u>

Pension Benefits

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

Contributions Required and Contributions Made

Arkansas state statutes require yearly contributions at a level percentage of covered payroll sufficient to cover the costs of benefit commitments made to participants for their service rendered in that year and, over a reasonable period of time, and to fully cover the unfunded costs of benefit commitments for services previously rendered. The City is required to contribute the actuarially required normal costs and amortized costs of the unfunded actuarial accrued liability. In addition, active employees are required to make contributions equal to 6% of their gross salary to the Old Plans. The contributions for the 2002 plan year were based upon the December 31, 2001, actuary report.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

The actuarially required contribution rates as of December 31, 2002, 2001, and 2000, and amounts required by the City and active participants of the Old Plans for 2002, 2001, and 2000 were as follows:

	Fire Plan			Police Plan		
	2002	2001	2000	2002	2001	2000
Employer actuarially required contribution rates	25.58%	29.46%	31.65%	18.11%	21.92%	23.36%
Employer contributions as a percentage of annual covered payroll	25.58%	29.46%	31.65%	18.11%	21.92%	23.36%
Employer contributions to LOPFI	\$ 348,890	\$ 453,858	\$ 630,614	\$ 152,889	\$ 238,420	\$ 338,201
Annual Pension Cost (APF)	\$ 348,890	\$ 453,858	\$ 630,614	\$ 152,889	\$ 238,420	\$ 338,201
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

The following actuarial methods and assumptions were used to compute the contribution rates for the year ended December 31, 2002, for the Old Plans:

<u>Old Fire and Police Plans</u>	
Valuation date	December 31, 2001
Cost method	Entry age
Asset valuation method	Reported book value adjusted to partially recognize the difference between book value and market value
Amortization method	Level percentage
Amortization period	30 years open
Assumptions:	
Inflation rate	4.0%
Investment rate of return	8.0%
Projected salary increases	4.0%
Post-retirement benefit increases	3.0%

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

Employees of the City's Fire and Police Department hired subsequent to December 31, 1982, are covered by the state-administered Arkansas Local Police and Fire Retirement System (the New Plans), an agent multiple-employer plan. The New Plans are defined benefit plans which were established by Arkansas statutes. The New Plans do not issue separate stand-alone financial statements.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

Members and participants of the new plans at December 31, 2002, are:

	<u>Fire</u>	<u>Police</u>
Active members:		
Vested	62	86
Nonvested	43	42
Retirees and beneficiaries	<u>1</u>	<u>4</u>
Total	<u><u>106</u></u>	<u><u>132</u></u>

Pension Benefits

Participants who retire at or after age 55 with 20 years of credited service are entitled to retirement benefits payable annually for life equal to 2% of final average pay for each year of credited service. Benefits are fully vested after ten years.

Contributions Required and Contributions Made

State statutes require active participants of the New Plans to make contributions equivalent to 6% of their gross salary and their contributions are 100% vested. The City is also required by state statute to contribute the remaining amounts necessary to pay benefits when due, as determined by the New Plans' administrator, as well as fund the Old Plans' unfunded actuarial accrued liability over a 40-year period for the Fire Plan and a 30-year period for the Police Plan.

The actuarially computed contribution rates as of December 31, 2002, 2001, and 2000, and amounts required by the City and active participants of the New Plans for 2002, 2001, and 2000 were as follows:

	<u>Fire Plan</u>			<u>Police Plan</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Employer actuarially required contribution rates	25.58%	29.46%	31.65%	18.11%	21.92%	23.36%
Employer contributions as a percentage of annual covered payroll	25.58%	29.46%	31.65%	18.11%	21.92%	23.36%
Employer contributions to the New Plans	\$ 975,057	\$ 1,016,939	\$ 1,073,457	\$ 863,494	\$ 1,020,906	\$ 1,075,193
Annual Pension Cost (APF)	\$ 975,057	\$ 1,016,939	\$ 1,073,457	\$ 863,494	\$ 1,020,906	\$ 1,075,193
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

The following actuarial methods and assumptions were used to compute the contribution rates for the year ended December 31, 2002, for the New Plans:

	<u>New Fire and Police Plans</u>
Valuation date	December 31, 2001
Cost method	Entry age
Asset valuation method	Reported book value adjusted to partially recognize the difference between book value and market value
Amortization method	Level percentage
Amortization period	30 years open
Assumptions:	
Inflation rate	4.0%
Investment rate of return	8.0%
Projected salary increases	4.0%
Post-retirement benefit increases	3.0%

(9) Commitments and Contingencies

(a) Litigation

In the course of business, a number of claims and lawsuits arise from individuals seeking compensation for personal injury, death, and/or property damage resulting from accidents occurring in the City. In addition, the City has been named as a defendant in a number of lawsuits relating to personnel and contractual matters. Management does not believe that the outcome of these claims will have a material adverse effect on the City's financial position. The City appropriates funds as necessary to meet settlements and awards.

(b) Contingencies

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

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

(10) Segment Information for Enterprise Funds

Segment information for the year ended December 31, 2002, was as follows:

	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Total operating revenues	\$ 23,641,063	\$ 9,642,792	\$ 33,283,855
Depreciation	7,315,208	2,106,659	9,421,867
Operating income	1,598,370	481,981	2,080,351
Operating transfers in (out), net	40,900	(64,400)	(23,500)
Net income	9,973,052	223,115	10,196,167
Current capital contributions:			
In aid of construction	613,408	—	613,408
Fixed assets:			
Additions	34,856,558	1,389,715	36,246,273
Deletions	6,250	2,128,329	2,134,579
Total assets	365,661,952	20,004,012	385,665,964
Working capital	165,000,998	5,905,284	170,906,282
Net (decrease) in cash and restricted cash	(150,911)	(156,018)	(306,929)
Long-term revenue bonds payable, net	145,875,727	6,745,041	152,620,768
Total equity	132,069,374	9,011,293	141,014,357

(11) Individual Fund Disclosures

Interfund receivables and payables as of December 31, 2002, are as follows:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 17,124	\$ 248
Special Revenue Funds:		
Community Development	248	16,417
HOME Investment Partnership Act	—	2,337
Internal Service Funds:		
Working Capital	1,630	—
Total	\$ <u>19,002</u>	\$ <u>19,002</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

Operating transfers in (out) for the year ended December 31, 2002, are as follows:

<u>Fund</u>	<u>Operating Transfers</u>	
	<u>In</u>	<u>(Out)</u>
General Fund	\$ 1,938,625	\$ 980,000
Special Revenue Funds:		
Sales Tax	—	1,606,070
Street Maintenance	—	85,500
Special Grants	—	173,158
Capital Projects Funds:		
1997 Sales and Use Tax Construction	325,000	—
Enterprise Funds:		
Water and Sewer	250,000	209,100
Sanitation	38,600	103,000
Internal Service Funds:		
Employee Insurance	500,000	—
Component Unit:		
Governmental:		
Advertising and Promotion	—	15,397
Proprietary:		
Parking Authority	120,000	—
Total	<u>\$ 3,172,225</u>	<u>\$ 3,172,225</u>

(12) Landfill Closure and Postclosure Care Costs

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

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

The \$2,653,065 reported as landfill closure and postclosure care liability at December 31, 2002, represents the amount calculated to date based on the use of the landfill, in accordance with the City's approved closure plan. At December 31, 2002, the percentage of landfill capacity used to date was approximately 32%. The landfill was opened October 9, 1993, and the City expects the landfill to close September 2013. The City will recognize the remaining estimated cost of closure and postclosure care of approximately \$5,900,000 as the remaining estimated capacity is filled. These amounts are based on engineering estimates of what it would cost to perform all closure and postclosure costs, based on the City's closure plan, through December 31, 2002. Actual costs may be significantly higher due to inflation, changes in technology, or changes in regulations by the Arkansas Department of Environmental Quality.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2002

The City is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care costs. The amount of financial assurance required by the state as of December 1, 2002, is \$4,855,446. In order to comply with this requirement, the City held an irrevocable standby letter of credit with City National Bank which is pledged to the Arkansas Department of Environmental Quality in the amount of \$4,860,000 at December 1, 2002.

(13) New Applicable GASB Standards

In 1999, GASB Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis– for State and Local Governments*, was issued. This statement establishes that the basic financial statements and required supplementary information for general purpose governments should consist of management’s discussion and analysis, basic financial statements which include government-wide financial statements, fund financial statements, and required supplementary information. The government-wide financial statements will require the reporting of all capital assets, including infrastructure assets. This statement becomes effective fiscal year 2003. The City has not adopted this statement nor determined the effects of adoption.

GASB has issued Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus – an Amendment of GASB Statements No. 21 and 34*. The amendments to Statement 21 are necessary because of the changes to the fiduciary fund structure required by GASB Statement No. 34. The amendments either (1) clarify certain provisions that, in retrospect, may not be sufficiently clear for consistent application or (2) modify other provisions that the GASB Board believes may have unintended consequences in some circumstances. This statement will become effective for the City in fiscal year 2003.

GASB has issued Statement No. 38, *Certain Financial Statement Note Disclosures*, which modifies, establishes, and rescinds certain financial statement disclosure requirements. This statement will become effective for the City in fiscal year 2003.

Management has not yet determined the impact of these statements on the financial statements.

(14) Deficit /Retained Earnings and Deficit Fund Balance

The City’s Employee Insurance Fund had a retained earnings deficit of \$493,143 attributable to unusually high claim experience. The City plans to review its contribution levels as well as employee contribution levels and review cost containment measures as well as other options to reduce the level of claims.

(15) Violation of Bond Covenant

Component Unit

The Parking Authority Fund facilities operations provided debt service coverage of 104% for the fiscal year ended December 31, 2002. The bond covenant for the Parking Facilities Refunding and Improvement Revenue Bonds, Series 1998 requires that the facilities operations provide annual debt service coverage at a minimum of 110% of the average annual principal and interest due on the bonds. The Parking Authority plans to monitor the revenue requirements during 2003 and authorize adjustments to fees or expenses as necessary to meet debt service coverage.

CITY OF FORT SMITH, ARKANSAS

Required Supplementary Information

Analysis of Funding Progress

(Unaudited)

	(1)	(2)	(3)	(4)	(5)	(6)
				Total Funded Excess (Unfunded) Actuarial Liability*	Annual Covered Payroll	Ratio of Funded Excess (Unfunded) Actuarial Liability to Annual Covered Payroll (4)/(5)
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Funded Ratio (1)/(2)</u>	<u>(1) - (2)</u>		
Fire Plan:**						
1996	\$ —	\$ 10,819,562	0%	\$ (10,819,562)***	\$ 3,505,492	(309)%
1997	—	9,591,791	0%	(9,591,791)***	3,712,935	(258)%
1998	—	9,719,595	0%	(9,719,595)***	4,154,865	(234)%
1999	2,551,580	12,033,484	21%	(9,481,904)***	4,372,640	(217)%
2000	4,301,169	13,854,739	31%	(9,553,570)***	5,384,197	(177)%
2001	5,956,693	12,682,497	47%	(6,725,804)***	5,175,709	(130)%
Police Plan:**						
1996	\$ 951,249	\$ 8,473,207	11%	\$ (7,521,958)***	\$ 4,008,130	(188)%
1997	2,037,885	10,123,918	20%	(8,086,033)***	4,134,201	(196)%
1998	3,930,063	11,253,058	35%	(7,322,995)***	4,567,149	(160)%
1999	6,880,943	16,679,953	41%	(9,799,010)***	5,288,903	(185)%
2000	9,442,220	15,175,069	62%	(5,732,849)***	6,050,485	(95)%
2001	11,142,238	13,901,920	80%	(2,759,682)***	5,612,278	(49)%

* Analysis of the dollar amount of actuarial value of Plan assets, actuarial accrued liability and total funded excess (unfunded) actuarial liability in isolation can be misleading. Expressing the actuarial value of Plan assets as a percentage of the actuarial accrued liability provides one indication of each plan's funding status on a going-concern basis. Generally, the greater this percentage, the stronger the plan. Expressing the total funded excess (unfunded) actuarial liability as a percentage of annual covered payroll for the Fire Relief and Pension Plan and Police Relief and Pension Plan approximately adjusts for the effects of inflation and aids analysis of these plans' progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

** Actuarial information for 2002 for these plans is not currently available.

*** Arkansas LOPFI plan administration policy, as required by state statutes, contains the following provisions: segregate all of the plan's retired participants and fund future benefit payments at 100%; remove these retirees as City obligations while the City realizes the remaining, net unfunded obligation on the segregated retirees; amortize these funded, accrued liabilities over a closed period of 40 years that began September 20, 1990; if the length of the financing period for unfunded liabilities causes closed plan assets to temporarily dip below zero, Arkansas LOPFI would loan the shortages until the financing period is complete as, at that time, Arkansas LOPFI will have been fully reimbursed including investment credits. The negative amounts presented on this schedule indicate that these plans do not have sufficient assets to cover their present retired persons.

CITY OF FORT SMITH, ARKANSAS

Summary of Special Revenue Funds

For the Fiscal Year Ended December 31, 2002

Street Maintenance – To account for operations related to the repair, maintenance, and improvement of City streets and rights-of-way. Revenues collected in the fund are restricted for these uses and are derived from State turnback for gasoline and one-half of the three mill county road tax.

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

Sales Tax – To account for projects utilizing City sales tax revenues. Such revenues are restricted for repair, maintenance, and improvement of City streets, bridges, and associated drainage.

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

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

Special Grants – To account for federal, state, and local grants received by the City. Current grants include: Economic Development Administration (EDA) for infrastructure projects, Federal Emergency Management Agency (FEMA) assistance, COPS grants, State of Arkansas recycling grants, Arkansas historic preservation grants, and a local grant from Sebastian County for drug law enforcement projects. These funds are restricted to expenditures for approved projects of the various agencies.

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

CITY OF FORT SMITH, ARKANSAS

Combined Balance Sheet – All Special Revenue Funds

December 31, 2002

With comparative totals for December 31, 2001

(Continued on Following Page)

Assets	Street Maintenance	Community Development Block Grant	Sales Tax	Tilles Park
Cash	\$ 66,872	\$ 99,125	\$ 226,567	\$ —
Investments	5,749,167	—	25,118,345	3,701
Receivables, net of allowance for uncollectibles:				
Taxes	1,521,086	—	—	—
Sales taxes	—	—	1,237,449	—
Accounts	—	10	59,585	400
Accrued interest	11,719	—	50,949	7
Due from other funds	—	248	—	—
Due from other governments	—	—	—	—
Prepaid	22,777	—	—	—
Deposits	—	—	863,720	—
Total assets	\$ 7,371,621	\$ 99,383	\$ 27,556,615	\$ 4,108
Liabilities and Equity				
Liabilities:				
Accounts payable and accrued liabilities	\$ 157,926	\$ 38,189	\$ 1,061,280	\$ —
Retainage payable	—	—	718,067	—
Due to other funds	—	16,417	—	—
Deferred revenues	1,428,397	41,812	—	—
Other	—	2,323	—	—
Total liabilities	1,586,323	98,741	1,779,347	—
Equity:				
Reserved for encumbrances	153,985	—	—	—
Reserved for prepaids	22,777	—	—	—
Reserved for subsequent years' expenditures	566,561	—	25,777,268	—
Unreserved:				
Designated for subsequent years' expenditures	5,041,975	642	—	4,108
Total equity	5,785,298	642	25,777,268	4,108
Total liabilities and equity	\$ 7,371,621	\$ 99,383	\$ 27,556,615	\$ 4,108

Combined Balance Sheet – All Special Revenue Funds

(Continued)

HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Totals	
			Year Ended December 31	
			2002	2001
\$ 68,118	\$ —	\$ 300,000	\$ 760,682	\$ 146,238
—	799,409	10,269,722	41,940,344	46,966,632
—	—	2,028,509	3,549,595	3,159,247
—	—	—	1,237,449	1,219,343
—	—	—	59,995	5,169
—	1,968	20,441	85,084	143,100
—	—	—	248	2,904
—	112,817	—	112,817	635,941
—	519	—	23,296	—
—	—	—	863,720	449,844
<u>\$ 68,118</u>	<u>\$ 914,713</u>	<u>\$ 12,618,672</u>	<u>\$ 48,633,230</u>	<u>\$ 52,728,418</u>
\$ 6,320	\$ 19,766	\$ 197,220	\$ 1,480,701	\$ 2,077,994
—	41,787	—	759,854	590,977
2,337	—	—	18,754	53,142
59,461	836,342	1,904,927	4,270,939	4,628,226
—	—	—	2,323	2,323
<u>68,118</u>	<u>897,895</u>	<u>2,102,147</u>	<u>6,532,571</u>	<u>7,352,662</u>
—	—	—	153,985	105,644
—	519	—	23,296	—
—	16,299	—	26,360,128	31,281,534
—	—	10,516,525	15,563,250	13,988,578
—	16,818	10,516,525	42,100,659	45,375,756
<u>\$ 68,118</u>	<u>\$ 914,713</u>	<u>\$ 12,618,672</u>	<u>\$ 48,633,230</u>	<u>\$ 52,728,418</u>

CITY OF FORT SMITH, ARKANSAS

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances –
All Special Revenue Funds**

For the Fiscal Year Ended December 31, 2002

With Comparative Totals For the Fiscal Year Ended December 31, 2001

(Continued on Following Page)

	<u>Street Maintenance</u>	<u>Community Development Block Grant</u>	<u>Sales Tax</u>	<u>Tilles Park</u>
Revenues:				
Taxes	\$ 1,355,366	\$ —	\$ —	\$ —
Sales taxes	—	—	15,502,200	—
Intergovernmental	3,774,188	901,554	—	—
Fines and forfeitures	—	—	—	—
Interest	149,765	—	748,151	93
Contributions	—	—	—	—
Miscellaneous	29,695	—	280,506	800
Total revenues	<u>5,309,014</u>	<u>901,554</u>	<u>16,530,857</u>	<u>893</u>
Expenditures:				
Current:				
General government	724,363	—	—	—
Public safety	—	—	—	—
Public works	3,760,707	—	19,891,530	—
Community services	202,542	901,554	—	—
Other	79,660	—	—	—
Capital outlay	322,322	—	—	—
Total expenditures	<u>5,089,594</u>	<u>901,554</u>	<u>19,891,530</u>	<u>—</u>
Excess of revenues over expenditures	<u>219,420</u>	<u>—</u>	<u>(3,360,673)</u>	<u>893</u>
Other financing sources (uses):				
Operating transfers in	—	—	—	—
Operating transfers out	(85,500)	—	(1,606,070)	—
Total other financing sources (uses)	<u>(85,500)</u>	<u>—</u>	<u>(1,606,070)</u>	<u>—</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>133,920</u>	<u>—</u>	<u>(4,966,743)</u>	<u>893</u>
Fund balances, beginning of year	<u>5,651,378</u>	<u>642</u>	<u>30,744,011</u>	<u>3,215</u>
Fund balances, end of year	<u>\$ 5,785,298</u>	<u>\$ 642</u>	<u>\$ 25,777,268</u>	<u>\$ 4,108</u>

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances –
All Special Revenue Funds

(Continued)

HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Totals	
			Year Ended December 31	
			2002	2001
\$ —	\$ —	\$ 1,806,753	\$ 3,162,119	\$ 2,915,129
—	—	—	15,502,200	15,728,836
446,015	1,070,952	833,481	7,026,190	8,550,016
—	—	115,436	115,436	120,274
—	23,141	248,309	1,169,459	2,223,774
—	—	791,586	791,586	811,389
—	13,166	1,374	325,541	68,984
<u>446,015</u>	<u>1,107,259</u>	<u>3,796,939</u>	<u>28,092,531</u>	<u>30,418,402</u>
—	—	—	724,363	774,182
—	147,925	2,611,275	2,759,200	3,547,549
446,015	188,921	—	23,652,237	18,614,695
—	192,129	6,542	1,739,032	1,616,198
—	27,415	—	278,331	246,361
<u>446,015</u>	<u>556,390</u>	<u>2,617,817</u>	<u>29,502,900</u>	<u>25,306,305</u>
—	550,869	1,179,122	(1,410,369)	5,112,097
—	—	—	—	58,923
—	(173,158)	—	(1,864,728)	(1,985,567)
—	(173,158)	—	(1,864,728)	(1,926,644)
—	377,711	1,179,122	(3,275,097)	3,185,453
—	(360,893)	9,337,403	45,375,756	42,190,303
<u>\$ —</u>	<u>\$ 16,818</u>	<u>\$ 10,516,525</u>	<u>\$ 42,100,659</u>	<u>\$ 45,375,756</u>

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CITY OF FORT SMITH, ARKANSAS

Summary of Capital Projects Fund

For the Fiscal Year Ended December 31, 2002

Sidewalk Construction – To account for resources utilized to construct sidewalks within the City limits. Revenues collected for sidewalk construction include contributions from the community and permit assessments on new construction. Projects are selected by the City BOD. The fund is perpetual.

1997 Sales and Use Tax Construction – To account for the construction of the civic center, public library, and riverfront park projects approved by the 1997 sales and use tax referendum approved in October 1997. Bond proceeds from the 1997 issue of sales and use tax bonds fund the three projects.

CITY OF FORT SMITH, ARKANSAS

Combining Balance Sheet – All Capital Projects Funds

December 31, 2002

With Comparative Totals for December 31, 2001

Assets	Sidewalk Construction	1997 Sales and Use Tax Construction	Totals	
			Year Ended 2002	December 31 2001
Cash	\$ —	\$ 126,919	\$ 126,919	\$ —
Investments	603,345	233,212	836,557	1,812,345
Receivables:				
Accounts	—	337	337	
Accrued interest	1,077	1,391	2,468	5,299
Deposits	—	—	—	26,500
Total assets	\$ 604,422	\$ 361,859	\$ 966,281	\$ 1,844,144
Liabilities and Equity				
Liabilities:				
Accounts payable and accrued liabilities	\$ —	\$ —	\$ —	\$ 24,536
Retainage payable	—	—	—	3,450
Total liabilities	—	—	—	27,986
Equity:				
Unreserved:				
Designated for subsequent years expenditures	604,422	361,859	966,281	1,816,158
Total equity	604,422	361,859	966,281	1,816,158
Total liabilities and equity	\$ 604,422	\$ 361,859	\$ 966,281	\$ 1,844,144

CITY OF FORT SMITH, ARKANSAS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –
All Capital Projects Funds

For the Fiscal Year Ended December 31, 2002

With Comparative Totals for the Fiscal Year Ended December 31, 2001

	Sidewalk Construction	1997 Sales and Use Tax Construction	Totals	
			Year Ended December 31	
			2002	2001
Revenues:				
Licenses and permits	\$ 164,554	\$ —	\$ 164,554	\$ 164,471
Interest	12,853	26,414	39,267	237,909
Contributions	—	40,000	40,000	119,066
Other	—	2,918	2,918	—
Total revenues	177,407	69,332	246,739	521,446
Expenditures:				
Current:				
Public works	21,508	28,657	50,165	190,929
Capital outlay	—	1,371,451	1,371,451	4,667,888
Total expenditures	21,508	1,400,108	1,421,616	4,858,817
Excess (deficiency) of revenues over (under) expenditures	155,899	(1,330,776)	(1,174,877)	(4,337,371)
Other financing sources (uses):				
Operating transfers in	—	325,000	325,000	1,031,324
Operating transfers out	—	—	—	(558,141)
Total other financing sources	—	325,000	325,000	473,183
Excess (deficiency) of revenues and other financing sources over (under) expenditures	155,899	(1,005,776)	(849,877)	(3,864,188)
Residual equity transfer in	—	—	—	807,867
Fund balances, beginning of year	448,523	1,367,635	1,816,158	4,872,479
Fund balances, end of year	\$ 604,422	\$ 361,859	\$ 966,281	\$ 1,816,158

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CITY OF FORT SMITH, ARKANSAS

Summary of Enterprise Funds

For the Fiscal Year Ended December 31, 2002

Water and Sewer – To account for the provision of water and sewer services to residential, commercial, and industrial customers of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing, and related debt service.

Sanitation – To account for the provision of sanitation services to residential, commercial, and industrial customers of the City. Sanitary landfill services are also accounted for in this fund. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing, and related debt service.

CITY OF FORT SMITH, ARKANSAS

Combining Balance Sheet – All Enterprise Funds

December 31, 2002

With Comparative Totals for December 31, 2001

(Continued on Following Page)

Assets	Water and Sewer	Sanitation	Totals	
			December 31	
			2002	2001
Cash	\$ 500	\$ 1,100	\$ 1,600	\$ 180,714
Investments	50,549	30,558	81,107	4,554,209
Receivables, net of allowance for uncollectibles:				
Accounts	1,822,831	755,618	2,578,449	2,302,113
Accrued interest	3,256	817	4,073	12,017
Prepaid items and deposits	106,461	49,130	155,591	—
Inventory	633,433	—	633,433	495,325
Restricted assets:				
Cash	80,200	—	80,200	208,015
Investments	174,858,972	6,689,412	181,548,384	99,265,429
Accounts receivable, (net of allowance for uncollectibles)	2,630	26,362	28,992	10,161
Interest receivable	2,322,920	13,210	2,336,130	702,042
Sales tax receivable	618,725	—	618,725	609,671
Due from other funds	—	—	—	20
Prepaid items and deposits	1,044,711	—	1,044,711	703,357
Fixed assets, net of accumulated depreciation	182,072,403	12,355,928	194,428,331	160,316,637
Deferred charges	1,576,519	81,877	1,658,396	753,344
Total assets	\$ 365,194,110	\$ 20,004,012	\$ 385,198,122	\$ 270,113,054

Combining Balance Sheet – All Enterprise Funds

(Continued)

Liabilities and Equity	Water and Sewer	Sanitation	Totals	
			December 31	
			2002	2001
Liabilities:				
Accounts payable and accrued liabilities	\$ 722,043	\$ 601,056	\$ 1,323,099	\$ 1,157,212
Liability for accrued vacation and sick leave	767,851	246,228	1,014,079	937,102
Liability for landfill closure and postclosure care	—	2,653,065	2,653,065	2,531,814
Other long-term liabilities	1,347	—	1,347	—
Payable from restricted assets:				
Accrued interest	1,964,373	28,639	1,993,012	910,832
Revenue bonds payable, current	2,370,000	785,000	3,155,000	2,935,000
Sales and use tax bonds payable, current	2,980,000	—	2,980,000	2,785,000
Accounts payable and accrued liabilities	4,344,342	—	4,344,342	2,315,402
Deposits	1,379,052	—	1,379,052	883,296
Retainage payable	2,016,529	—	2,016,529	636,143
Revenue bonds payable, net	145,875,727	6,745,041	152,620,768	48,920,791
Sales and use tax bonds payable, net	70,685,101	—	70,685,101	75,265,048
Other	18,371	—	18,371	17,224
Total liabilities	233,124,736	11,059,029	244,183,765	139,294,864
Equity:				
Contributed capital:				
From other municipalities or governmental units	10,994,916	37,862	11,032,778	11,461,108
In aid of construction	30,206,183	—	30,206,183	31,376,939
Retained earnings:				
Reserved for bond retirement	19,804,328	726,731	20,531,059	9,741,724
Reserved for landfill closure and postclosure care	—	3,646,014	3,646,014	3,524,763
Reserved for asset replacement	500,000	125,471	625,471	630,932
Reserved for construction	—	102,968	102,968	94,308
Unreserved	70,563,947	4,305,937	74,869,884	73,988,416
Total equity	132,069,374	8,944,983	141,014,357	130,818,190
Total liabilities and equity	\$ 365,194,110	\$ 20,004,012	\$ 385,198,122	\$ 270,113,054

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CITY OF FORT SMITH, ARKANSAS

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings –
All Enterprise Funds

For the Fiscal Year Ended December 31, 2002
With Comparative Totals for the Fiscal Year Ended December 31, 2001

	Water and Sewer	Sanitation	Totals	
			December 31	
			2002	2001
Operating revenues:				
Water service	\$ 14,473,460	\$ —	\$ 14,473,460	\$ 12,229,508
Sewer service	8,724,809	—	8,724,809	7,985,242
Charges for services	409,196	9,642,792	10,051,988	9,824,892
Other	33,598	—	33,598	30,073
Total operating revenues	<u>23,641,063</u>	<u>9,642,792</u>	<u>33,283,855</u>	<u>30,069,715</u>
Operating expenses:				
Personnel services	9,038,070	4,437,976	13,476,046	12,569,908
Contractual services	1,415,077	1,078,148	2,493,225	2,324,557
Materials and supplies	3,166,171	1,509,708	4,675,879	5,105,801
Heat, light, and power	1,108,167	28,320	1,136,487	1,178,098
Depreciation	7,315,208	2,106,659	9,421,867	9,191,374
Total operating expenses	<u>22,042,693</u>	<u>9,160,811</u>	<u>31,203,504</u>	<u>30,369,738</u>
Operating income (loss)	<u>1,598,370</u>	<u>481,981</u>	<u>2,080,351</u>	<u>(300,023)</u>
Nonoperating revenues (expenses):				
Interest revenue	5,051,999	160,511	5,212,510	2,688,526
Increase (decrease) in fair value of investments	821,666	11,059	832,725	169,325
Interest expense and fiscal charges	(5,793,778)	(302,660)	(6,096,438)	(3,407,633)
Sales tax revenue	7,751,100	—	7,751,100	4,522,710
Other nonoperating revenues (expenses), net	(110,613)	(63,376)	(173,989)	219,072
Total nonoperating revenues (expenses)	<u>7,720,374</u>	<u>(194,466)</u>	<u>7,525,908</u>	<u>4,192,000</u>
Income (loss) before operating transfers and capital contributions	<u>9,318,744</u>	<u>287,515</u>	<u>9,606,259</u>	<u>3,891,977</u>
Operating transfers in	250,000	38,600	288,600	285,000
Operating transfers out	(209,100)	(103,000)	(312,100)	(871,400)
Capital contributions	613,408	—	613,408	1,192,872
Net income (loss)	<u>9,973,052</u>	<u>223,115</u>	<u>10,196,167</u>	<u>4,498,449</u>
Depreciation on contributed assets	1,599,086	—	1,599,086	1,582,685
Retained earnings, beginning of year	79,296,137	8,684,006	87,980,143	81,899,009
Retained earnings, end of year	<u>\$ 90,868,275</u>	<u>\$ 8,907,121</u>	<u>\$ 99,775,396</u>	<u>\$ 87,980,143</u>

CITY OF FORT SMITH, ARKANSAS

Combining Statement of Cash Flows – All Enterprise Funds

For the Fiscal Year Ended December 31, 2002

With Comparative Totals for the Fiscal Year Ended December 31, 2001)

(Continued on Following Page)

	Water and Sewer	Sanitation	Totals	
			December 31	
			2002	2001
Cash flows from operating activities:				
Cash received from customers	\$ 23,315,386	9,668,090	32,983,476	30,818,201
Cash payments for goods and services	(6,041,358)	(2,410,944)	(8,452,302)	(9,247,215)
Cash payments to employees	(8,944,131)	(4,402,305)	(13,346,436)	(12,467,044)
Cash received from other operating revenues	152,502	7,816	160,318	182,045
Net cash provided by operating activities	8,482,399	2,862,657	11,345,056	9,285,987
Cash flows from noncapital financing activities:				
Operating transfers-in from other funds	250,000	38,600	288,600	285,000
Operating transfers-out to other funds	(209,100)	(103,000)	(312,100)	(871,400)
Net cash provided by (used for) noncapital financing activities	40,900	(64,400)	(23,500)	(586,400)
Cash flows from capital and related financing activities:				
Proceeds from bonds	114,229,577	6,237,464	120,467,041	80,080,627
Proceeds from sales tax	7,742,046	—	7,742,046	3,913,039
Proceeds from sale of fixed assets	80,196	88,523	168,719	101,612
Acquisition and construction of capital assets	(36,700,709)	(1,327,469)	(38,028,178)	(23,934,710)
Principal paid on bonds	(14,265,000)	(7,085,000)	(21,350,000)	(4,740,000)
Interest paid on bonds	(6,614,014)	(653,773)	(7,267,787)	(3,421,927)
Net cash provided by (used for) capital and related financing activities	64,472,096	(2,740,255)	61,731,841	51,998,641
Cash flows from investing activities:				
Proceeds from sales and maturities of investment securities	296,062,687	9,375,872	305,438,559	127,187,529
Outlays for purchases of investment securities	(373,483,642)	(9,764,770)	(383,248,412)	(190,094,936)
Interest on investments	4,274,649	174,878	4,449,527	2,518,607
Net cash provided by (used for) investing activities	(73,146,306)	(214,020)	(73,360,326)	(60,388,800)
Net increase (decrease) in cash and restricted cash	(150,911)	(156,018)	(306,929)	309,428
Cash and restricted cash, January 1	231,611	157,118	388,729	79,301
Cash and restricted cash, December 31	\$ 80,700	\$ 1,100	\$ 81,800	\$ 388,729

Combining Statement of Cash Flows – All Enterprise Funds

(Continued)

	Water and Sewer	Sanitation	Totals	
			December 31	
			2002	2001
Reconciliation of operating income (loss) to Net cash provided by operating activities:				
Operating income (loss)	\$ 1,598,370	\$ 481,981	\$ 2,080,351	\$ (300,023)
Adjustments to reconcile operating income (loss) to net cash provided by Operating activities:				
Depreciation	7,315,208	2,106,659	9,421,867	9,191,374
Miscellaneous revenue (expenses)	(711,415)	(11,866)	(723,281)	156,257
Change in assets and liabilities:				
Accounts receivable	(317,835)	25,298	(292,537)	703,746
Due from other funds	—	20	20	7,349
Inventory	(138,108)	—	(138,108)	79,451
Prepaid items	(447,815)	—	(447,815)	(414,170)
Accounts payable and accrued liabilities	1,098,120	242,559	1,340,679	(233,511)
Deposits	25,756	—	25,756	44,740
Liabilities for accrued vacation and sick leave	58,971	18,006	76,977	61,791
Due to other funds	—	—	—	(2,976)
Other liabilities	1,147	—	1,147	(8,041)
Total adjustments	6,884,029	2,380,676	9,264,705	9,586,010
Net cash provided by operating activities	\$ 8,482,399	\$ 2,862,657	\$ 11,345,056	\$ 9,285,987

Noncash investing, capital, and financing
activities:

Enterprise funds:

Water and Sewer Fund received contributions of capital assets of \$618,408 and \$1,192,872 for 2002 and 2001, respectively, and recognized a \$821,666 increase in fair value of investments in 2002 and \$170,241 increase in fair value of investments in 2001. The 2002 advance refunding of water and sewer revenue bonds results in a cash flow difference of \$13,728 for 2002.

Sanitation Fund recognized a \$11,069 increase in fair value of investments in 2002 and a \$916 decrease in fair value of investments in 2001. The 1998 advance refunding of solid waste revenue bonds results in a cash flow difference of \$36,683 for 2002 and \$35,305 for 2001. The 2002 refunding of solid waste revenue bonds results in a cash flow difference of \$114,279 for 2002.

CITY OF FORT SMITH, ARKANSAS

Combining Balance Sheet – All Water and Sewer Funds

December 31, 2002

With Comparative Totals for December 31, 2001

(Continued on Following Page)

Assets	Water and Sewer Operating	Water and Sewer Depreciation	Meter Deposit	Water and Sewer Bond
Cash	\$ 500	\$ —	\$ —	\$ —
Investments	50,549	—	—	—
Receivables, net of allowances for uncollectibles:				
Accounts	1,822,831	—	—	—
Accrued interest	3,256	—	—	—
Prepaid items and deposits	106,461	—	—	—
Inventory	633,433	—	—	—
Restricted assets:				
Cash	—	—	80,200	—
Investments	—	499,028	827,240	3,131,849
Accounts receivable (net of allowance for uncollectibles)	—	—	—	—
Interest receivable	—	972	1,612	—
Sales tax receivable	—	—	—	—
Prepaid items and deposits	—	—	—	—
Fixed assets, net of accumulated depreciation	29,031,746	—	—	—
Deferred charges	—	—	—	1,327,683
Total assets	<u>\$ 31,648,776</u>	<u>\$ 500,000</u>	<u>\$ 909,052</u>	<u>\$ 4,459,532</u>

Combining Balance Sheet – All Water and Sewer Funds

December 31, 2002

(Continued)

2001 Sales & Use Tax Bond	Water and Sewer Capital Improvements	Totals	
		Year Ended December 31	
		2002	2001
\$ —	\$ —	\$ 500	\$ 179,614
—	—	50,549	3,237,736
—	—	1,822,831	1,504,996
—	—	3,256	7,788
—	—	106,461	
—	—	633,433	495,325
—	—	80,200	51,997
5,588,142	164,812,713	174,858,972	94,250,830
—	2,630	2,630	
68,416	2,251,920	2,322,920	688,946
618,725	—	618,725	609,671
—	1,044,711	1,044,711	703,357
—	153,040,657	182,072,403	147,222,095
248,836	—	1,576,519	691,131
<u>\$ 6,524,119</u>	<u>\$ 321,152,631</u>	<u>\$ 365,194,110</u>	<u>\$ 249,643,486</u>

CITY OF FORT SMITH, ARKANSAS

Combining Balance Sheet – All Water and Sewer Funds

December 31, 2002

With Comparative Totals for December 31, 2001

(Continued on Following Page)

Liabilities and Equity	Water and Sewer Operating	Water and Sewer Depreciation	Meter Deposit	Water and Sewer Bond
Liabilities:				
Accounts payable and accrued liabilities	\$ 722,043	\$ —	\$ —	\$ —
Liability for accrued vacation and sick leave	767,851	—	—	—
Other long-term liabilities	—	—	—	—
Payable from restricted assets:				
Accrued interest	—	—	—	1,717,773
Revenue bonds payable, current	—	—	—	2,370,000
Sales and use tax bonds payable, current	—	—	—	—
Accounts payable and accrued expenses	—	—	—	827,115
Deposits	—	—	909,052	—
Retainage payable	—	—	—	—
Revenue bonds payable, net	—	—	—	145,875,727
Sales and use tax bonds payable, net	—	—	—	—
Other	18,371	—	—	—
Total liabilities	<u>1,508,265</u>	<u>—</u>	<u>909,052</u>	<u>150,790,615</u>
Equity:				
Contributed capital:				
From other municipalities or governmental units	10,991,493	—	—	—
In aid of construction	30,206,183	—	—	—
Retained earnings (deficit):				
Reserved for bond retirement	—	—	—	15,804,328
Reserved for asset replacement	—	500,000	—	—
Unreserved	(11,057,165)	—	—	(162,135,411)
Total equity	<u>30,140,511</u>	<u>500,000</u>	<u>—</u>	<u>(146,331,083)</u>
Total liabilities and equity	<u>\$ 31,648,776</u>	<u>\$ 500,000</u>	<u>\$ 909,052</u>	<u>\$ 4,459,532</u>

Combining Balance Sheet – All Water and Sewer Funds
 December 31, 2002

(Continued)

2001 Sales & Use Tax Bond	Water and Sewer Capital Improvements	Totals	
		Year Ended December 31	
		2002	2001
\$ —	\$ —	\$ 722,043	\$ 798,715
—	—	767,851	708,880
—	1,347	1,347	—
246,600	—	1,964,373	871,572
—	—	2,370,000	2,240,000
2,980,000	—	2,980,000	2,785,000
—	3,517,227	4,344,342	2,234,727
—	470,000	1,379,052	883,296
—	2,016,529	2,016,529	636,143
—	—	145,875,727	41,106,559
70,685,101	—	70,685,101	75,265,048
—	—	18,371	17,224
<u>73,911,701</u>	<u>6,005,103</u>	<u>233,124,736</u>	<u>127,547,164</u>
—	3,423	10,994,916	11,423,246
—	—	30,206,183	31,376,939
4,000,000	—	19,804,328	8,648,103
—	—	500,000	500,000
<u>(71,387,582)</u>	<u>315,144,105</u>	<u>70,563,947</u>	<u>70,148,034</u>
<u>(67,387,582)</u>	<u>315,147,528</u>	<u>132,069,374</u>	<u>122,096,322</u>
<u>\$ 6,524,119</u>	<u>\$ 321,152,631</u>	<u>\$ 365,194,110</u>	<u>\$ 249,643,486</u>

CITY OF FORT SMITH, ARKANSAS

Combining Schedule of Revenues, Expenses, and Changes in Retained Earnings --
All Water and Sewer Funds

For the Fiscal Year Ended December 31, 2002

With Comparative Totals for the Fiscal Year Ended December 31, 2001

(Continued on Following Page)

	Water and Sewer Operating	Water and Sewer Depreciation	Meter Deposit	Water and Sewer Bond
Operating revenues:				
Water service	\$ 14,473,460	\$ —	\$ —	\$ —
Sewer service	8,724,809	—	—	—
Charges for services	409,196	—	—	—
Other	33,598	—	—	—
Total operating revenues	<u>23,641,063</u>	<u>—</u>	<u>—</u>	<u>—</u>
Operating expenses:				
Personnel services	9,038,070	—	—	—
Contractual services	1,415,077	—	—	—
Materials and supplies	3,166,171	—	—	—
Heat, light, and power	1,108,167	—	—	—
Depreciation	7,315,208	—	—	—
Total operating expenses	<u>22,042,693</u>	<u>—</u>	<u>—</u>	<u>—</u>
Operating income (loss)	<u>1,598,370</u>	<u>—</u>	<u>—</u>	<u>—</u>
Nonoperating revenues (expenses):				
Interest revenue	87,864	—	—	53,173
Increase (decrease) in fair value of investments	—	—	—	—
Interest expense and fiscal charges	—	—	—	(2,624,305)
Sales tax revenue	—	—	—	—
Other nonoperating revenues (expenses)	199,100	—	—	224,372
Total nonoperating revenues				
expenses	<u>286,964</u>	<u>—</u>	<u>—</u>	<u>(2,346,760)</u>
Income (loss) before operating				
transfers and capital contributions	1,885,334	—	—	(2,346,760)
Operating transfers in – interfund	250,000	—	—	—
Operating transfers in – intrafund	—	—	—	7,953,802
Operating transfers out – interfund	(209,100)	—	—	—
Operating transfers out – intrafund	(11,453,802)	—	—	(109,641,595)
Capital contributions	613,408	—	—	—
Net income (loss)	<u>(8,914,160)</u>	<u>—</u>	<u>—</u>	<u>(104,034,553)</u>
Depreciation on contributed assets	1,599,086	—	—	—
Retained earnings (deficit), beginning of year	(3,742,091)	500,000	—	(42,296,530)
Retained earnings (deficit), end of year	<u>\$ (11,057,165)</u>	<u>\$ 500,000</u>	<u>\$ —</u>	<u>\$ (146,331,083)</u>

Combining Schedule of Revenues, Expenses, and Changes in Retained Earnings –
All Water and Sewer Funds

(Continued)

2001 Sales & Use Tax Bond	Water and Sewer Capital Improvements	Totals	
		Year Ended December 31	
		2002	2001
\$ —	\$ —	\$ 14,473,460	\$ 12,229,508
—	—	8,724,809	7,985,242
—	—	409,196	548,297
—	—	33,598	30,073
—	—	23,641,063	20,793,120
—	—	9,038,070	8,382,146
—	—	1,415,077	1,104,983
—	—	3,166,171	3,114,408
—	—	1,108,167	1,151,841
—	—	7,315,208	7,082,710
—	—	22,042,693	20,836,088
—	—	1,598,370	(42,968)
133,344	4,777,618	5,051,999	2,373,986
(1,135)	822,801	821,666	170,241
(3,169,473)	—	(5,793,778)	(2,908,039)
7,751,100	—	7,751,100	4,522,710
(64,215)	(469,870)	(110,613)	146,397
4,649,621	5,130,549	7,720,374	4,305,295
4,649,621	5,130,549	9,318,744	4,262,327
—	—	250,000	250,000
—	113,141,595	121,095,397	82,859,355
—	—	(209,100)	(605,700)
—	—	(121,095,397)	(82,859,355)
—	—	613,408	1,192,872
4,649,621	118,272,144	9,973,052	5,099,499
—	—	1,599,086	1,582,685
(72,037,203)	196,871,961	79,296,137	72,613,953
\$ (67,387,582)	\$ 315,144,105	\$ 90,868,275	\$ 79,296,137

CITY OF FORT SMITH, ARKANSAS

Combining Balance Sheet – All Sanitation Funds

December 31, 2002

With Comparative Totals for December 31, 2001

(Continued on Following Page)

Assets	<u>Operating</u>	<u>Solid Waste Bond</u>	<u>Cleanup Demolition Program</u>	<u>Sanitation Sinking</u>
Cash	\$ 1,100	\$ —	\$ —	\$ —
Investments	30,558	—	—	—
Receivables, net of allowances for uncollectibles:				
Accounts	755,618	—	—	—
Accrued interest	817	—	—	—
Prepaid items and deposits	48,130	—	1,000	—
Restricted assets:				
Cash	—	—	—	—
Investments	—	911,981	72,512	5,704,919
Accounts receivable, net of allowances for uncollectibles	—	—	26,362	—
Interest receivable	—	3,667	64	9,479
Due from other funds	—	—	—	—
Fixed assets, net of accumulated depreciation	554,455	—	19,236	11,782,237
Deferred charges	—	81,877	—	—
Total assets	<u>\$ 1,390,678</u>	<u>\$ 997,525</u>	<u>\$ 119,174</u>	<u>\$ 17,496,635</u>

Combining Balance Sheet – All Sanitation Funds

December 31, 2002

(Continued)

Totals	
Year Ended December 31	
2002	2001
\$ 1,100	\$ 1,100
30,558	1,316,473
755,618	797,117
817	4,229
49,130	—
—	156,018
6,689,412	5,014,599
26,362	10,161
13,210	13,096
—	20
12,355,928	13,094,542
81,877	62,213
<u>\$ 20,004,012</u>	<u>\$ 20,469,568</u>

CITY OF FORT SMITH, ARKANSAS

Combining Balance Sheet – All Sanitation Funds

December 31, 2002

With Comparative Totals for December 31, 2001

(Continued on Following Page)

Liabilities and Equity	Operating	Solid Waste Bond	Cleanup Demolition Program	Sanitation Sinking
Liabilities:				
Accounts payable and accrued liabilities	\$ 589,496	\$ —	\$ 11,560	\$ —
Liability for accrued vacation and sick leave	241,582	—	4,646	—
Liability for landfill closure and postclosure care	—	—	—	2,653,065
Payable from restricted assets:				
Accrued interest	—	28,639	—	—
Revenue bonds payable, current	—	785,000	—	—
Accounts payable and accrued expenses	—	—	—	—
Revenue bonds payable	—	6,745,041	—	—
Total liabilities	831,078	7,558,680	16,206	2,653,065
Equity:				
Contributed capital:				
From other municipalities or governmental units	37,862	—	—	—
Retained earnings (deficit):				
Reserved for bond retirement	—	726,731	—	—
Reserved for landfill closure and postclosure care	—	—	—	3,646,014
Reserved for asset replacement	125,471	—	—	—
Reserved for construction	—	—	102,968	—
Unreserved	396,267	(7,287,886)	—	11,197,556
Total equity	559,600	(6,561,155)	102,968	14,843,570
Total liabilities and equity	\$ 1,390,678	\$ 997,525	\$ 119,174	\$ 17,496,635

Combining Balance Sheet – All Sanitation Funds

December 31, 2002

(Continued)

Totals	
Year Ended December 31	
2002	2001
\$ 601,056	\$ 358,497
246,228	228,222
2,653,065	2,531,814
28,639	39,260
785,000	695,000
—	80,675
6,745,041	7,814,232
<u>11,059,029</u>	<u>11,747,700</u>
37,862	37,862
726,731	1,093,621
3,646,014	3,524,763
125,471	130,932
102,968	94,308
4,305,937	3,840,382
<u>8,944,983</u>	<u>8,721,868</u>
<u>\$ 20,004,012</u>	<u>\$ 20,469,568</u>

CITY OF FORT SMITH, ARKANSAS

Combining Schedule of Revenues, Expenses, and Changes in Retained Earnings –
All Sanitation Funds

For the Fiscal Year Ended December 31, 2002
With Comparative Totals for the Fiscal Year Ended December 31, 2001
(Continued on Following Page)

	<u>Operating</u>	<u>Solid Waste Bond</u>	<u>Cleanup Demolition Program</u>	<u>Sanitation Sinking</u>
Operating revenues:				
Charges for services	\$ 9,555,602	\$ —	\$ 87,190	\$ —
Operating expenses:				
Personnel services	4,276,029	—	161,947	—
Contractual services	955,316	—	122,832	—
Materials and supplies	1,353,203	—	35,254	121,251
Heat, light, and power	28,320	—	—	—
Depreciation	2,106,659	—	—	—
Total operating expenses	<u>8,719,527</u>	<u>—</u>	<u>320,033</u>	<u>121,251</u>
Operating income (loss)	<u>836,075</u>	<u>—</u>	<u>(232,843)</u>	<u>(121,251)</u>
Nonoperating revenues (expenses):				
Interest revenue	26,101	23,781	1,503	109,126
Increase (decrease) in fair value of investments	—	11,059	—	—
Interest and fiscal charges	—	(302,660)	—	—
Other nonoperating revenues (expenses)	<u>96,319</u>	<u>(159,695)</u>	<u>—</u>	<u>—</u>
Total nonoperating revenues (expenses)	<u>122,420</u>	<u>(427,515)</u>	<u>1,503</u>	<u>109,126</u>
Income (loss) before operating transfers	958,495	(427,515)	(231,340)	(12,125)
Operating transfers in – interfund	38,600	—	—	—
Operating transfers in – intrafund	—	1,030,161	240,000	2,887,476
Operating transfers out – interfund	(103,000)	—	—	—
Operating transfers out – intrafund	<u>(4,157,637)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income (loss)	(3,263,542)	602,646	8,660	2,875,351
Retained earnings (deficit), beginning of year	<u>3,785,280</u>	<u>(7,163,801)</u>	<u>94,308</u>	<u>11,968,219</u>
Retained earnings (deficit), end of year	<u>\$ 521,738</u>	<u>\$ (6,561,155)</u>	<u>\$ 102,968</u>	<u>\$ 14,843,570</u>

Combining Schedule of Revenues, Expenses, and Changes in Retained Earnings –
All Sanitation Funds

(Continued)

Totals	
Year Ended December 31	
2002	2001
\$ 9,642,792	\$ 9,276,595
4,437,976	4,187,762
1,078,148	1,219,574
1,509,708	1,991,393
28,320	26,257
2,106,659	2,108,664
9,160,811	9,533,650
481,981	(257,055)
160,511	314,540
11,059	(916)
(302,660)	(499,594)
(63,376)	72,675
(194,466)	(113,295)
287,515	(370,350)
38,600	35,000
4,157,637	1,704,190
(103,000)	(265,700)
(4,157,637)	(1,704,190)
223,115	(601,050)
8,684,006	9,285,056
\$ 8,907,121	\$ 8,684,006

CITY OF FORT SMITH, ARKANSAS

Combining Schedule of Revenues, Expenses, and Changes in Retained Earnings –
 Budget and Actual – Water and Sewer Operating and Sanitation Operating Funds
 For the Fiscal Year Ended December 31, 2002
 (Continued on Following Page)

	Water and Sewer Operating				
	Actual	Adjustments to Budgetary Basis	Actual on a Budgetary Basis	Budget	Variance- Favorable (Unfavorable)
Operating revenues:					
Water service	\$ 14,473,460	\$ —	\$ 14,473,460	\$ 16,762,300	\$ (2,288,840)
Sewer service	8,724,809	—	8,724,809	10,064,800	(1,339,991)
Charges for services	409,196	—	409,196	481,500	(72,304)
Other	33,598	—	33,598	35,000	(1,402)
Total operating revenues	23,641,063	—	23,641,063	27,343,600	(3,702,537)
Operating expenses:					
Personnel services	9,038,070	—	9,038,070	9,209,175	171,105
Contractual services	1,415,077	203,781	1,618,858	1,826,189	207,331
Materials and supplies	3,166,171	120,003	3,286,174	3,479,807	193,633
Heat, light, and power	1,108,167	—	1,108,167	1,120,575	12,408
Depreciation	7,315,208	(7,315,208)	—	—	—
Total operating expenses	22,042,693	(6,991,424)	15,051,269	15,635,746	584,477
Operating income (loss)	1,598,370	6,991,424	8,589,794	11,707,854	(3,118,060)
Nonoperating revenues:					
Interest revenue	87,864	—	87,864	270,300	(182,436)
Other nonoperating revenues	199,100	—	199,100	120,000	79,100
Total nonoperating revenues	286,964	—	286,964	390,300	(103,336)
Income before operating transfers	1,885,334	6,991,424	8,876,758	12,098,154	(3,221,396)
Operating transfers in	250,000	—	250,000	250,000	—
Operating transfers out	(11,662,902)	—	(11,662,902)	(11,662,908)	6
Capital contributions	613,408	—	613,408	—	613,408
Net income (loss) before depreciation on contributed assets	(8,914,160)	6,991,424	(1,922,736)	685,246	(2,607,982)
Depreciation on contributed assets	1,599,086	—	1,599,086	—	1,599,086
Retained earnings, beginning of year	(3,742,091)	—	(3,742,091)	(3,742,091)	—
Retained earnings, end of year	\$ (11,057,165)	\$ 6,991,424	\$ (4,065,741)	\$ (3,056,845)	\$ (1,008,896)

Combining Schedule of Revenues, Expenses, and Changes in Retained Earnings –
Budget and Actual – Water and Sewer Operating and Sanitation Operating Funds

(Continued)

Sanitation Operating				
Actual	Adjustments to Budgetary Basis	Actual on a Budgetary Basis	Budget	Variance- Favorable (Unfavorable)
\$ —	\$ —	\$ —	\$ —	\$ —
9,555,602	—	9,555,602	11,135,860	(1,580,258)
9,555,602	—	9,555,602	11,135,860	(1,580,258)
4,276,029	—	4,276,029	4,596,507	320,478
955,316	49,054	1,004,370	1,299,283	294,913
1,353,203	102,857	1,456,060	1,590,309	134,249
28,320	—	28,320	34,990	6,670
2,106,659	(2,106,659)	—	—	—
8,719,527	(1,954,748)	6,764,779	7,521,089	756,310
836,075	1,954,748	2,790,823	3,614,771	(823,948)
26,101	—	26,101	35,000	(8,899)
96,319	—	96,319	50,000	46,319
122,420	—	122,420	85,000	37,420
958,495	1,954,748	2,913,243	3,699,771	(786,528)
38,600	—	38,600	73,600	(35,000)
(4,260,637)	—	(4,260,637)	(4,396,596)	135,959
—	—	—	—	—
(3,263,542)	1,954,748	(1,308,794)	(623,225)	(685,569)
—	—	—	—	—
3,785,280	—	3,785,280	3,785,280	—
\$ 521,738	\$ 1,954,748	\$ 2,476,486	\$ 3,162,055	\$ (685,569)

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CITY OF FORT SMITH, ARKANSAS

Summary of Internal Service Funds

For the Fiscal Year Ended December 31, 2002

Working Capital – To account for the accumulation and allocation of costs associated with vehicle maintenance, warehouse, and office supplies.

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

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

CITY OF FORT SMITH, ARKANSAS

Combining Balance Sheet – All Internal Service Funds

December 31, 2002

With Comparative Totals for December 31, 2001

Assets	Working Capital	Employee Insurance	Workers' Compensation	Totals	
				December 31	
				2002	2001
Cash	\$ 23,160	\$ 338,781	\$ 202,060	\$ 564,001	\$ 1,164,042
Investments	—	1,693,707	914,553	2,608,260	1,952,186
Receivables, net of allowance for uncollectibles:					
Accounts	—	12,335	172	12,507	7,100
Accrued interest	—	3,831	2,096	5,927	6,103
Inventory, at cost	22,842	—	—	22,842	24,398
Due from other funds	1,630	—	—	1,630	855
Deposits	—	—	—	—	120,068
Total assets	\$ 47,632	\$ 2,048,654	\$ 1,118,881	\$ 3,215,167	\$ 3,274,752
Liabilities and Equity					
Liabilities:					
Accounts payable and accrued liabilities	\$ 14,699	\$ 14,910	\$ 12,500	\$ 42,109	\$ 105,004
Liability for insured events	—	831,767	209,345	1,041,112	1,106,925
Total liabilities	14,699	846,677	221,845	1,083,221	1,211,929
Equity:					
Contributed capital	2,375	1,695,120	—	1,697,495	1,697,495
Retained earnings:					
Reserved for health insurance and workers' compensation	—	—	897,036	897,036	339,575
Unreserved	30,558	(493,143)	—	(462,585)	25,753
Total equity	32,933	1,201,977	897,036	2,131,946	2,062,823
Total liabilities and equity	\$ 47,632	\$ 2,048,654	\$ 1,118,881	\$ 3,215,167	\$ 3,274,752

CITY OF FORT SMITH, ARKANSAS

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings –
All Internal Service Funds

For the Fiscal Year Ended December 31, 2002

With Comparative Totals for the Fiscal Year Ended December 31, 2001

	Working Capital	Employee Insurance	Workers' Compensation	Totals December 31	
				2002	2001
Operating revenues:					
Charges for services	\$ 370,946	\$ 5,221,352	\$ 239,770	\$ 5,832,068	\$ 5,149,947
Total operating revenues	370,946	5,221,352	239,770	5,832,068	5,149,947
Operating expenses:					
Contractual services	—	405,584	107,011	512,595	476,779
Materials and supplies	366,141	—	—	366,141	416,982
Premium payments	—	513,292	—	513,292	421,714
Claims for insured events	—	4,784,924	168,029	4,952,953	4,548,243
Total operating expenses	366,141	5,703,800	275,040	6,344,981	5,863,718
Operating income (loss)	4,805	(482,448)	(35,270)	(512,913)	(713,771)
Nonoperating revenues:					
Interest revenue	—	51,507	30,529	82,036	104,358
Other nonoperating revenue	—	—	—	—	9,497
Total nonoperating revenues	—	51,507	30,529	82,036	113,855
Net loss before operating transfers	4,805	(430,941)	(4,741)	(430,877)	(599,916)
Operating transfers in	—	500,000	—	500,000	2,035,000
Net income (loss)	4,805	69,059	(4,741)	69,123	1,435,084
Retained earnings, beginning of year	25,753	(562,202)	901,777	365,328	(1,069,756)
Retained earnings, end of year	\$ 30,558	\$ (493,143)	\$ 897,036	\$ 434,451	\$ 365,328

CITY OF FORT SMITH, ARKANSAS

Combining Statement of Cash Flows – All Internal Service Funds

For the Fiscal Year Ended December 31, 2002

With Comparative Totals for the Fiscal Year Ended December 31, 2001

(Continued on Following Page)

	Working Capital	Employee Insurance	Workers' Compensation	Totals December 31	
				2002	2001
Cash flows from operating activities:					
Cash received from service users	\$ 370,171	\$ —	\$ —	\$ 370,171	\$ 410,225
Cash received from city and employee contributions	—	5,216,117	239,598	5,455,715	4,761,012
Cash payments for goods and services	(370,318)	—	—	(370,318)	(861,976)
Cash payments for premiums and other operating expenses	—	(405,585)	(144,259)	(549,844)	(421,714)
Cash payments for claims paid	—	(5,240,627)	(191,276)	(5,431,903)	(4,765,276)
Net cash used for operating activities	(147)	(430,095)	(95,937)	(526,179)	(877,729)
Cash flows from noncapital financing activities:					
Operating transfers in	—	500,000	—	500,000	2,035,000
Net cash provided by noncapital financing activities	—	500,000	—	500,000	2,035,000
Cash flows from investing activities:					
Proceeds from sales and maturities of investment securities	—	1,057,182	369,552	1,426,734	1,106,267
Outlays for purchases of investment securities	—	(1,938,754)	(144,054)	(2,082,808)	(1,555,829)
Interest on investments	—	50,116	32,096	82,212	109,240
Net cash provided by (used for) investing activities	—	(831,456)	257,594	(573,862)	(340,322)
Net increase (decrease) in cash	(147)	(761,551)	161,657	(600,041)	816,949
Cash, January 1	23,307	1,100,332	40,403	1,164,042	347,093
Cash, December 31	\$ 23,160	\$ 338,781	\$ 202,060	\$ 564,001	\$ 1,164,042

Combining Statement of Cash Flows – All Internal Service Funds

(Continued)

	Working Capital	Employee Insurance	Workers' Compensation	Totals	
				December 31	
				2002	2001
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 4,805	\$ (482,448)	\$ (35,270)	\$ (512,913)	\$ (713,771)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Miscellaneous revenue	—	—	—	—	9,497
Change in assets and liabilities:					
Accounts receivable	—	(5,235)	(172)	(5,407)	12,101
Due from other funds	(775)	—	—	(775)	(308)
Inventory	1,556	—	—	1,556	137
Prepaid items and deposits	—	120,068	—	120,068	(120,068)
Accounts payable and accrued liabilities	(5,733)	(19,914)	(37,248)	(62,895)	(31,846)
Liability for insured events	—	(42,566)	(23,247)	(65,813)	(33,471)
Total adjustments	(4,952)	52,353	(60,667)	(13,266)	(163,958)
Net cash used for operating activities	\$ (147)	\$ (430,095)	\$ (95,937)	\$ (526,179)	\$ (877,729)

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CITY OF FORT SMITH, ARKANSAS

Summary of Fiduciary Funds

For the Fiscal year Ended December 31, 2002

(1) Pension Trust Fund

Municipal Court Retirement – To account for assets held by the City in a trustee capacity for active and retired judges and court clerks of the City's Municipal Court Department. The fund is a defined benefit plan instituted by the Arkansas State Legislature.

(2) Agency Fund

Payroll – To account for the collection and payment of the City's payroll and associated liabilities.

CITY OF FORT SMITH, ARKANSAS

Combining Balance Sheet – All Fiduciary Funds

December 31, 2002

With Comparative Totals for December 31, 2001

Assets	Pension Trust Fund	Agency Fund	Totals	
	Municipal Court Retirement	Payroll	December 31	
			2002	2001
Cash	\$ —	\$ 264,187	\$ 264,187	\$ 5,717
Investments	991,087	—	991,087	939,311
Receivables, net of allowance for uncollectibles:				
Accounts	—	—	—	22
Accrued interest	1,863	—	1,863	—
Total assets	<u>\$ 992,950</u>	<u>\$ 264,187</u>	<u>\$ 1,257,137</u>	<u>\$ 945,050</u>
Liabilities and Equity				
Liabilities:				
Accounts payable and accrued liabilities	\$ —	\$ 264,187	\$ 264,187	\$ 1,038
Due to other funds	—	—	—	4,679
Total liabilities	<u>—</u>	<u>264,187</u>	<u>264,187</u>	<u>5,717</u>
Equity:				
Reserved for employees – pension benefits	992,950	—	992,950	942,117
Total equity	<u>992,950</u>	<u>—</u>	<u>992,950</u>	<u>942,117</u>
Total liabilities and equity	<u>\$ 992,950</u>	<u>\$ 264,187</u>	<u>\$ 1,257,137</u>	<u>\$ 947,834</u>

CITY OF FORT SMITH, ARKANSAS

Statement of Changes in Plan Net Assets – All Pension Trust Funds

For the Fiscal Year Ended December 31, 2002

With Comparative Totals for the Fiscal Year Ended December 31, 2001

	<u>2002</u>	<u>2001</u>
Additions:		
Court fines and fees	\$ 54,863	\$ 54,949
Investment earnings	24,607	44,638
Total additions	<u>79,470</u>	<u>99,587</u>
Deductions:		
Benefit payments	<u>28,637</u>	<u>9,419</u>
Total deductions	<u>28,637</u>	<u>9,419</u>
Increase in net assets	50,833	90,168
Net assets, beginning of year	<u>942,117</u>	<u>851,949</u>
Net assets, end of year	<u>\$ 992,950</u>	<u>\$ 942,117</u>

CITY OF FORT SMITH, ARKANSAS

Combining Statement of Changes in Assets and Liabilities – Payroll Fund

December 31, 2002

Assets:

Cash balance, January 1	\$	5,717
Additions		32,252,000
Deductions		<u>(31,993,530)</u>
Cash balance, December 31		<u>264,187</u>
Total assets	\$	<u><u>264,187</u></u>

Liabilities:

Accounts payable balance, January 1	\$	1,038
Additions		17,602,714
Deductions		<u>(17,339,565)</u>
Accounts payable balance, December 31		<u>264,187</u>
Due to other funds, January 1		4,679
Additions		—
Deductions		<u>(4,679)</u>
Due to other funds, December 31		<u>—</u>
Total liabilities	\$	<u><u>264,187</u></u>

CITY OF FORT SMITH, ARKANSAS

Summary of General Fixed Assets Account Group

December 31, 2002

General Fixed Assets Account Group – A self-balancing group of accounts established to account for fixed assets of the City not accounted for through proprietary funds or trust funds.

CITY OF FORT SMITH, ARKANSAS

Schedule of General Fixed Assets – By Source

December 31, 2002

General fixed assets:

Land	\$ 10,898,651
Buildings	65,589,966
Improvements other than buildings	5,932,268
Machinery and equipment	18,762,107
Construction in progress	224,024
Total general fixed assets	<u>\$ 101,407,016</u>

Investment in general fixed assets by source:

Bond issues	\$ 62,210,996
Current revenues:	
General Fund	22,563,715
Special Revenue Funds	12,524,445
Contributions	4,107,860
Total investment in general fixed assets	<u>\$ 101,407,016</u>

CITY OF FORT SMITH, ARKANSAS

Schedule of General Fixed Assets – By Function and Activity

December 31, 2002

	<u>Land</u>	<u>Buildings</u>	<u>Improvements Other Than Buildings</u>	<u>Machinery and Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
General government:						
Administration	\$ 4,200	\$ 23,218	\$ 27,758	\$ 713,217	\$ —	\$ 768,393
Legal	—	—	24,005	196,912	—	220,917
Finance	—	55,305	55,628	505,117	—	616,050
Public safety:						
Police	1,150,000	5,273,015	316,615	3,637,928	—	10,377,558
Fire	303,541	2,817,779	—	4,732,461	—	7,853,781
Public works:						
Operations	—	—	54,689	86,980	—	141,669
Streets	—	—	—	3,036,308	—	3,036,308
Traffic control	—	—	—	348,396	—	348,396
Community services:						
Parks and recreation	986,912	10,840,311	5,159,841	974,127	224,025	18,185,216
Other	8,453,997	46,580,338	293,732	4,530,661	—	59,858,728
Total	<u>\$ 10,898,650</u>	<u>\$ 65,589,966</u>	<u>\$ 5,932,268</u>	<u>\$ 18,762,107</u>	<u>\$ 224,025</u>	<u>\$ 101,407,016</u>

CITY OF FORT SMITH, ARKANSAS

Schedule of Changes in General Fixed Assets -- By Function and Activity

December 31, 2002

	General Fixed Assets December 31, 2001	Additions	Deletions	Transfers	General Fixed Assets December 31, 2002
General government:					
Administration	\$ 755,728	\$ 39,911	\$ 27,246	\$ —	\$ 768,393
Legal	220,917	—	—	—	220,917
Finance	579,060	36,990	—	—	616,050
Public safety:					
Police	10,051,249	554,425	228,116	—	10,377,558
Fire	7,345,505	576,078	67,802	—	7,853,781
Public works:					
Operations	141,669	—	—	—	141,669
Streets	2,810,092	322,322	96,106	—	3,036,308
Traffic control	371,760	—	23,364	—	348,396
Community services:					
Parks and recreation	17,531,884	653,332	—	—	18,185,216
Other	58,595,224	1,263,504	—	—	59,858,728
Total	<u>\$ 98,403,088</u>	<u>\$ 3,446,562</u>	<u>\$ 442,634</u>	<u>\$ —</u>	<u>\$ 101,407,016</u>

CITY OF FORT SMITH, ARKANSAS

Summary of Discretely Presented Component Units

For the Fiscal Year Ended December 31, 2002

(1) Proprietary Fund Types – Enterprise Funds

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

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

(2) Governmental Fund Types – Special Revenue Funds

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

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

CITY OF FORT SMITH, ARKANSAS

Combining Balance Sheet – Component Unit Proprietary Funds

December 31, 2002

With Comparative Totals for December 31, 2001

(Continued on Following Page)

Assets	Airport Commission	Parking Authority	Totals	
			Year Ended December 31	
			2002	2001
Cash	\$ 1,676,522	\$ —	\$ 1,676,522	\$ 43,197
Investments	—	—	—	2,350,000
Receivables, net of allowances for uncollectibles:				
Accounts	56,556	2,109	58,665	45,801
Accrued interest	982	—	982	4,402
Inventory, at cost	1,859	—	1,859	2,689
Prepaid items	52,341	3,599	55,940	39,804
Restricted assets:				
Cash	2,014,491	—	2,014,491	4,063,857
Investments	—	106,971	106,971	1,512,178
Accounts receivable, net of allowances for uncollectibles	134,569	—	134,569	605,315
Accrued interest	62	1,073	1,135	4,812
Fixed assets	40,776,078	2,565,962	43,342,040	34,660,883
Deferred charges	254,840	27,186	282,026	303,317
Total assets	\$ 44,968,300	\$ 2,706,900	\$ 47,675,200	\$ 43,636,255

Combining Balance Sheet – Component Unit Proprietary Funds

(Continued)

Liabilities and Equity	Airport Commission	Parking Authority	Totals	
			Year Ended December 31	
			2002	2001
Liabilities:				
Accounts payable and accrued liabilities	\$ 170,143	\$ 38,167	\$ 208,310	\$ 287,722
Notes payable – current	90,943	—	90,943	—
Capital leases payable – current	—	9,177	9,177	—
Notes payable	401,647	—	401,647	—
Capital leases payable	—	38,718	38,718	—
Liability for accrued vacation and sick leave	—	792	792	1,740
Payable from restricted assets:				
Accrued interest	79,395	6,830	86,225	86,998
Revenue bonds payable, current	65,000	75,000	140,000	115,000
Accounts payable	308,526	—	308,526	992,458
Revenue bonds payable	5,135,668	1,716,686	6,852,354	6,981,768
Other	867,684	—	867,684	350,950
Total liabilities	7,119,006	1,885,370	9,004,376	8,816,636
Equity:				
Contributed capital:				
From other municipalities or governmental units	20,531,472	410,295	20,941,767	22,232,374
Retained earnings:				
Reserved for bond retirement	406,930	79,476	486,406	486,406
Unreserved	16,910,892	331,759	17,242,651	12,100,839
Total equity	37,849,294	821,530	38,670,824	34,819,619
Total liabilities and equity	\$ 44,968,300	\$ 2,706,900	\$ 47,675,200	\$ 43,636,255

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CITY OF FORT SMITH, ARKANSAS

Combining Statement of Revenues, Expenditures, and Changes in Retained Earnings –
Component Unit Proprietary Funds

For the Fiscal Year Ended December 31, 2002

With Comparative Totals for the Fiscal Year Ended December 31, 2001

	Airport Commission	Parking Authority	Totals	
			Year Ended December 31	
			2002	2001
Operating revenues:				
Charges for services	\$ 1,780,047	\$ 244,365	\$ 2,024,412	\$ 2,024,132
Other	278,478	—	278,478	362,452
Total operating revenues	2,058,525	244,365	2,302,890	2,386,584
Operating expenses:				
Personnel services	775,760	127,007	902,767	827,133
Contractual services	576,766	8,425	585,191	675,785
Materials and supplies	115,155	8,938	124,093	146,242
Heat, light, and power	111,037	9,404	120,441	109,418
Depreciation	1,810,974	76,326	1,887,300	1,762,953
Miscellaneous	53,607	—	53,607	54,652
Total operating expenses	3,443,299	230,100	3,673,399	3,576,183
Operating income (loss)	(1,384,774)	14,265	(1,370,509)	(1,189,599)
Nonoperating revenues (expenses):				
Interest	54,934	4,234	59,168	187,435
Change in fair value of investments	—	186	186	—
Interest expenses and fiscal charges	(131,160)	(84,522)	(215,682)	(134,370)
Other nonoperating revenues (expenses), net	35,380	(10,721)	24,659	(51,687)
Total nonoperating revenues (expenses), net	(40,846)	(90,823)	(131,669)	1,378
Loss before operating transfers and capital contributions	(1,425,620)	(76,558)	(1,502,178)	(1,188,221)
Operating transfers from primary government	—	120,000	120,000	120,000
Capital contributions	5,233,383	—	5,233,383	4,837,083
Net income	3,807,763	43,442	3,851,205	3,768,862
Depreciation on contributed assets (prior to GASB 33)	1,290,607	—	1,290,607	1,308,559
Retained earnings, beginning of year	12,219,452	367,793	12,587,245	7,509,824
Retained earnings, end of year	\$ 17,317,822	\$ 411,235	\$ 17,729,057	\$ 12,587,245

CITY OF FORT SMITH, ARKANSAS

Combining Statement of Cash Flows – Component Unit Proprietary Funds

For the Fiscal Year Ended December 31, 2002

With Comparative Totals for the Fiscal Year Ended December 31, 2001

(Continued on Following Page)

	Airport Commission	Parking Authority	Totals	
			Year Ended December 31	
			2002	2001
Cash flows from operating activities:				
Cash received from customers	\$ 1,687,669	\$ 244,817	\$ 1,932,486	\$ 1,909,153
Cash payments for goods and services	(911,277)	(56,117)	(967,394)	(756,613)
Cash payments to employees	(773,144)	(127,075)	(900,219)	(831,076)
Cash payments for other operating expenses	(53,607)	—	(53,607)	(54,652)
Cash received from other operating revenues	283,929	—	283,929	364,881
Net cash provided by operating activities	233,570	61,625	295,195	631,693
Cash flows from noncapital financing activities:				
Operating transfers-in from primary government	—	120,000	120,000	120,000
Net cash provided by noncapital financing activities	—	120,000	120,000	120,000
Cash flows from capital and related financing activities:				
Proceeds from sale of assets	—	—	—	1,000
Acquisition and construction of capital assets	(4,683,779)	(78,623)	(4,762,402)	(1,354,364)
Notes payable	492,590	—	492,590	—
Capital leases	—	47,895	47,895	—
Principal paid on revenue bonds	(45,000)	(70,000)	(115,000)	(70,000)
Interest and fiscal charges paid on revenue bonds	(322,640)	(84,755)	(407,395)	(410,125)
Net cash used for capital and related financing activities	(4,558,829)	(185,483)	(4,744,312)	(1,833,489)
Cash flows from investing activities:				
Proceeds from sales and maturities of investments securities	3,754,971	353,170	4,108,141	9,777,022
Outlays for purchases of investment securities	—	(352,934)	(352,934)	(6,094,605)
Interest on investments	154,247	3,622	157,869	637,684
Net cash provided by investing activities	3,909,218	3,858	3,913,076	4,320,101
Net increase in cash and restricted cash	(416,041)	—	(416,041)	3,238,305
Cash and restricted cash, beginning of year	4,107,054	—	4,107,054	868,749
Cash and restricted cash, end of year	\$ 3,691,013	\$ —	\$ 3,691,013	\$ 4,107,054

Combining Statement of Cash Flows – Component Unit Proprietary Funds

(Continued)

	Airport Commission	Parking Authority	Totals	
			Year Ended December 31	
			2002	2001
Reconciliation of operating loss to net cash provided by operating activities:				
Operating income (loss)	\$ (1,384,774)	\$ 14,265	\$ (1,370,509)	\$ (1,054,344)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation	1,810,974	76,326	1,887,300	1,762,953
Miscellaneous revenue (expense)	—	21	21	(855)
Changes in assets and liabilities:				
Accounts receivable	(13,295)	431	(12,864)	(4,394)
Inventory	830	—	830	574
Prepaid items	(14,218)	(1,918)	(16,136)	1,739
Accounts payable and accrued liabilities	(92,315)	(26,552)	(118,867)	42,370
Liability for accrued vacation and sick leave	—	(948)	(948)	(9,049)
Other liabilities	(73,632)	—	(73,632)	(107,301)
Total adjustments	1,618,344	47,360	1,665,704	1,686,037
Net cash provided by operating activities	\$ 233,570	\$ 61,625	\$ 295,195	\$ 631,693

Noncash investing, capital, and financing activities:

The Airport Commission received hangar improvements provided by the tenant of \$229,427 and \$38,220 in 2002 and 2001, respectively. The Airport Commission has a promissory note with the City of \$492,590 in 2002.

The Parking Authority has borrowing under a capital lease of \$47,895 in 2002.

CITY OF FORT SMITH, ARKANSAS

Combining Balance Sheet – Component Unit Governmental Funds

December 31, 2002

With Comparative Totals for December 31, 2001

Assets	Advertising and Promotion	Public Library	Totals	
			Year Ended December 31	
			2002	2001
Cash	\$ 25	\$ 546,226	\$ 546,251	\$ 525,072
Investments	204,696	349,813	554,509	646,454
Receivables, net of allowances for uncollectibles:				
Taxes	27,498	—	27,498	30,109
Sales taxes	—	114,454	114,454	179,364
Accrued interest	443	156	599	1,152
Inventory, at cost	—	5,000	5,000	5,000
Prepaid items	—	45,075	45,075	50,014
Fixed assets, net of accumulated depreciation	—	442,040	442,040	450,005
Total assets	<u>\$ 232,662</u>	<u>\$ 1,502,764</u>	<u>\$ 1,735,426</u>	<u>\$ 1,887,170</u>
Liabilities, Equity, and Other Credits				
Liabilities:				
Accounts payable and accrued liabilities	\$ 7,670	\$ 44,816	\$ 52,486	\$ 48,494
Total liabilities	<u>7,670</u>	<u>44,816</u>	<u>52,486</u>	<u>48,494</u>
Equity and other credits:				
Investment in general fixed assets	—	442,040	442,040	450,005
Fund balances:				
Reserved for prepaid items	—	45,075	45,075	50,014
Unreserved:				
Designated for subsequent years – expenditures	224,992	970,833	1,195,825	1,338,657
Total equity and other credits	<u>224,992</u>	<u>1,457,948</u>	<u>1,682,940</u>	<u>1,838,676</u>
Total liabilities, equity, and other credits	<u>\$ 232,662</u>	<u>\$ 1,502,764</u>	<u>\$ 1,735,426</u>	<u>\$ 1,887,170</u>

CITY OF FORT SMITH, ARKANSAS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –
Component Unit Governmental Funds

For the Fiscal Year Ended December 31, 2002
With Comparative Totals for the Fiscal Year Ended December 31, 2001

	Advertising and Promotion	Public Library	Totals	
			Year Ended December 31 2002	2001
Revenues:				
Taxes	\$ 513,736	\$ 903,579	\$ 1,417,315	\$ 1,213,315
Sales taxes	—	714,837	714,837	736,726
Intergovernmental	—	30,182	30,182	217,912
Fees for services	—	95,049	95,049	83,637
Interest	5,156	12,367	17,523	27,511
Contributions	3,781	6,404	10,185	18,516
Miscellaneous	—	791	791	140,623
Total revenues	522,673	1,763,209	2,285,882	2,438,240
Expenditures:				
Current:				
Community services	—	1,918,359	1,918,359	1,991,078
Other	499,897	—	499,897	339,447
Total expenditures	499,897	1,918,359	2,418,256	2,330,525
Excess (deficiency) of revenues over (under) expenditures	22,776	(155,150)	(132,374)	107,715
Other financing uses:				
Operating transfers to primary government	(15,397)	—	(15,397)	(11,410)
Total other financing uses	(15,397)	—	(15,397)	(11,410)
Excess (deficiency) of revenues over (under) expenditures and other financing uses	7,379	(155,150)	(147,771)	96,305
Fund balances, beginning of year	217,613	1,171,058	1,388,671	1,292,366
Fund balances, end of year	\$ 224,992	\$ 1,015,908	\$ 1,240,900	\$ 1,388,671

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Table 1

CITY OF FORT SMITH, ARKANSAS
 General Government Expenditures by Function
 Last Ten Fiscal Years
 (Unaudited)

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Community Services</u>	<u>Other</u>	<u>Capital Outlay</u>	<u>Debt Service</u>	<u>Total</u>
1993	\$ 2,412,384	\$ 9,926,050	\$ 11,091,275	\$ 1,108,863	\$ 509,928	\$ 620,612	\$ 278,650	\$ 25,947,762
1994	2,395,054	10,434,851	17,355,321	998,413	780,458	505,382	—	32,469,479
1995	2,726,919	11,773,614	18,816,851	921,353	831,316	3,352,061	—	38,422,114
1996	2,861,021	13,334,796	16,508,759	1,637,082	1,524,650	4,386,642	—	40,252,950
1997	3,016,803	14,298,925	16,945,529	1,390,933	1,707,646	5,322,896	252,333	42,935,065
1998	3,091,735	15,235,568	15,452,436	1,981,055	1,242,962	11,577,002	4,240,216	52,820,974
1999	3,542,767	16,893,976	15,346,680	2,105,136	1,749,246	17,572,527	7,485,305	64,695,637
2000	4,105,006	19,895,794	13,514,651	2,411,123	1,332,628	34,461,654	7,998,421	83,719,277
2001	4,791,577	19,956,251	18,805,624	4,997,754	2,004,322	7,133,868	10,611,728	68,301,124
2002	5,215,541	19,892,329	23,702,402	5,536,507	1,739,626	3,415,681	9,115,124	68,617,210

CITY OF FORT SMITH, ARKANSAS

General Revenue by Source

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	Taxes (1)	Sales Tax (2)	Licenses and Permits	Inter-governmental	Fines and Forfeitures	Fees for Services	Interest	Other (3)	Total
1993	\$ 9,555,985	\$ 11,552,563	\$ 1,311,824	\$ 8,152,456	\$ 1,157,541	\$ 215,485	\$ 400,674	\$ 579,642	\$ 32,926,170
1994	9,381,200	14,049,584	724,319	7,850,023	1,313,112	221,095	679,576	758,061	34,976,970
1995	9,158,450	18,481,174	764,602	7,614,332	1,585,493	255,280	1,045,089	796,688	39,701,108
1996	9,487,379	19,451,766	886,378	8,341,274	1,758,333	262,531	1,119,307	810,202	42,117,170
1997	9,972,921	19,732,421	845,841	7,757,251	1,835,552	286,989	1,302,501	776,068	42,509,544
1998	10,268,710	26,399,219	964,319	14,578,023	1,757,023	384,289	4,174,469	1,639,154	60,365,206
1999	10,467,904	29,121,222	1,188,651	15,727,224	1,694,367	329,352	2,980,151	1,210,816	62,719,687
2000	11,299,993	35,805,269	1,374,696	10,513,059	1,720,211	340,266	3,921,011	1,198,588	66,173,093
2001	12,279,662	35,872,020	1,462,282	13,943,553	1,615,757	720,524	2,864,102	1,291,358	70,049,258
2002	12,527,577	35,167,253	1,343,203	11,900,040	1,744,309	786,492	1,515,915	1,422,391	66,407,180

(1) Taxes include ad valorem taxes and utility franchise fees.

(2) The City began collecting the 1% City sales tax in November 1985, the 3/4% City sales tax in January 1998, an additional 1/2% sales tax in May 2001, and the 1% County sales tax in August 1994.

(3) Includes contributions and miscellaneous revenues.

Table 3

CITY OF FORT SMITH, ARKANSAS
Property Tax Levies and Collections
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Total tax Levy (1)	Current Tax Collections	Percent of Levy Collections	Delinquent Tax Collections	Total Tax Collections	Collection Percent of Current Levy	Outstanding Delinquent Taxes	Outstanding Delinquent Taxes as a Percent of Current Levy
1993	\$ 4,971,677	\$ 4,860,126	97.76%	\$ 200,206	\$ 5,060,332	101.78%	\$ 187,649	3.77%
1994	4,815,548	4,697,860	97.56%	200,754	4,898,614	101.72%	149,673	3.11%
1995	5,013,613	4,914,796	98.03%	161,378	5,076,174	101.25%	139,330	2.78%
1996	5,333,661	5,188,597	97.28%	145,282	5,333,879	100.00%	178,399	3.34%
1997	5,724,797	5,532,859	96.65%	195,923	5,728,782	100.07%	221,049	3.86%
1998	5,794,689	5,622,468	97.03%	173,623	5,796,091	100.02%	227,176	3.92%
1999	5,925,809	5,829,854	98.38%	181,543	6,011,397	101.44%	237,037	4.00%
2000	6,460,708	6,158,209	95.32%	29,427	6,187,636	95.77%	233,346	3.61%
2001	6,348,763	6,004,289	94.57%	121,353	6,125,642	96.49%	56,473	0.89%
2002	6,858,241	6,403,187	93.37%	208,685	6,611,872	96.41%	269,196	3.93%

(1) Total tax levy is based upon valuation of previous year and has been adjusted for the homestead tax relief for property owners which was effective for the 2001 fiscal year.

Table 4

CITY OF FORT SMITH, ARKANSAS
 Assessed and Estimated Actual Value of Taxable Property
 Last Ten Fiscal Years
 (Unaudited)

Fiscal year (1)	Real Property		Personal Property		Total		Ratio of Total Assessed to Total Estimated Actual
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1993	\$ 437,652,596	\$ 2,188,262,980	\$ 179,787,756	\$ 898,938,780	\$ 617,440,352	\$ 3,087,201,760	20.00%
1994	449,615,226	2,248,076,130	185,078,434	925,392,170	634,693,660	3,173,468,300	20.00%
1995	467,705,956	2,338,529,780	207,064,714	1,035,323,570	674,770,670	3,373,853,350	20.00%
1996	500,702,647	2,503,513,235	220,326,778	1,101,633,890	721,029,425	3,605,147,125	20.00%
1997	506,220,849	2,531,104,245	225,555,162	1,127,775,810	731,776,011	3,658,880,055	20.00%
1998	522,018,450	2,610,092,250	239,096,910	1,195,484,550	761,115,360	3,805,576,800	20.00%
1999	535,068,911	2,675,344,555	245,708,442	1,228,542,210	780,777,353	3,903,886,765	20.00%
2000	607,508,450	3,037,542,250	262,110,959	1,310,554,795	869,619,409	4,348,097,045	20.00%
2001	636,575,485	3,182,877,425	293,983,422	1,469,917,110	930,558,907	4,652,794,535	20.00%
2002	643,415,789	3,217,078,945	295,817,178	1,479,085,890	939,232,967	4,696,164,835	20.00%

(1) Fiscal year is year of valuation.

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CITY OF FORT SMITH, ARKANSAS

Direct Property Tax Rates and Tax Levies

All Direct and Overlapping Governments

Last Ten Fiscal Years

(Unaudited)

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

Fiscal Year (1)	City of Fort Smith		Sebastian County		Fort Smith School District	
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
1993	\$ 0.70	\$ 0.70	\$ 0.80	\$ 0.80	\$ 3.65	\$ 3.65
1994	0.70	0.70	0.80	0.80	3.65	3.65
1995	0.70	0.70	0.80	0.80	3.65	3.65
1996	0.70	0.70	0.80	0.80	3.65	3.65
1997	0.70	0.70	0.80	0.80	3.65	3.65
1998	0.70	0.70	0.80	0.80	3.65	3.65
1999	0.70	0.70	0.80	0.80	3.65	3.65
2000	0.70	0.70	0.80	0.80	3.65	3.65
2001	0.70	0.70	0.80	0.80	3.65	3.65
2002	0.70	0.70	0.80	0.80	3.65	3.65

Tax levies (millages):

Fiscal Year (1)	City of Fort Smith		Sebastian County		Fort Smith School District	
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
1993	\$ 7.00	\$ 7.00	\$ 8.00	\$ 8.00	\$ 36.50	\$ 36.50
1994	7.00	7.00	8.00	8.00	36.50	36.50
1995	7.00	7.00	8.00	8.00	36.50	36.50
1996	7.00	7.00	8.00	8.00	36.50	36.50
1997	7.00	7.00	8.00	8.00	36.50	36.50
1998	7.00	7.00	8.00	8.00	36.50	36.50
1999	7.00	7.00	8.00	8.00	36.50	36.50
2000	7.00	7.00	8.00	8.00	36.50	36.50
2001	7.00	7.00	8.00	8.00	36.50	36.50
2002	7.00	7.00	8.00	8.00	36.50	36.50

(1) Fiscal year is year of levy.

Table 5

Fort Smith Library		U of A Fort Smith		Total	
Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
\$ 0.10	\$ 0.10	\$ 0.53	\$ 0.53	\$ 5.78	\$ 5.78
0.10	0.10	0.53	0.53	5.78	5.78
0.10	0.10	0.53	0.53	5.78	5.78
0.10	0.10	0.53	0.53	5.78	5.78
0.10	0.10	0.53	0.53	5.78	5.78
0.10	0.10	0.53	0.53	5.78	5.78
0.10	0.10	0.53	0.53	5.78	5.78
0.10	0.10	0.53	0.53	5.78	5.78
0.10	0.10	0.53	0.53	5.78	5.78
0.10	0.10	0.53	0.53	5.78	5.78
0.10	0.10	0.00	0.00	5.25	5.25

Fort Smith Library		U of A Fort Smith		Total	
Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
\$ 1.00	\$ 1.00	\$ 5.25	\$ 5.25	\$ 57.75	\$ 57.75
1.00	1.00	5.25	5.25	57.75	57.75
1.00	1.00	5.25	5.25	57.75	57.75
1.00	1.00	5.25	5.25	57.75	57.75
1.00	1.00	5.25	5.25	57.75	57.75
1.00	1.00	5.25	5.25	57.75	57.75
1.00	1.00	5.25	5.25	57.75	57.75
1.00	1.00	5.25	5.25	57.75	57.75
1.00	1.00	5.25	5.25	57.75	57.75
1.00	1.00	0.00	0.00	52.50	52.50

CITY OF FORT SMITH, ARKANSAS

Special Assessment Collections

Last Ten Fiscal Years

(Unaudited)

The City of Fort Smith had no special assessment districts in the past ten (10) years.

CITY OF FORT SMITH, ARKANSAS

Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years
(Unaudited)

The City of Fort Smith did not have any general bonded debt relative to property value in the past ten (10) years.

CITY OF FORT SMITH, ARKANSAS

Computation of Legal Debt Margin

Last Ten Fiscal Years

(Unaudited)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Net assessed value (1)	\$ 617,440,352	\$ 634,693,660	\$ 674,770,670	\$ 721,029,425	\$ 731,776,011
Plus exempt property (2)	(2)	(2)	(2)	(2)	(2)
Total assessed value	<u>\$ 617,440,352</u>	<u>\$ 634,693,660</u>	<u>\$ 674,770,670</u>	<u>\$ 721,029,425</u>	<u>\$ 731,776,011</u>
Debt limit – 25% of total assessed value (3)	\$ 154,360,088	\$ 158,673,415	\$ 168,692,668	\$ 180,257,356	\$ 182,944,003
Amount of debt applicable to limit (4)	—	—	—	—	—
Debt margin	<u>\$ 154,360,088</u>	<u>\$ 158,673,415</u>	<u>\$ 168,692,668</u>	<u>\$ 180,257,356</u>	<u>\$ 182,944,003</u>

(1) From Table 4.

(2) Not available.

(3) Limitation is established by State Statute.

(4) Includes General Obligation Debt net of assets available for bond retirement. See Table 7.

Table 8

1998	1999	2000	2001	2002
\$ 761,115,360 (2)	\$ 780,777,353 (2)	\$ 869,619,409 (2)	\$ 930,558,907 (2)	\$ 939,232,967 (2)
<u>\$ 761,115,360</u>	<u>\$ 780,777,353</u>	<u>\$ 869,619,409</u>	<u>\$ 930,558,907</u>	<u>\$ 939,232,967</u>
\$ 190,278,840	\$ 195,194,338	\$ 217,404,852	\$ 232,639,727	\$ 234,808,242
—	—	—	—	—
<u>\$ 190,278,840</u>	<u>\$ 195,194,338</u>	<u>\$ 217,404,852</u>	<u>\$ 232,639,727</u>	<u>\$ 234,808,242</u>

CITY OF FORT SMITH, ARKANSAS

Computation of Direct and Estimated Overlapping Debt

December 31, 2002

(Unaudited)

Jurisdiction	Total Outstanding Bonded Debt (1)	Estimated Percent Applicable (2)	Direct and Estimated Overlapping Bonded Debt
Direct:			
City of Fort Smith	\$ 88,005,000	100.00%	\$ 88,005,000
Overlapping:			
Fort Smith Special School District	16,227,397	95.00%	15,416,027
Sebastian County	675,000	76.00%	513,000
Total overlapping	<u>16,902,397</u>		<u>15,929,027</u>
Total direct and estimated overlapping bonded debt	<u>\$ 104,907,397</u>		<u>\$ 103,934,027</u>
Ratio, direct and estimated overlapping Debt to Fiscal 2002 Assessed Valuation (3)			11%
Per capital direct and estimated overlapping bonded debt (4)			\$ 1,295

(1) Excluding self-supporting debt.

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

(3) From Table 4, \$939,232,967.

(4) Based on 2000 census population of 80,268.

Table 10

CITY OF FORT SMITH, ARKANSAS
 Ratio of Annual Debt Service Expenditures for
 General Bonded Debt to Total General Expenditures
 Last Ten Fiscal Years
 (Unaudited)

Fiscal Year	Principal	Interest	Total Debt Service	Total Expenditures (1)	Ratio of Debt Service Expenditures to Total Expenditures (Percent)
1993	\$ 265,000	\$ 13,640	\$ 278,640	\$ 25,947,762	1.07%
1994	—	—	—	32,469,479	—
1995	—	—	—	38,422,114	—
1996	—	—	—	40,252,950	—
1997	—	252,333	252,333	42,935,065	0.59%
1998	2,100,000	2,140,216	4,240,216	52,820,974	8.03%
1999	5,520,000	1,965,305	7,485,305	64,695,637	11.57%
2000	6,325,000	1,673,421	7,998,421	83,719,277	9.55%
2001	9,220,000	1,391,728	10,611,728	68,301,124	15.54%
2002	8,165,000	937,122	9,102,122	68,617,210	13.27%

(1) From Table 1.

CITY OF FORT SMITH, ARKANSAS

Revenue Bond Debt Service Coverage

Last Ten Fiscal Years

(Unaudited)

	<u>Fiscal Year</u>	<u>Revenue (1)</u>	<u>Direct Operating Expenses (2)</u>	<u>Net Revenue Available for Debt Service</u>
Water and Sewer System	1993	\$ 13,383,908	\$ 8,839,580	\$ 4,544,328
	1994	13,583,316	8,771,983	4,811,333
	1995	13,916,768	9,614,955	4,301,813
	1996	14,233,369	10,395,390	3,837,979
	1997	14,109,692	10,787,499	3,322,193
	1998	14,595,971	11,178,704	3,417,267
	1999	17,666,495	11,906,342	5,760,153
	2000	23,046,282	12,557,120	10,489,162
	2001	23,167,106	13,753,378	9,413,728
	2002	28,693,062	14,727,485	13,965,577
Solid Waste System	1993	\$ 5,689,923	\$ 4,225,254	\$ 1,464,669
	1994	6,532,027	4,844,436	1,687,591
	1995	7,161,396	5,244,807	1,916,589
	1996	7,253,381	5,305,828	1,947,553
	1997	7,305,144	5,819,320	1,485,824
	1998	7,489,476	5,967,537	1,521,939
	1999	8,220,315	6,533,853	1,686,462
	2000	10,155,226	7,134,530	3,020,696
	2001	9,591,135	7,345,440	2,245,695
	2002	9,803,303	7,054,152	2,749,151

- (1) For purpose of this schedule, revenue includes operating revenue and interest revenue.
- (2) Excludes depreciation expense and amortization expense.
- (3) No principal payments required in these years.
- (4) Total interest paid for the fiscal year is presented in this schedule including capitalized interest.

Table 11

Debt Service Requirements			Coverage
Principal	Interest (4)	Total	
\$ 1,060,000	\$ 1,504,925	\$ 2,564,925	177%
545,000	1,883,279	2,428,279	198%
765,000	1,740,437	2,505,437	172%
1,040,000	1,417,850	2,457,850	156%
1,080,000	1,373,600	2,453,600	135%
1,125,000	1,325,023	2,450,023	139%
1,170,000	1,610,697	2,780,697	207%
2,055,000	2,561,255	4,616,255	227%
2,140,000	2,908,039	5,048,039	186%
2,240,000	5,793,778	8,033,778	174%
\$ —	\$ 134,151	\$ 134,151	1092% (3)
—	246,052	246,052	686% (3)
485,000	613,738	1,098,738	174%
505,000	698,718	1,203,718	162%
525,000	674,991	1,199,991	124%
450,000	617,605	1,067,605	143%
610,000	555,378	1,165,378	145%
635,000	528,529	1,163,529	260%
665,000	499,594	1,164,594	193%
975,000	302,660	1,277,660	215%

Table 12

CITY OF FORT SMITH, ARKANSAS
 Property Value, Construction, and Bank Deposits
 Last Ten Fiscal Years
 (Unaudited)

Fiscal year	Property Value (in thousands)(2)	Commercial Construction (1)		Residential Construction (1)		Bank (in thousands)
		Number of units	Value	Number of units	Value	
1993	\$ 2,188,263	52	\$ 22,340,871	197	\$ 21,440,868	(3)
1994	2,235,098	48	22,546,203	128	14,687,860	(3)
1995	2,324,053	57	21,221,234	193	18,809,705	(3)
1996	2,503,513	44	21,868,896	254	29,424,394	(3)
1997	2,514,333	48	20,233,050	195	17,778,640	(3)
1998	2,610,092	60	60,970,776	234	23,183,003	(3)
1999	2,675,345	76	51,386,195	269	37,904,702	(3)
2000	3,037,542	88	32,890,175	209	27,388,944	(3)
2001	3,182,877	54	51,903,874	290	33,932,448	(3)
2002	3,217,079	71	45,602,511	551	48,343,083	(3)

- (1) City of Fort Smith Building Department Estimate.
 (2) From Table 4.
 (3) Not available.

Table 13

CITY OF FORT SMITH, ARKANSAS

Principal Taxpayers

December 31, 2002

(Unaudited)

Name of Taxpayer (1)	Kind of Property	2002 Assessed Valuation (2)	Percentage of Total Assessed Valuation
Oklahoma Gas & Electric Co.	Electric Utility	\$ 13,201,084	1.42%
Whirlpool Corp.	Refrigeration Products		
	Manufacturing Warehouse	12,152,420	1.31%
Gerber Products	Baby Food Processing Plant	12,079,245	1.30%
Wal-Mart	Retail Shopping Center	8,708,590	0.94%
Southwestern Bell	Telecommunications	7,599,272	0.82%
CMFS Limited Partnership (Central Mall)	Retail Shopping Center	6,668,670	0.72%
Planters Lifesavers	Peanut Processing Plant	6,323,375	0.68%
Beverly Enterprises	Office Complex	6,120,758	0.66%
Hiram Walker	Cordials Industry	5,894,185	0.63%
Arkansas Best Corporation	Office Complex	5,141,270	0.55%
	Total	\$ 83,888,869	9.01%

1 Sebastian County Assessor's Office.

2 Property taxes collected in 2002 are based upon 2001 assessed valuation.

CITY OF FORT SMITH, ARKANSAS

Insurance in Force
December 31, 2002
(Unaudited)

<u>Insurance Company</u>	<u>Premium</u>	<u>Policy no.</u>	<u>Expiration Date</u>
Zurich Commercial (Fleet)	\$ 212,543	BAP3534542-00	06/19/2003
Coregis Insurance Co. (Property)	188,605	651-011043	06/19/2003
First Specialty Insurance Co. (Convention Center) JMR	10,945	PGL37136	01/22/2004
Old Republic Surety Co. (R-O-W-CC)	250	LSC-1037206	04/11/2004
Old Republic Surety Co. (R-O-W)	2,500	LSC-0821592	02/10/2004
Essex Insurance Company (Deployer)	2,875	3CD7889-02	02/02/2004
One Beacon Insurance (Port Authority – 100/200 Navy Rd)	1,759	QER494046	03/14/2004
Arkansas Insurance Department	3,613	FBTF10 (Pool)	12/31/2003

Table 14

Coverage	Amount or Limit
Vehicle liability with extended coverage and uninsured motorist medical and physical, including Sanitation and Transit fleets	Actual Cash Value up to \$100,000 per loss
Property coverage/inland marine/boiler & machinery coverage –	
Buildings & contents	\$169,398,579
Equipment	\$ 6,576,562
Fine arts	\$ 500,000
Comprehensive general liability convention center	\$1,000,000 Combined
Arkansas Highway Department right-of-way bond	\$25,000
Arkansas Highway Department right-of-way bond	\$250,000
Enviro cover & deployer support unit – general liability	\$1,000,000
Property and comprehensive general liability – Port Authority (100/200 Navy Rd.)	\$80,200 Combined
Municipal officials and employees blanket bond	\$250,000

CITY OF FORT SMITH, ARKANSAS

Table 15

Demographic Statistics

Last Ten Fiscal Years

(Unaudited)

<u>Fiscal year</u>	<u>City Population</u>	<u>Sebastian County Population</u>	<u>Per Capita Income (4)</u>	<u>Median Age (1)</u>	<u>Education Level in Years of Schooling (1)</u>	<u>School Enrollment (2)</u>	<u>Unemployment Rate (3)</u>
1993	72,798	99,590	\$ 15,168	34	12	12,601	4.7%
1994	72,798	99,590	15,939	34	12	12,514	4.7%
1995	72,798	99,590	15,276	34	12	12,570	4.5%
1996	72,798	99,590	16,057	34	12	12,763	5.0%
1997	72,798	99,590	16,661	34	12	12,741	4.7%
1998	72,798	99,590	17,116	34	12	12,496	4.3%
1999	72,798	99,590	17,495	34	12	12,430	3.3%
2000	80,268	115,071	16,719	34	12	12,637	3.6%
2001	80,268	115,071	16,719	34	12	12,596	2.9%
2002	80,268	115,071	(5)	34	12	12,844	5.4%

- (1) Community Development Department's Estimate.
- (2) Fort Smith School District.
- (3) Arkansas Employment Security Division.
- (4) Chamber of Commerce.
- (5) Not available.

Table 16

CITY OF FORT SMITH, ARKANSAS

Miscellaneous Statistical Data

December 31, 2002

(Unaudited)

Form of Government	City Administrator
Area	69.2 square miles
Date of incorporation	December 24, 1842
Miles of streets	582 miles
Number of street lights	5,589
Number of traffic signals	123
Fire protection:	
Number of stations	10
Number of firefighters and officers (exclusive of volunteer firefighters)	128
Police protection:	
Number of stations	1
Number of police members and officers	154
Municipal Water Department:	
Number of consumers	29,212
Average daily production capacity	55,000,000 gallons
Average daily production	29,782,000 gallons
Maximum daily consumption	45,379,000 gallons
Miles of water main	584 miles
Sewers:	
Sanitary sewers	488 miles
Storm sewers	7,900
Average daily sewage flow	14,760,000 gallons
Building Permits Issued	2,740
Recreation and Culture:	
Number of parks	23 with 295.03 acres
Number of libraries	4 (one main, three branch)
Number of volumes	250,782
Employees:	
Exempt	119
Nonexempt	<u>734</u>
Total Employees	<u><u>853</u></u>

CITY OF FORT SMITH, ARKANSAS
Principal Employers by Number of Employees

December 31, 2002

(Unaudited)

<u>Company</u>	<u>Business or Product</u>	<u>Number of employees</u>
Whirlpool Corporation	Ice makers, refrigerators	4,575
O K Foods	Frozen processed chicken parts	4,500
KMAC Enterprises	Food Services Company	2,800
Sparks Health System	Hospital	2,800
St. Edward Mercy Medical Center	Hospital	1,850
Rheem-Ruud	Residential heat/air equipment	1,660
Fort Smith Public Schools	Education	1,598
Baldor Electric	Grinders, drives, electric motors	1,531
Riverside Furniture	Wooden upholstered furniture, sofas	1,325
City of Fort Smith	Government	853
Trane Company	Air conditioning equipment, heat pumps	850
Beverly Enterprises	Nursing homes	823
Arkansas Best	Transportation industry	800
Cooper Clinic	Medical clinic	743
Gerber Products	Baby foods; infant cereal	651
University of Arkansas at Fort Smith	Educational Institution	610

Source: Fort Smith Chamber of Commerce

Table 18

CITY OF FORT SMITH, ARKANSAS

Local Sales and Use Tax Collections

Last Ten Fiscal Years

(Unaudited)

Fiscal year	1% City sales & Use Tax Allocated for Streets (1)	1% City Sales & Use Tax Allocated for Lee Creek Water Project (2)	City Share 1% County Sales & Use Tax (3)	1% City Sales & Use Tax Allocated for Bonds (4)	Total
1993	\$ 11,552,565	\$ 2,803,197	\$ —	\$ —	\$ 14,355,762
1994	12,431,109	—	2,839,430	—	15,270,539
1995	12,472,680	—	10,072,904	—	22,545,584
1996	13,379,605	—	10,652,914	—	24,032,519
1997	13,504,781	—	10,925,683	—	24,430,464
1998	13,936,617	—	11,243,858	6,253,603	31,434,078
1999	14,689,273	—	11,812,187	7,344,637	33,846,097
2000	15,453,552	—	12,624,941	7,726,776	35,805,269
2001	15,728,836	—	12,278,766	12,387,128	40,394,730
2002	15,502,200	—	11,913,953	15,502,200	42,918,353
	<u>\$ 138,651,218</u>	<u>\$ 2,803,197</u>	<u>\$ 94,364,636</u>	<u>\$ 49,214,344</u>	<u>\$ 285,033,395</u>

- (1) The 1% City Sales & Use Tax allocated for construction, repair, and maintenance of streets, bridges, and associated drainage improvements was initially assessed in 1985 for a period of ten years. The tax was reaffirmed by the citizen in 1995 for an additional ten years. The tax is accounted for in the Sales Tax Fund, a special revenue fund.
- (2) The 1% City Sales & Use Tax allocated to redeem the City of Fort Smith Sales & Use Tax Bonds, Series 1988, was the financing method for construction of the Lee Creek Water Impoundment Project. The collection of the special assessment began January 1, 1989 and ended February 28, 1993 when the bonds were redeemed in full.
- (3) Sebastian County began assessing a 1% Sales & Use Tax August 1, 1994. The City receives a share of the tax based upon its population within Sebastian County. The City allocates its shares to the General Fund.
- (4) The City currently assesses two 1/2% sales and use tax to total 1% for Bonds. The first 1/2% City Sales and Use Tax allocated to redeem the City of Fort Smith Sales and Use Tax Bonds, Series 1997 is the financing method for the construction of the civic center, public library, and riverfront park projects. The tax became effective January 1, 1998. The second 1/2% City Sales and Use Tax allocated to redeem the City of Fort Smith Sales and Use Tax Bonds, Series 2001 is the financing method for a portion of the Lake Fort Smith Water Supply Expansion Project and wastewater improvements. The tax for the 2001 Bonds became effective May 1, 2001. Once the 1997 Bonds are redeemed, the entire 1% tax will be allocated to the repayment of the 2001 Bonds.

CITY OF FORT SMITH, ARKANSAS

Solid Waste System Statistics

December 31, 2002

(Unaudited)

Fiscal year	Sanitation System Customers	Cubic Yardage of Waste at Landfill	Useful Life of Landfill Remaining	Remaining Storage Capacity at Landfill
1994	215,980	957,374	19 years	12,907,000 cubic yards
1995	219,075	979,533	18 years	12,417,000 cubic yards
1996	220,150	1,076,172	17 years	11,857,000 cubic yards
1997	221,300	1,175,821	16 years	11,357,000 cubic yards
1998	223,480	1,160,034	15 years	10,907,000 cubic yards
1999	272,616	1,369,106	14 years	10,550,000 cubic yards
2000	236,376	1,106,718	13 years	9,790,000 cubic yards
2001	276,564	1,096,082	12 years	9,506,000 cubic yards
2002	277,896	938,670	11 years	9,230,000 cubic yards

CITY OF FORT SMITH, ARKANSAS

Water and Sewer Statistics

Water Use and Sewage Flow

Last Five Fiscal Years

(Unaudited)

Fiscal Year	Average Daily Water Use	Maximum Daily Water Use	Total Water Use for Year	Average Daily Sewage Flow
(In gallons)				
1998	25,800,000	41,400,000	9,396,885	18,567,000
1999	27,821,000	47,217,000	10,127,383,000	17,500,000
2000	29,063,000	48,686,000	10,612,052,000	15,800,000
2001	29,782,000	45,379,000	10,870,292,000	15,500,000
2002	28,240,000	43,503,000	9,584,920,620	14,250,000

Water Users by Category

Last Five Fiscal Years

(Unaudited)

Fiscal year	Residential	Commercial	Wholesale	Other	Total
1998	24,262	3,937	12	10	28,221
1999	25,463	3,982	12	10	29,467
2000	25,393	3,993	12	10	29,408
2001	25,667	4,021	12	10	29,710
2002	25,877	4,022	14	10	29,923

Sewer Users by Category

Last Five Fiscal Years

(Unaudited)

Fiscal year	Residential	Commercial	Government	Total
1998	23,262	3,937	10	27,209
1999	26,971	3,722	10	30,703
2000	27,075	3,733	10	30,818
2001	27,129	3,711	10	30,850
2002	25,217	3,480	10	28,707

10 Largest Users of the System

For the Fiscal Year Ended December 31, 2001 (1)

(Unaudited)

Entity	Water	Sewer	Total
City of Van Buren	\$ 1,706,538	\$ —	\$ 1,706,538
Gerber Products	514,318	411,289	925,607
OK Foods	762,804	21,320	784,124
Sparks Medical Center	95,095	149,557	244,652
Whirlpool	84,009	129,105	213,114
St. Edwards Med Center	78,865	78,045	156,910
Fort Smith Plating	44,874	84,342	129,216
Quanex Macsteel	84,633	1,765	86,398
Highland Dairy	30,227	14,015	44,242
Norton /Alcoa	34,178	3,563	37,741
Top Ten Users	\$ 3,435,541	\$ 893,001	\$ 4,328,542

(1) The water and sewer revenue bond covenants require the 10 largest users of the system be presented for the preceding fiscal year.

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717 North Harwood Street
Suite 3100
Dallas, TX 75201-6585

Independent Auditors' Report on Compliance with Arkansas State Statutes

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

Compliance

We have audited the compliance of the City of Ft. Smith, Arkansas (the City) with the procedures required by the following Arkansas state statutes: Municipal Accounting Law, Act 159 of 1973; Municipal Court and Police Department, Act 332 of 1977; Bonding of Municipal Officers and Employees, Act 728 of 1987 and Act 319 of 1993; Improvement Contract over \$10,000, Act 159 of 1949; Budgets, Purchases over \$2,000, Payments of Claims, Etc, Act 28 of 1959; Investment of Public Funds, Act 273 of 1943 and Act 106 of 1973; Deposit of Public Funds, Act 21 of 1935, Act 57 of 1945 and Act 107 of 1973 for the year ended December 31, 2002. Compliance with the requirements of laws and regulations is the responsibility of City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to the City for the year ended December 31, 2002.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of the previously mentioned laws and regulations. In planning and performing our audit, we considered the City's internal control over compliance with the above requirements in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the above statutes.



Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to the above noted statutes being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management of the City and the Arkansas General Assembly and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 2, 2003



717 North Harwood Street
Suite 3100
Dallas, TX 75201-6585

**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

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

We have audited the general purpose financial statements of the City of Fort Smith, Arkansas as of and for the year ended December 31, 2002, and have issued our report thereon dated May 2, 2003, which included a reference to the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance, which we have reported to management of the City in a separate letter dated May 2, 2003.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



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

KPMG LLP

May 2, 2003



717 North Harwood Street
Suite 3100
Dallas, TX 75201-6585

**Independent Auditors' Report on Compliance With Requirements Applicable to the
Major Program and on Internal Control Over Compliance in Accordance with
OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards**

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

Compliance

We have audited the compliance of the City of Fort Smith, Arkansas (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2002. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 02-1 and 02-2.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal program. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

KPMG LLP

May 2, 2003

CITY OF FORT SMITH, ARKANSAS

Schedule of Expenditures of Federal and State Awards

Year ended December 31, 2002

<u>Granting Agency/Grant Program</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Federal Awards:			
Department of Housing and Urban Development			
Direct Federal Payments:			
Community Development Block Grants:			
Twenty Fourth Entitlement	14.218	B00MC0500003	\$ 894,329
Twenty Fifth Entitlement	14.218	B01MC0500003	7,225
Home Investment Partnership Act	14.239	M00MC50202	16,814
Home Investment Partnership Act	14.239	M01M50202	429,201
Total Department of Housing and Urban Development			<u>1,347,569</u>
Department of Justice:			
COPS Universal Hiring Award	16.710	95CCWX0110	33,172
BJA/LLEBG	16.592	00LBBX790	54,931
Total Department of Justice			<u>88,103</u>
U.S. Department of Transportation:			
Passed through the Arkansas Highway Transportation Department:			
Federal Transit Administration Grant:			
Operating and Capital	20.507	AR90X046	26,687
Operating and Capital	20.507	AR90X048	528,233
Total Department of Transportation			<u>554,920</u>
Federal Emergency Management Agency:			
Passed through the Arkansas Office of Emergency Services:			
FEMA – Tornado	83.554	1111DRARPA	138,307
FEMA – Ice Storm	83.544	1354DRARPA	34,851
FEMA – Assistance to Firefighters	83.544		14,606
Total Federal Emergency Management Agency			<u>187,764</u>
Total Federal Awards			<u>2,178,356</u>

CITY OF FORT SMITH, ARKANSAS
Schedule of Expenditures of Federal and State Awards
Year ended December 31, 2002

<u>Granting Agency/Grant Program</u>	<u>Grant Number</u>	<u>Expenditures</u>
State Awards:		
Arkansas Department of Pollution Control and Ecology – Solid Waste Management and Recycling Grant		
Fund Program:		
Equipment, Education, Market Development, and Administration	S2-98	\$ 9,924
Equipment, Education, Market Development, and Administration	S1-99, 2-99	9,678
Equipment, Education, Market Development, and Administration	1-00, 3-00, 5-00	30,016
Equipment, Education, Market Development, and Administration	S00-01, Adm, 2-01	63,127
Equipment, Education, Market Development, and Administration	S00-02, Adm, 2-02, 3-02, 4-02, S02-02	59,011
Total Arkansas Department of Pollution Control and Ecology		<u>171,756</u>
Department of Arkansas Heritage:		
CLG Grant – Historic Preservation Program	CLG02-02	2,148
CLG Grant – Historic Preservation Program	CLG02-12	4,556
CLG Grant – Darby Community Center	CLG01-1/8	4,875
Total Department of Arkansas Heritage		<u>11,579</u>
Special State Appropriated Funds:		
Creekmore Tennis Center	N/A	<u>27,415</u>
Total Special State Appropriated Funds		<u>27,415</u>
Total State Awards		<u>210,750</u>
Total Federal and State Awards		<u>\$ 2,389,106</u>

See accompanying independent auditors' report.

CITY OF FORT SMITH, ARKANSAS

Notes to Schedule of Expenditures of Federal and State Awards

December 31, 2002

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

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

(2) Organization and Accounting Policies

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

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

(3) Basis of Accounting

The grant accounts are maintained and the accompanying Schedule of Expenditures of Federal and State Awards has been prepared on the modified accrual basis. Grant revenues are recognized when both measurable and available.

CITY OF FORT SMITH, ARKANSAS

Notes to Schedule of Expenditures and Federal Awards

December 31, 2002

(4) Relationship to Federal and State Financial Reports

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

(5) Relationship to General Purpose Financial Statements

The following is a reconciliation of federal financial assistance revenue as reported in the City's general purpose financial statements to the schedule of expenditures of federal and state awards.

Intergovernmental revenue as reported in the special revenue funds	\$	7,026,190
State Turnback revenue		(4,607,669)
Local grant		<u>(29,415)</u>
Federal and state financial assistance per accompanying schedule	\$	<u><u>2,389,106</u></u>

(6) Subrecipients

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

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant	14.218	\$328,398

CITY OF FORT SMITH, ARKANSAS

Federal Awards

Schedule of Findings and Questioned Costs

Year ended December 31, 2002

I. Summary of Auditors' Results

1. Type of auditors' report issued on the basic financial statements: **Unqualified**
2. Were reportable conditions in internal control disclosed in the audit of the basic financial statements: **None reported** Material weaknesses identified: **None Reported**
3. Noncompliance which is material to the basic financial statements: **None**
4. Were reportable conditions in internal control disclosed for the major programs: **None Reported**
If yes, were any of the reportable conditions identified as material weaknesses: **None Reported**
5. Type of auditors' report on compliance for major programs: **Unqualified**
6. Did the audit disclose findings which are required to be reported under Sec. 510(a): **Yes**
7. Major program:

14.218	CDBG – Entitlement and (HUD-Administered) small cities cluster
--------	--
8. Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
9. Low-risk auditee: **Yes**

II. Findings Related to the Basic Financial Statements

The audit disclosed no findings required to be reported.

III. Findings and Questioned Costs Related to the Federal Awards

See finding no. 01-01 and 02-02 on following pages.

CITY OF FORT SMITH, ARKANSAS

Federal Awards

Schedule of Findings and Questioned Costs

Year ended December 31, 2002

Finding #: 02-1

CFDA Title: Community Development Block Grant (CDBG) **CFDA Number:** 14.218

Federal Award Number: N/A **Federal Award Year:** 2002

Federal Agency: Department of Housing and Urban Development **Pass-Through Entity:**

Criteria or Specific Requirement:

According to the US Department of Housing and Urban Development (HUD) grantees are required by the CDBG regulations to document and maintain evidence that CDBG assisted activities meet one of the three national objectives, i.e. 1) benefiting low and moderate income persons, 2) aiding in the prevention or elimination of slum or blight, or 3) meeting other community development needs having a particular urgency. Additionally, grantees must meet an overall test wherein at least 70% of funds expended on activities that principally benefit low and moderate-income persons.

Questioned Cost: 167,690

Condition Found:

The City of Fort Smith used CDBG monies for the establishment of a parking lot that was not located in an area that is primarily residential and did not meet one of the required national objectives. Therefore the parking lot is ineligible to utilize CDBG funding.

Information to Provide Perspective:

Per review of the related compliance requirements over allowable and unallowable activities and the HUD information pertaining to the allowable and unallowable activities, CDBG representatives are required to review the requirements and ensure the activity is allowed prior to the activity taking place. As the parking lot served as a link of a larger area, which is a major initiative to tie together City recreational services and activities to the development of commercial business in the area, the City felt the parking lot met the national requirement of principally servicing low or moderate-income persons.

Possible Asserted Effect:

The City is utilizing grant funds for unallowable activities.

Recommendations:

KPMG recommends the City of Fort Smith replace the unallowed activity with an allowable activity for the same cost.

CITY OF FORT SMITH, ARKANSAS
Summary of Discretely Presented Component Units
For the Fiscal Year Ended December 31, 2002

Finding #: 02-2

CFDA Title: Community Development Block Grant **CFDA Number:** 14.218

Federal Award Number: N/A **Federal Award Year:** 2002

Federal Agency: Department of Housing and Urban Development **Pass-Through Entity:** N/A

Criteria or Specific Requirement:

According to the US Department of Housing and Urban Development (HUD) program income in the form of repayments or interest shall be substantially dispersed from the fund before additional cash withdrawals are made from the US treasury for the same activity.

Condition Found:

The City of Fort Smith passed an ordinance requiring all program income be dispersed for rehabilitation projects only. Therefore the City is not meeting the requirements as mandated by HUD to disperse program income back into the grant fund for eligible CDBG activities.

Questioned Cost: Unknown

Information to Provide Perspective:

As the City ordinance requires program income to be dispersed only for rehabilitation projects, in order to comply with the HUD requirements, the City ordinance must be amended.

Possible Asserted Effect:

The City is utilizing CDBG funds prior to the use of program income funds.

Recommendation:

KPMG recommends that the City of Fort Smith amend its City ordinance to allow program income to be utilized on all CDBG eligible projects.