

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2003**

The City of Fort Smith, Arkansas

CITY OF FORT SMITH, ARKANSAS

Comprehensive Annual Financial Report
Year Ended December 31, 2003

Prepared By the

CITY OF FORT SMITH, ARKANSAS
FINANCE DEPARTMENT

CITY BOARD OF DIRECTORS

C. Ray Baker, Mayor

Ken Pyle
Nan Bartlett
Rick Parrish
Joe Davis
Gary Campbell
Ben Shipley
Cole Goodman, M.D.

CITY ADMINISTRATOR
Bill Harding

DIRECTOR OF FINANCE
Kara Bushkuhl

CITY OF FORT SMITH, ARKANSAS

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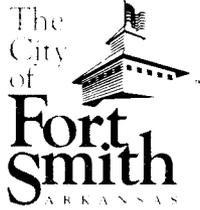
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April 23, 2004

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

Introduction

The Comprehensive Annual Financial Report (CAFR) of the City of Fort Smith, Arkansas (the City), for the fiscal year ended December 31, 2003, 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 City as measured by the financial activity of its various funds. We believe that all disclosures necessary to enable the reader to gain an understanding of the City's financial affairs have been included. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the CAFR in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

The Report

The CAFR is presented in four primary sections: Introductory, Financial, Statistical and Single Audit. The introductory section includes this transmittal letter, plan of organization and a list of elected and appointed officials. The financial section includes a management discussion and analysis (MD&A), the basic financial statements, combining and individual fund financial statements and schedules, as well as the independent auditors' report on the basic financial statements. The MD&A is a narrative introduction, overview and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement the MD&A and it should be read in conjunction with the MD&A. The statistical section includes financial and demographic information, usually presented on a multi-year basis, that is relevant to a financial statement reader.

In accordance with state law, the CAFR is presented in conformity with accounting principles generally accepted in the United States (GAAP) and audited in accordance with auditing standards generally accepted in the United States.

The City of Fort Smith's basic financial statements have been audited by KPMG. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended December 31, 2003 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The auditor's unqualified opinion is presented as the first component of the financial section of this report.

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

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Administrative Offices FAX (501) 784-2407

City Profile

Fort Smith is located in western Arkansas on the border of Oklahoma and is the second largest city in Arkansas. The City was incorporated in 1842 and is the county seat for Sebastian County. The City encompasses 69.2 square miles and has a 2000 census population of 80,268. The City is empowered by state statutes to levy real and personal property taxes within its limits and extend the corporate limit by annexation, which occurs periodically when deemed appropriate by the Board of Directors.

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

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

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

Factors Affecting Financial Condition

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

Local Economy

The City appears to be pulling out of the recession of the last two years. Economic indicators, such as sales tax revenue collections, are positive. However, the announcement that Whirlpool Corporation, the City's largest employer, is planning to move one of its manufacturing lines from Fort Smith to an international location will have a significant impact on the economy as several other local businesses supply Whirlpool and a large group of workers may be unemployed.

In response to the impending loss of jobs and, even prior to the Whirlpool announcement, the City's main priority is a concentrated economic development effort for the City. The City recently implemented an economic development plan by hiring staff and coordinating efforts with the Bi-State Coalition, the Chamber of Commerce, Advertising and Promotion Commission and private developers. The City is actively pursuing industries to locate their headquarters or regional division in Fort Smith.

Long-term Financial Planning- In 1985, the City began collecting a one percent (1%) local sales and use tax to fund its neighborhood and major street improvements. The tax was reaffirmed in 1995 and the City will ask voters to approve the tax for ten more years during 2004.

The City also levies an additional one percent (1%) local sales and use tax which is pledged to redeem bonds issued for large construction projects. The Lake Fort Smith water supply expansion project is funded in part with sales tax. This has proven to be a very effective way to fund projects and the City saves on interest charges as the sale tax bonds have mandatory redemption requirements. Once the current sales tax bonds are redeemed, currently estimated at June 1, 2008, the City may consider asking for approval of the tax for other projects such as downtown development, park expansion and improvements, and public safety facilities.

The City's comprehensive plan includes development and planning in and around Fort Smith. The recently approved extra-territorial jurisdiction plan may provide future annexation which would increase the City's tax base.

Cash Management Policies and Practices- 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. The City's average yield on investments was 1.91% for 2003 and maturities range from 6 months to a year.

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. Employer and employee contributions to the fund were increased during 2003 and 2004 to cover increased costs of providing medical benefits. Several cost containment efforts have been implemented for 2004 to help reduce the cost of providing medical benefits. Safety training continues to be an important aspect for controlling workers' compensation claims.

Other Information

Awards- The Government Finance Officers Association of the United States of America 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, 2002. The Certificate of Achievement is the highest form of recognition for excellence in local government financial reporting. This was the eighteenth 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 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.

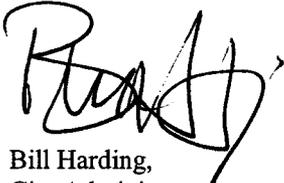
In addition, the City also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget dated January 1, 2003. This was the fifteenth consecutive year that the City has received this award. In order to qualify for the Distinguished Budget Presentation Award, the 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, Board of Directors, and the Audit Advisory Committee members who have consistently supported the City's goal of excellence in all aspects of financial management. Their encouragement and support is greatly appreciated.

Respectfully submitted,



Bill Harding,
City Administrator



Kara Bushkuhl
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fort Smith,
Arkansas

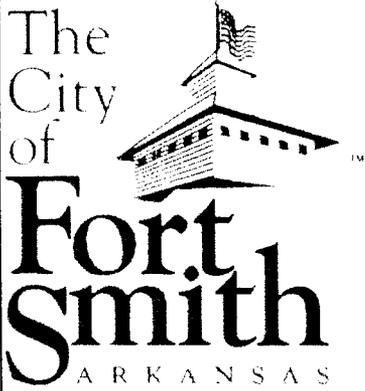
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2002

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.

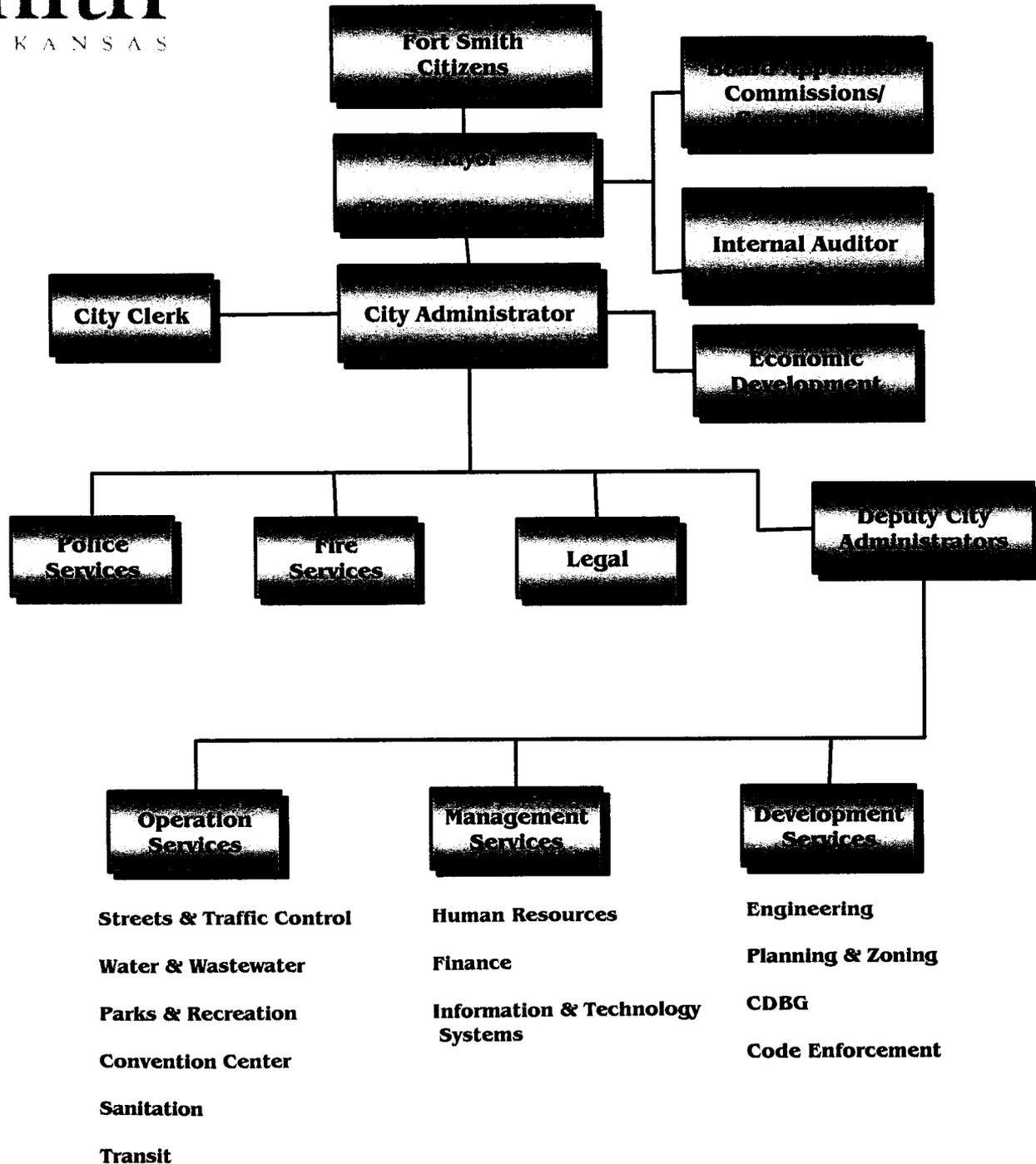


President

Executive Director



Plan of Organization



**City of Fort Smith, Arkansas
List of Elected and Appointed Officials
December 31, 2003**

Elected Officials

Mayor	C. Ray Baker
Director-Ward 1	Ken Pyle
Director-Ward 2	Nan Bartlett
Director- Ward 3	Rick Parrish
Director-Ward 4	Joe Davis
Director at Large/Vice Mayor	Gary Campbell
Director at Large	Ben Shipley
Director at Large	Cole Goodman, M.D.
District Court Judge	David Saxon
District Court Judge	Daniel Stewart

Appointed Officials

City Administrator	Bill Harding
Deputy City Administrator	Dean Kruithof
Deputy City Administrator	Ray Gosack
Advertising and Promotion	Claude Legris
Airport	David Krutsch, Interim
City Clerk	Cindy Remler
Construction and Development/Planning	Wally Bailey
Convention Center	Frankie Hamilton
District Court	Rachel Sims
Economic Development	Davie Spindle
Engineering	Stan Snodgrass
Finance	Kara Bushkuhl
Fire	Jerry Tomlin
Human Resources	Richard Jones
Information and Technology	Jim Swena
Library	Jennifer Goodson
Parks and Recreation	Mike Alsup
Police	Randy Reed
Sanitation	Dan Reikes
Streets and Traffic Control	Bob Wright
Transit	Ken Savage
Utilities	Steve Parke

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

Independent Auditors' Report

The Honorable Mayor, City Council, and City Manager
City of Fort Smith, Arkansas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fort Smith, Arkansas (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Airport Commission or the Public Library, which combined represent 94% and 86% of the total assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon 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 standards applicable to financial audits contained in *Governmental 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 and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fort Smith, Arkansas, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



As explained in note 1, the City has implemented a new financial reporting model, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus – an Amendment of GASB Statements 21 and 34*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 40, *Deposit and Investment Risk Disclosure* and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities in Governmental Fund Financial Statements*, as of January 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2004, 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.

The management’s discussion and analysis, budgetary comparison schedules and schedule of funding progress on pages 11 through 20 and 81 through 84 are not a required part of the basic financial statements but are 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The introductory section, supplementary information section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The supplementary information section and the schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

April 23, 2004



DEPARTMENT OF FINANCE

Kara Bushkuhl, CPFO

Director of Finance

Management's Discussion and Analysis

The following discussion and analysis of the City of Fort Smith's financial performance provides a narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2003. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our letter of transmittal, which can be found on pages 1-4 of this report. The City implemented Governmental Accounting Standards Board (GASB) Statement 34 for the first time this year, and therefore, certain prior year information is unavailable. A comparative analysis of government data will be presented in future years.

Financial Highlights

- Total assets of the City exceeded total liabilities at the close of 2003 by \$413,812,273 (net assets). Of this amount, \$46,019,680 is considered unrestricted net assets and may be used to meet the City's ongoing obligations to its citizens and creditors in accordance with the City's fund designations and financial polices. The City's governmental activities have unrestricted net assets of \$55,062,995. The City's business-type activities have an unrestricted deficit of \$9,043,315 due to its long-term bond obligations combined with unspent bond proceeds from the 2001 and 2002 water and sewer bond issues.
- The City's total net assets increased by \$36,270,063 in 2003. Net assets of the governmental activities increased by \$26,035,690 in 2003 which was an 11% increase over beginning net assets. Net assets of the business-type activities increased by \$10,234,373 in 2003 which was a 7% increase over beginning net assets.
- As of the close of 2003, the City's governmental funds reported combined ending fund balances of \$54,039,012 which was a decrease of \$282,711 from the prior year. The unreserved portion of the fund balances is \$22,744,285 which represents 42% of the total and is available for spending at the Board's discretion.
- At the end of 2003, the unreserved fund balance for the General Fund was \$5,260,425 or 16.8% of total General Fund expenditures. There was an increase of \$1,025,694 in total General Fund balance between years.
- The City's total bonded indebtedness decreased by \$16,205,000 during the current year. The key factors in the decrease were the annual debt service requirements for long-term bonds and the call of \$6,300,000 sales and use tax bonds under mandatory redemption.
- The City's governmental component units reported net assets of \$1,553,679 at December 31, 2003 which was a decrease of \$129,261 from 2002.
- The City's business-type component units reported net assets of \$38,022,193 which was a \$648,631 decrease from 2002.

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Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

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

The government-wide financial statements can be found on pages 21-33 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term *inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 12 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Street Maintenance Fund, Sales Tax Fund, and the 1997 Sales and Use Tax Fund which are considered to be major funds. Data from the other eight (8) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 24-27 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 28-31 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 32-33 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 35-79 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's General Fund budget, the City's Street Maintenance Fund budget and an analysis of funding progress for the City's fire and police pension plans. The City adopts an annual appropriation budget for its General Fund and its Street Maintenance Fund. Budgetary comparison schedules have been provided for the General Fund and the Street Maintenance Fund to demonstrate compliance with the annual budgets. *Required supplementary information* can be found on pages 81-84 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining statements and schedules can be found on pages 85-108 of this report.

Government-Wide Financial Analysis

**City of Fort Smith
Net Assets**

	Governmental Activities	Business-Type Activites	Total
Current and other assets	\$ 69,522,999	\$ 149,313,600	\$ 218,836,599
Capital assets	207,757,413	249,022,277	456,779,690
<i>Total assets</i>	<u>277,280,412</u>	<u>398,335,877</u>	<u>675,616,289</u>
Long-term liabilities outstanding	9,845,181	215,793,392	225,638,573
Other liabilities	5,686,251	30,479,192	36,165,443
<i>Total liabilities</i>	<u>15,531,432</u>	<u>246,272,584</u>	<u>261,804,016</u>
Invested in capital assets, net of related debt	200,550,082	135,907,557	336,457,639
Restricted	6,135,903	25,199,051	31,334,954
Unrestricted (deficit)	55,062,995	(9,043,315)	46,019,680
<i>Total Net assets</i>	<u>\$ 261,748,980</u>	<u>\$ 152,063,293</u>	<u>\$ 413,812,273</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$413,812,273 at the close of 2003.

The largest portion of the City's assets (81.4%) reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, machinery and equipment, and infrastructure), plus unspent bond proceeds, and less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (7.6 %) represents resources that are subject to restrictions as to how they may be used. The remaining balance of unrestricted net assets (\$45,578,923) may be used to meet the government's on-going obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in net assets for the government as a whole and for its separate governmental activities. The business-type activities have an unrestricted deficit of \$9,043,315 at the end of 2003.

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

	Governmental Activities	Business-type Activites	Total
Revenues			
<i>Program revenues</i>			
Fees, fines, and charges for services	\$ 3,921,587	\$ 37,700,141	\$ 41,621,728
Operating grants and contributions	9,786,072	596,100	10,382,172
Capital grants and contributions	6,650,958	259,167	6,910,125
	<u>20,358,617</u>	<u>38,555,408</u>	<u>58,914,025</u>
<i>General revenues</i>			
Property taxes	16,117,664	-	16,117,664
Sales taxes	35,748,841	7,817,663	43,566,504
Utility franchise fees	5,530,957	-	5,530,957
Alcoholic beverage tax and miscellaneous taxes	463,596	-	463,596
Grants and contributions not restricted to specific programs	1,411,739	-	1,411,739
Unrestricted investment earnings	813,104	2,360,225	3,173,329
Gain on sale of capital assets	4,174	-	4,174
Other	100,331	283,977	384,308
	<u>80,549,023</u>	<u>49,017,273</u>	<u>129,566,296</u>
Expenses:			
General government	6,285,719	-	6,285,719
Public safety	22,479,701	-	22,479,701
Public works	14,767,856	-	14,767,856
Community services	9,881,779	-	9,881,779
Interest on long-term debt	519,078	-	519,078
Water and sewer	-	30,895,507	30,895,507
Sanitation	-	8,466,593	8,466,593
	<u>53,934,133</u>	<u>39,362,100</u>	<u>93,296,233</u>
Increase in net assets before transfers	26,614,890	9,655,173	36,270,063
Transfers	(579,200)	579,200	-
Increase in net assets	26,035,690	10,234,373	36,270,063
Net assets- January 1	<u>235,713,290</u>	<u>141,828,920</u>	<u>377,542,210</u>
Net assets- December 31	<u>\$ 261,748,980</u>	<u>\$ 152,063,293</u>	<u>\$ 413,812,273</u>

Governmental Activities. Governmental activities increased the City's net assets by \$26,035,690, thereby accounting for 71.8% of total growth in net assets of the City. Key elements of the increase are as follows:

- Net capital asset acquisition exceeded depreciation by \$11,876,292.
- The repayment of principal on long-term debt of \$7,785,000 is an adjustment which increases the change in net assets.
- Deferred revenue at the fund level recognized at the government-wide level increased net assets by \$8,207,916.

Property taxes represent 20.2% of the City's governmental revenue in 2003. Sales taxes represent 44.7% of the City's governmental revenue in 2003. Current year expenses were 67.4% of current year revenues.

Business-type activities. Business-type activities increased the City's net assets by \$10,234,373 accounting for 28.2% of the total growth in net assets of the City. Key elements of the increase are as follows:

- The water and sewer system contributed \$9,090,914 to total net assets. The operating income for the system totaled \$5,927,037 in 2003. Sales tax revenue for bond retirement and net investment earnings combined for a total of \$10,060,360 less interest expense of \$7,744,944 increased net assets by \$2,315,416.
- The solid waste system added \$1,650,079 to total net assets. The operating income for the system in 2003 totaled \$1,462,593.

Water and sewer system service charges contribute 57.1% of the revenue to business-type activities. Water and sewer rates were increased January 1, 2003. Additionally, water consumption increased 4.98% in 2003 as compared to 2002.

The solid waste system service charges accounted for 18.9% of the revenue to business-type activities.

Current year expenses were 79.4% of current revenues.

Financial Analysis of the Government's Funds

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

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

As of December 31, 2003, the City's governmental funds reported combined ending fund balances of \$54,039,012, a decrease of \$282,711 in comparison with the prior year. Of this amount, \$22,744,285 represents *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for capital projects, debt service and other purposes.

The General Fund is the chief operating fund of the City. At December 31, 2003, unreserved fund balance of the General Fund was \$5,260,425, while the total fund balance was \$6,557,982. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures, including transfers out. Unreserved fund balance represents 16.8% of total General Fund expenditures, including transfers out, while total fund balance represents 20.9% of that same amount. The fund balance of the City's General Fund increased by \$1,025,694 during 2003. Key factors in this increase are as follows;

- The City's share of the one-percent (1%) Sebastian County sales tax generated \$381,900 more revenue for 2003 as compared to 2002.
- Franchised utility fees for 2003 exceeded the 2002 fees by \$684,932. The increase resulted from increased demand for electric and natural gas due to a much more normal weather pattern in 2003.
- Court fines and forfeitures were \$334,526 more in 2003 as compared to 2002. The District Court in coordination with the Police Department implemented an aggressive warrant service and collection procedure during 2003.

The Street Maintenance Fund and the Sales Tax Fund, both special revenue funds, are presented as major funds and account for 53.3% of the total governmental fund balances. Revenues include a one-percent (1%) local sales tax dedicated to streets, bridges and associated drainage, as well as gasoline tax turnback from the state and federal transportation grants. The decrease in fund balance is attributable to planned reductions in the special revenue funds.

The debt service fund, 1997 Sales and Use Tax Bond Fund, is presented as a major fund and had a fund balance of \$5,311,276 for 2003 and a net decrease of \$411,219 in 2003. Revenue pledged for redemption of the 1997 Sales and Use Tax Bonds is a one-half percent (½%) local sales tax. The decrease in fund balance is due to additional call of bonds prior to maturity during 2003.

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

Net assets at the end of the year amounted to \$141,160,288 and \$10,595,062 for the Water and Sewer Fund and the Sanitation Fund, respectively. The increase in net assets was \$9,090,914 for the Water and Sewer Fund and \$1,650,079 for the Sanitation Fund. Increased water and sewer rates became effective January 1, 2003 and water consumption increased by 5% in 2003 as compared to 2002. Solid waste collection and disposal fees for 2003 remained at the 2002 level. Sanitation fund operating expenses were reduced during 2003 as a result of less waste being disposed at the landfill.

Budgetary Highlights

General Fund. The final amended General Fund budget had total appropriations (expenditures and transfers out) of \$33,941,889 compared to the original budget total of \$33,784,217. The increase in appropriations of \$157,622 is summarized briefly as follows:

- \$77,500 in general government activities for a lawsuit settlement.
- \$80,172 for senior citizen program services.

Revenue estimates for the General Fund were increased from an original budget of \$29,397,514 to the final estimate of \$29,758,606. The \$361,092 increase was due to an estimated additional \$131,104 in sales taxes and \$400,000 in franchise fees offset by an anticipated decrease in fees for services of \$219,806 as a result of lower convention center rentals.

Total actual revenue for the General Fund exceeded the final budget estimates by \$374,425 which was due primarily to District Court fines and forfeitures. Total actual expenditures were \$1,397,947 less than the final appropriated budget of the General Fund. The most significant difference between actual and budget expenditures was in the Police Department which had \$792,785 unspent due to the number of police officers on military duty.

The budget and actual schedule for the General Fund may be found on page 82 in the required supplementary section of this document.

Capital Assets and Debt Administration

Capital assets. The City’s investments in capital assets for governmental and business-type activities as of December 31, 2003 amounts to \$456,779,690, net of accumulated depreciation. This investment in capital assets includes land, buildings, water and sewer systems, improvements other than buildings, machinery and equipment, park and library facilities, streets, and drainage systems. The total increase in the City’s investment in capital assets was 16.9%, a 5.9% increase for governmental activities and a 28.1% increase for business-type activities.

**City of Fort Smith
Capital Assets, net of accumulated depreciation**

	Governmental Activities	Business-type Activites	Total
Land	\$ 17,344,247	\$ 9,040,243	\$ 26,384,490
Buildings	60,226,159	958,410	61,184,569
Water system	-	69,891,452	69,891,452
Sewer system	-	59,838,653	59,838,653
Improvements other than buildings	2,343,521	4,957,178	7,300,699
Leasehold improvements	-	119,684	119,684
Infrastructure	119,061,551	-	119,061,551
Machinery and equipment	8,282,762	7,568,539	15,851,301
Construction in progress	499,173	96,648,118	97,147,291
Total	<u>\$ 207,757,413</u>	<u>\$ 249,022,277</u>	<u>\$ 456,779,690</u>

Major capital asset events during 2003 included the following:

- Infrastructure additions were \$14,009,612.
- Additions to construction in progress totaled \$61,487,125 with \$45,204,142 of this amount attributable to the Lake Fort Smith water supply expansion project.
- Depreciation expense totaled \$15,055,170.

Additional information on the City's capital assets can be found in Note 3 on pages 49-55 of this report.

Long-term debt. At December 31, 2003, the City had \$226,000,000 of long-term bonds outstanding, including \$151,045,000 of bonds secured solely by specified revenue sources, i.e. revenue bonds.

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

	Governmental Activities	Business-type Activites	Total
Sales and Use Tax Bonds	\$ 6,540,000	\$ 68,415,000	\$ 74,955,000
Revenue Bonds	-	151,045,000	151,045,000
Total	\$ 6,540,000	\$ 219,460,000	\$ 226,000,000

The City's total bonded debt decreased by \$16,205,000 or 6.7% during 2003. The key factors in this decrease were the principal payments due during 2003 of \$9,805,000 as well as the call prior to maturity of \$6,300,000 in sales and use tax bonds during 2003.

The City maintains a "AAA" rating from Standard & Poor's on its water and sewer revenue bonds and an "A" rating from Standard & Poor's on its sales and use tax bonds. The solid waste revenue bonds are unrated.

State statutes limit the amount of general obligation bonds a government entity may issue to 25% of its total assessed valuation. The current debt limitation for the City is \$243,927,755. The City has no general obligation debt at December 31, 2003.

In January 2004, the City issued \$8,700,000 water and sewer revenue refunding bonds to refund the remaining Series 1994 water and sewer refunding and construction revenue bonds. The 1994 bonds were redeemed on April 1, 2004. Additional information regarding the City's long-term debt can be found in Note 4 on pages 56-68 of this report.

Economic Factors and the Next Year's Budget and Rates

- The yearend unemployment rate for the City was 5%, which is a decrease from a rate of 5.4% a year ago. This compares favorably to the state's average unemployment rate of 6.2% and the national average of 6%.
- The City's sales tax revenue during the last quarter of 2003 increased by 3.7%.

These factors as well as the concern about the significant loss of manufacturing jobs due to the relocation of a Whirlpool production line in the future were considered when the City prepared its 2004 Budget.

One of the major goals of the Board of Directors is to maintain financial stability in the General Fund by adopting a budget with a minimum unreserved fund balance at 15% of operating expenditures. With this in mind, the City's General Fund budget for 2004 was approved at \$34,715,858 and includes an estimated yearend fund balance approaching 12% of operating expenditures.

Both water and sewer service charges were increased January 1, 2004. The water rate increases average 14.4% for all customers and the sewer rate increases average 10.9% for all customers. These rate increases are needed to provide for debt service requirements.

Request for Information

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

City of Fort Smith, Arkansas
Statement of Net Assets
December 31, 2003

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Assets					
Cash	\$ 2,634,345	\$ 200,812	\$ 2,835,157	\$ 489,040	\$ 1,371,588
Investments	48,193,253	421,199	48,614,452	528,277	500,000
Receivables, net of allowance for uncollectibles:					
Taxes	9,598,688	-	9,598,688	32,348	-
Sales taxes	2,301,812	-	2,301,812	60,790	-
Accounts	659,253	4,680,718	5,339,971	-	44,200
Interest	57,849	834	58,683	365	4,414
Grants and other governments	239,290	-	239,290	-	-
Internal balances	(573)	573	-	-	-
Inventory	-	635,894	635,894	5,000	3,502
Prepays and deposits	502,198	-	502,198	46,847	50,514
Deferred charges	-	1,515,401	1,515,401	-	175,301
Other assets	-	-	-	-	105,267
Restricted assets:					
Cash	-	606,016	606,016	-	845,941
Investments	4,692,557	137,620,049	142,312,606	-	1,002,292
Accounts receivable, net of allowances for uncollectibles	-	28,360	28,360	-	-
Sales tax receivable	644,327	644,327	1,288,654	-	-
Interest receivable	-	1,942,483	1,942,483	-	2,660
Prepaid items and deposits	-	1,016,934	1,016,934	-	-
Capital assets					
Nondepreciable	17,843,420	105,688,361	123,531,781	422,132	7,686,527
Depreciable	189,913,993	143,333,916	333,247,909	19,185	33,456,353
Total Assets	277,280,412	398,335,877	675,616,289	1,603,984	45,248,559
Liabilities					
Accounts payable and accrued expenses	4,801,555	12,337,794	17,139,349	50,305	177,120
Other current liabilities	-	22,596	22,596	-	-
Payable from restricted assets:					
Accrued interest	25,608	2,084,898	2,110,506	-	67,597
Accounts payable and accrued expenses	-	5,106,110	5,106,110	-	-
Current portion of long-term debt	-	9,285,000	9,285,000	-	165,000
Deposits	-	1,642,794	1,642,794	-	-
Deferred revenue	859,088	-	859,088	-	-
Noncurrent liabilities:					
Due within one year	5,007,638	453,982	5,461,620	-	195,246
Due in more than one year	4,837,543	215,339,410	220,176,953	-	6,621,403
Total Liabilities	15,531,432	246,272,584	261,804,016	50,305	7,226,366
Net Assets					
Invested in capital assets, net of related debt	200,550,082	135,907,557	336,457,639	441,317	34,971,649
Restricted for:					
Capital projects	64,564	1,021,978	1,086,542	-	625,273
Debt service	5,311,276	20,531,059	25,842,335	-	486,406
Other	760,063	3,646,014	4,406,077	-	627,149
Unrestricted (deficit)	55,062,995	(9,043,315)	46,019,680	1,112,362	1,311,716
Total Net Assets	\$ 261,748,980	\$ 152,063,293	\$ 413,812,273	\$ 1,553,679	\$ 38,022,193

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Activities
For the Year Ended December 31, 2003

Functions/Programs	Expenses	Program Revenues		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government				
Administration	\$ 3,404,641	\$ 871,171	\$ 63,081	\$ -
Legal	1,540,400	2,010,849	314,141	-
Finance	1,340,678	51,475	-	-
Public safety				
Police	12,885,754	161,324	1,416,128	50,854
Fire	9,593,947	72,462	1,228,168	-
Public works				
Operations	341,902	-	-	-
Streets	12,954,878	-	3,784,912	4,331,853
Traffic Control	1,471,076	-	-	-
Community services				
Health and Social Services	413,845	-	50,875	-
Parks and Recreation	4,059,016	158,456	291,640	587,552
Convention Center	1,855,572	439,264	1,742,630	0
Transit	1,990,693	156,586	884,021	428,385
Housing and Rehabilitation	1,562,653	-	10,476	1,252,314
Interest on long-term debt	519,078	-	-	-
Total Governmental Activities	<u>53,934,133</u>	<u>3,921,587</u>	<u>9,786,072</u>	<u>6,650,958</u>
Business-Type Activities:				
Water and Sewer	30,895,507	28,306,482	595,150	259,167
Sanitation	8,466,593	9,393,659	950	-
Total Business-Type Activities	<u>39,362,100</u>	<u>37,700,141</u>	<u>596,100</u>	<u>259,167</u>
Total Primary Government	<u>\$ 93,296,233</u>	<u>\$ 41,621,728</u>	<u>\$ 10,382,172</u>	<u>\$ 6,910,125</u>
Component Units:				
Governmental				
Advertising & Promotion	\$ 559,262	\$ -	\$ 4,236	\$ -
Public Library	1,911,235	100,579	40,987	-
Sub-total	<u>2,470,497</u>	<u>100,579</u>	<u>45,223</u>	<u>-</u>
Business-Type				
Parking Authority	347,736	239,233	-	-
Airport	4,610,107	2,121,406	-	1,457,037
Sub-total	<u>4,957,843</u>	<u>2,360,639</u>	<u>-</u>	<u>1,457,037</u>
Total Component Units	<u>\$ 7,428,340</u>	<u>\$ 2,461,218</u>	<u>\$ 45,223</u>	<u>\$ 1,457,037</u>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Activities
For the Year Ended December 31, 2003
(Continued)

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets				
	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
Primary Government:					
Governmental activities:					
General government					
Administration	\$ (2,470,389)		\$ (2,470,389)		
Legal	784,590		784,590		
Finance	(1,289,203)		(1,289,203)		
Public safety					
Police	(11,257,448)		(11,257,448)		
Fire	(8,293,317)		(8,293,317)		
Public works					
Operations	(341,902)		(341,902)		
Streets	(4,838,113)		(4,838,113)		
Traffic Control	(1,471,076)		(1,471,076)		
Community services					
Health and Social Services	(362,970)		(362,970)		
Parks and Recreation	(3,021,368)		(3,021,368)		
Convention Center	326,322		326,322		
Transit	(521,701)		(521,701)		
Housing and Rehabilitation	(299,863)		(299,863)		
Interest on long-term debt	(519,078)		(519,078)		
Total Governmental Activities	<u>(33,575,516)</u>		<u>(33,575,516)</u>		
Business-Type Activities:					
Water and Sewer		(1,734,708)	(1,734,708)		
Sanitation		928,016	928,016		
Total Business-Type Activities		<u>(806,692)</u>	<u>(806,692)</u>		
Total Primary Government	\$ (33,575,516)	\$ (806,692)	\$ (34,382,208)		
Component Units:					
Governmental					
Advertising & Promotion			\$ (555,026)		
Public Library			(1,769,669)		
Sub-total			<u>(2,324,695)</u>		
Business-Type					
Parking Authority				\$ (108,503)	
Airport				(1,031,664)	
Sub-total				<u>(1,140,167)</u>	
Total Component Units				<u>(2,324,695)</u>	<u>(1,140,167)</u>
General revenues:					
Property taxes	16,117,664		16,117,664	924,026	
Sales taxes	35,748,841	7,817,663	43,566,504	737,751	
Utility franchise fees	5,530,957		5,530,957	525,935	
Alcoholic beverage taxes and miscellaneous taxes	463,596		463,596		
Grants and contributions not restricted to specific programs	1,411,739		1,411,739		
Unrestricted investment earnings	813,104	2,360,225	3,173,329	7,148	33,226
Gain on sale of capital assets	4,174		4,174		1,477
Payment from City of Fort Smith					160,000
Other	100,331	283,977	384,308	574	296,833
Transfers	(579,200)	579,200	-		
Total general revenues and transfers	<u>59,611,206</u>	<u>11,041,065</u>	<u>70,652,271</u>	<u>2,195,434</u>	<u>491,536</u>
Change in net assets	26,035,690	10,234,373	36,270,063	(129,261)	(648,631)
Net assets, beginning	<u>235,713,290</u>	<u>141,828,920</u>	<u>377,542,210</u>	<u>1,682,940</u>	<u>38,670,824</u>
Net assets, ending	<u>\$ 261,748,980</u>	<u>\$ 152,063,293</u>	<u>\$ 413,812,273</u>	<u>\$ 1,553,679</u>	<u>\$ 38,022,193</u>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
 Balance Sheet
 Governmental Funds
 December 31, 2003

Assets					Other	Total
	General	Street Maintenance	Sales Tax	1997 Sales & Use Tax Bond	Governmental Funds	Governmental Funds
Cash	\$ 439,411	\$ 52,756	\$ 1,313,171	\$ -	\$ 485,116	\$ 2,290,454
Investments	4,358,084	5,548,870	23,163,020	-	14,189,312	47,259,286
Receivables, net of allowance for uncollectibles						
Taxes	6,197,256	1,457,745	-	-	1,943,687	9,598,688
Sales taxes	1,013,158	-	1,288,654	-	-	2,301,812
Accounts	449,863	198,944	-	-	127	648,934
Accrued interest	5,295	7,421	26,042	-	17,555	56,313
Due from other funds	22,049	-	-	-	-	22,049
Due from other governments	202,635	-	-	-	36,655	239,290
Prepaid items	42,745	-	-	-	-	42,745
Restricted assets:						
Investments	-	-	-	4,692,557	-	4,692,557
Sales tax receivable	-	-	-	644,327	-	644,327
Deposits	11,335	-	448,118	-	-	459,453
Total Assets	\$ 12,741,831	\$ 7,265,736	\$ 26,239,005	\$ 5,336,884	\$ 16,672,452	\$ 68,255,908
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 1,193,441	\$ 216,762	\$ 1,832,625	\$ -	\$ 500,265	\$ 3,743,093
Retainage payable	-	-	975,049	-	37,161	1,012,210
Payable from restricted assets:						
Accrued interest	-	-	-	25,608	-	25,608
Due to other funds	-	-	-	-	22,622	22,622
Deferred revenues	4,869,072	1,448,889	-	-	2,749,043	9,067,004
Other	121,336	-	222,700	-	2,323	346,359
Total Liabilities	6,183,849	1,665,651	3,030,374	25,608	3,311,414	14,216,896
Fund Balances:						
Reserved for:						
Encumbrances	1,254,812	150,048	982	-	13,000	1,418,842
Prepaid items	42,745	-	-	-	-	42,745
Other purposes - construction projects	-	489,588	23,207,649	-	824,627	24,521,864
Bond retirement	-	-	-	5,311,276	-	5,311,276
Unreserved:						
Designated for subsequent years' expenditures	393,169	4,960,449	-	-	-	5,353,618
Undesignated	4,867,256	-	-	-	-	4,867,256
Unreserved, reported in nonmajor:						
Special revenue funds	-	-	-	-	11,974,123	11,974,123
Capital projects funds	-	-	-	-	549,288	549,288
Total Fund Balances	6,557,982	5,600,085	23,208,631	5,311,276	13,361,038	54,039,012
Total Liabilities and Fund Balances	\$ 12,741,831	\$ 7,265,736	\$ 26,239,005	\$ 5,336,884	\$ 16,672,452	\$ 68,255,908

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
December 31, 2003

Total fund balances - governmental funds \$ 54,039,012

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

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

Land	\$ 17,344,247	
Buildings	66,098,094	
Improvements other than buildings	6,573,596	
Machinery and equipment	19,796,872	
Infrastructure	147,529,004	
Accumulated depreciation	<u>(50,083,573)</u>	
	207,258,240	
Construction In Progress	<u>499,173</u>	
Total	\$ <u>207,757,413</u>	207,757,413

Some revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year end and are not considered available. On the accrual basis, however, those revenues would be recognized regardless of when they are collected. 8,207,916

Internal service funds are used by management to charge the costs of certain activities, such as fuel and insurance, to individual funds. A portion of the assets and liabilities are included in governmental activities in the statement of net assets. 604,097

Some long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Compensated absences	\$ 1,499,627	
Claims payable	152,500	
Capital leases payable	667,331	
Sales and use tax bonds payable	<u>6,540,000</u>	
	\$ <u>8,859,458</u>	<u>(8,859,458)</u>

Net assets of governmental funds \$ 261,748,980

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2003

	General	Street Maintenance	Sales Tax	1997 Sales & Use Tax Bond	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 4,654,968	\$ 1,394,921	\$ -	\$ -	\$ 1,859,859	\$ 7,909,748
Sales taxes	12,295,853	-	15,635,325	7,817,663	-	35,748,841
Licenses and permits	1,171,724	-	-	-	167,225	1,338,949
Utility franchise fees	5,530,957	-	-	-	-	5,530,957
Intergovernmental	3,345,924	3,772,596	4,231,853	-	5,287,945	16,638,318
Fines and forfeitures	1,963,399	-	-	-	118,229	2,081,628
Fees for services	881,942	-	-	-	-	881,942
Interest	65,861	98,272	400,292	75,196	206,517	846,138
Contributions	-	-	-	-	785,030	785,030
Miscellaneous	222,403	20,101	608,431	-	7,586	858,521
Total Revenues	30,133,031	5,285,890	20,875,901	7,892,859	8,432,391	72,620,072
Expenditures						
Current:						
General government						
Administration	2,811,711	327,539	-	-	-	3,139,250
Legal	1,327,546	38,697	-	-	-	1,366,243
Finance	824,245	411,606	-	-	-	1,235,851
Public safety						
Police	10,638,712	-	-	-	1,333,093	11,971,805
Fire	7,473,517	-	-	-	1,619,226	9,092,743
Public works						
Operations	-	317,337	-	-	-	317,337
Streets	-	2,116,580	6,781,485	-	243,746	9,141,811
Traffic Control	-	1,433,416	-	-	-	1,433,416
Community services						
Health and Social Services	81,748	-	-	-	-	81,748
Parks and Recreation	1,452,410	241,052	-	-	51,812	1,745,274
Convention Center	1,047,363	-	-	-	-	1,047,363
Transit	1,726,100	-	-	-	60,886	1,786,986
Housing and Rehabilitation	0	-	-	-	1,444,373	1,444,373
Other	1,638,316	93,676	-	-	31,643	1,763,635
Debt Service:						
Principal	-	-	-	7,785,000	-	7,785,000
Interest	-	-	-	519,078	-	519,078
Capital Outlay	1,702,462	440,800	14,972,054	-	1,614,344	18,729,660
Total Expenditures	30,724,130	5,420,703	21,753,539	8,304,078	6,399,123	72,601,573
Excess (Deficiency) of revenues over (under) expenditures	(591,099)	(134,813)	(877,638)	(411,219)	2,033,268	18,499
Other Financing Sources (Uses):						
Transfers in	1,919,600	-	-	-	20,396	1,939,996
Transfers out	(580,797)	(50,400)	(1,690,999)	-	(197,000)	(2,519,196)
Capital lease financing	277,990	-	-	-	-	277,990
Total Other Financing Sources and Uses	1,616,793	(50,400)	(1,690,999)	-	(176,604)	(301,210)
Net Change in Fund Balances	1,025,694	(185,213)	(2,568,637)	(411,219)	1,856,664	(282,711)
Fund Balances, January 1	5,532,288	5,785,298	25,777,268	5,722,495	11,504,374	54,321,723
Fund Balances, December 31	\$ 6,557,982	\$ 5,600,085	\$ 23,208,631	\$ 5,311,276	\$ 13,361,038	\$ 54,039,012

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2003

Net change in fund balances - total governmental funds	\$ (282,711)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	18,729,660
The net effect of various transactions, i. e. sales, contributions, capital leases, is to increase net assets.	(395,108)
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(6,853,368)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This transaction has no effect on net assets.	7,785,000
Some property taxes will not be collected for several months after the City's fiscal year end and they are not considered "available" revenues in the governmental funds.	8,207,916
Some expenses, i. e. the increase in compensated absences liability, reported in the statement of activities and changes in net assets do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental funds.	(78,446)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and fuel, to individual funds. The net loss of the internal service funds is reported with governmental activities [net of the amount allocated to business-type activities of \$(506,620) and the external activities adjustment of \$363,967].	<u>(1,077,253)</u>
Change in net assets of governmental funds	<u>\$ 26,035,690</u>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Net Assets
Proprietary Funds
December 31, 2003

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Assets				
Current Assets:				
Cash	\$ 500	\$ 1,100	\$ 1,600	\$ 543,103
Investments	-	-	-	1,355,166
Receivables, net of allowance for uncollectibles				
Accounts	3,617,384	1,057,930	4,675,314	15,723
Accrued interest	-	179	179	2,191
Inventory	605,348	-	605,348	30,546
Due from other funds	-	-	-	573
Total Current Assets	<u>4,223,232</u>	<u>1,059,209</u>	<u>5,282,441</u>	<u>1,947,302</u>
Noncurrent Assets:				
Restricted:				
Cash	477,559	128,457	606,016	-
Investments	130,244,849	7,375,200	137,620,049	-
Accounts receivable, net of allowances for uncollectibles	6,300	22,060	28,360	-
Interest receivable	1,929,266	13,217	1,942,483	-
Sales tax receivable	644,327	-	644,327	-
Prepaid items and deposits	1,016,934	-	1,016,934	-
Deferred charges	1,443,402	71,999	1,515,401	-
Capital assets:				
Land	8,666,471	373,772	9,040,243	-
Buildings	-	1,334,375	1,334,375	-
Improvements other than buildings	-	14,513,671	14,513,671	-
Leasehold improvements	-	709,952	709,952	-
Machinery and equipment	6,954,566	12,502,096	19,456,662	-
Water system	110,270,927	-	110,270,927	-
Sewer system	96,403,434	-	96,403,434	-
Construction in progress	95,885,627	762,491	96,648,118	-
Less accumulated depreciation	(81,463,311)	(17,891,794)	(99,355,105)	-
Total Noncurrent Assets	<u>372,480,351</u>	<u>19,915,496</u>	<u>392,395,847</u>	<u>-</u>
Total Assets	<u>376,703,583</u>	<u>20,974,705</u>	<u>397,678,288</u>	<u>1,947,302</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	11,607,379	692,309	12,299,688	84,358
Retainage payable	5,106,110	-	5,106,110	-
Accrued interest	2,062,864	22,034	2,084,898	-
Claims and judgments	-	-	-	950,904
Payable from restricted assets:				
Revenue bonds payable	5,395,000	805,000	6,200,000	-
Sales tax bonds payable	3,085,000	-	3,085,000	-
Capital leases payable	-	142,442	142,442	-
Deposits	1,642,794	-	1,642,794	-
Other	22,596	-	22,596	-
Total Current Liabilities	<u>28,921,743</u>	<u>1,661,785</u>	<u>30,583,528</u>	<u>1,035,262</u>
Noncurrent liabilities:				
Accrued vacation and sick leave	820,100	262,012	1,082,112	-
Landfill closure and postclosure care	-	2,151,125	2,151,125	-
Revenue bonds, net	140,486,297	6,006,406	146,492,703	-
Sales and use tax bonds, net	65,315,155	-	65,315,155	-
Capital Leases Payable	-	298,315	298,315	-
Total Noncurrent Liabilities	<u>206,621,552</u>	<u>8,717,858</u>	<u>215,339,410</u>	<u>-</u>
Total Liabilities	<u>235,543,295</u>	<u>10,379,643</u>	<u>245,922,938</u>	<u>1,035,262</u>
Net Assets				
Invested in capital assets, net of related debt	130,855,157	5,052,400	135,907,557	-
Restricted for bond retirement	19,804,328	726,731	20,531,059	-
Restricted for landfill closure and postclosure care	-	3,646,014	3,646,014	-
Restricted for asset replacement	500,000	125,471	625,471	-
Restricted for capital projects	-	396,507	396,507	-
Unrestricted (deficit)	(9,999,197)	647,939	(9,351,258)	912,040
Total Net Assets	<u>\$ 141,160,288</u>	<u>\$ 10,595,062</u>	<u>151,755,350</u>	<u>\$ 912,040</u>

Reconciliation to government - wide statement of net assets:

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

307,943

Net assets of business type activities

\$ 152,063,293

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2003

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Operating Revenues				
Water service	\$ 18,292,120	\$ -	\$ 18,292,120	\$ -
Sewer service	9,606,287	-	9,606,287	-
Charges for services	376,658	9,393,659	9,770,317	6,343,846
Other	31,417	-	31,417	-
Total Operating Revenues	<u>28,306,482</u>	<u>9,393,659</u>	<u>37,700,141</u>	<u>6,343,846</u>
Operating Expenses				
Personnel services	9,360,117	4,634,758	13,994,875	-
Contractual services	1,421,972	1,037,354	2,459,326	498,995
Materials and supplies	3,074,514	1,298,612	4,373,126	356,715
Heat, light, and power	1,248,359	33,023	1,281,382	-
Depreciation	7,274,483	927,319	8,201,802	-
Insurance claims and expenses	-	-	-	6,749,855
Total Operating Expenses	<u>22,379,445</u>	<u>7,931,066</u>	<u>30,310,511</u>	<u>7,605,565</u>
Operating Income (Loss)	<u>5,927,037</u>	<u>1,462,593</u>	<u>7,389,630</u>	<u>(1,261,719)</u>
Nonoperating Revenues (Expenses)				
Interest revenue	3,262,254	121,242	3,383,496	41,813
Decrease in fair value of investments	(1,019,557)	(3,714)	(1,023,271)	-
Interest expense and fiscal charges	(7,744,944)	(277,400)	(8,022,344)	-
Sales tax revenue	7,817,663	-	7,817,663	-
Other nonoperating revenues (expenses), net	274,694	82,758	357,452	-
Total Nonoperating Revenues (Expenses)	<u>2,590,110</u>	<u>(77,114)</u>	<u>2,512,996</u>	<u>41,813</u>
Income (Loss) Before Contributions and Transfers	8,517,147	1,385,479	9,902,626	(1,219,906)
Capital contributions	259,167	-	259,167	-
Transfers in	365,000	315,000	680,000	450,000
Transfers out	(50,400)	(50,400)	(100,800)	(450,000)
Change in Net Assets	9,090,914	1,650,079	10,740,993	(1,219,906)
Total net assets, beginning	132,069,374	8,944,983		2,131,946
Total net assets, ending	<u>\$ 141,160,288</u>	<u>\$ 10,595,062</u>		<u>\$ 912,040</u>
Reconciliation to government - wide statement of activities:				
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds			(506,620)	
Change in net assets of business type activities for government - wide statement of activities			<u>\$ 10,234,373</u>	

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2003

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Cash Flows from Operating Activities:				
Cash received from customers	\$ 26,506,883	\$ 9,095,650	\$ 35,602,533	\$ -
Cash received from service users	-	-	0	752,640
Cash received from city and employee contributions	-	-	0	5,589,046
Cash payments for goods and services	(4,120,459)	(2,268,629)	(6,389,088)	(362,869)
Cash paid to employees	(9,273,226)	(4,602,882)	(13,876,108)	-
Cash payments for premiums and other operating expenses	-	-	-	(489,044)
Cash payments for claims paid	-	-	-	(6,809,315)
Cash received from other operating revenues	728,940	3,504	732,444	-
Net cash provided by (used for) operating activities	<u>13,842,138</u>	<u>2,227,643</u>	<u>16,069,781</u>	<u>(1,319,542)</u>
Cash Flows from Noncapital Financing Activities:				
Operating transfers in from other funds	365,000	315,000	680,000	450,000
Operating transfers out to other funds	(50,400)	(50,400)	(100,800)	(450,000)
Net cash provided by noncapital financing activities	<u>314,600</u>	<u>264,600</u>	<u>579,200</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:				
Proceeds from sales tax	7,792,061	-	7,792,061	-
Proceeds from sale of capital assets	9,500	75,550	85,050	-
Acquisition and construction of capital assets	(51,502,993)	(843,138)	(52,346,131)	-
Principal paid on bonds	(7,635,000)	(785,000)	(8,420,000)	-
Interest paid on bonds	(9,727,226)	(274,127)	(10,001,353)	-
Net cash provided by (used for) capital and related financing activities	<u>(61,063,658)</u>	<u>(1,826,715)</u>	<u>(62,890,373)</u>	<u>-</u>
Cash Flows from Investing Activities:				
Proceeds from sales and maturities of investment securities	248,962,135	5,182,689	254,144,824	2,237,609
Outlays for purchases of investment securities	(204,297,463)	(5,837,919)	(210,135,382)	(984,516)
Interest on investments	2,639,607	118,159	2,757,766	45,549
Net cash provided by (used for) investing activities	<u>47,304,279</u>	<u>(537,071)</u>	<u>46,767,208</u>	<u>1,298,642</u>
Net increase (decrease) in cash and restricted cash	397,359	128,457	525,816	(20,900)
Cash and restricted cash, January 1	80,700	1,100	81,800	564,003
Cash and restricted cash, December 31	<u>\$ 478,059</u>	<u>\$ 129,557</u>	<u>\$ 607,616</u>	<u>\$ 543,103</u>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2003
(Continued)

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Sanitation	Total	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 5,927,037	\$ 1,462,593	\$ 7,389,630	\$ (1,261,719)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	7,274,483	927,319	8,201,802	-
Miscellaneous revenue (expenses)	643,932	(20,427)	623,505	-
Change in assets and liabilities:				
Accounts receivable	(1,791,924)	(298,009)	(2,089,933)	(3,216)
Due from other funds	-	-	-	1,057
Inventory	28,085	-	28,085	(7,703)
Prepaid items	134,238	49,130	183,368	-
Accounts payable and accrued liabilities	1,546,071	91,253	1,637,324	42,247
Deposits	23,742	-	23,742	-
Accrued vacation and sick leave	52,249	15,784	68,033	-
Liability for claims and judgments	-	-	-	(90,208)
Other liabilities	4,225	-	4,225	-
Total adjustments	7,915,101	765,050	8,680,151	(57,823)
Net cash provided by (used for) operating activities	<u>\$ 13,842,138</u>	<u>\$ 2,227,643</u>	<u>\$ 16,069,781</u>	<u>\$ (1,319,542)</u>

Noncash investing, capital and financing activities:

Enterprise funds:

The Water and Sewer Fund received contributions of capital assets of \$259,167 for 2003 and recognized a \$1,019,557 decrease in fair value of investments in 2003. The 2002 advance refunding of water and sewer revenue bonds results in a cash flow savings of \$36,055 for 2003.

The Sanitation Fund recognized a decrease in fair value of investments of \$3,714 for 2003. During 2003, the 1998 and 2002 advance refundings for solid waste revenue bonds result in cash flow savings of \$37,665 and \$98,895, respectively. The Sanitation Fund entered into new capital leases of \$440,757 for 2003.

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Fiduciary Net Assets
Fiduciary Fund
December 31, 2003

Assets	Municipal Court Retirement
Cash and Cash Equivalents	\$ 9,557
Investments	1,003,680
Accrued Interest	1,211
Total assets	<u>1,014,448</u>
 Net Assets	
Held in trust for pension benefits and other purposes	<u>\$ 1,014,448</u>

See accompanying notes to basic financial statements.

City of Fort Smith, Arkansas
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended December 31, 2003

	<u>Municipal Court Retirement</u>
Additions	
Investment earnings	\$ 16,560
Court fines and forfeitures	<u>54,871</u>
Total additions	71,431
Deductions	
Benefit payments	<u>49,933</u>
Change in net assets	21,498
Net assets, beginning of year	<u>992,950</u>
Net assets, end of year	<u><u>\$ 1,014,448</u></u>

See accompanying notes to basic financial statements.

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CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

(1) Nature of Operations and Summary of Significant Accounting Policies

The City of Fort Smith, Arkansas (the "City") is a municipal corporation operating under the authority of Arkansas state statute. The City operates under a city administrator form of government. Seven elected directors and the Mayor set policy. The directors employ the City Administrator. The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body accepted in the United States for establishing governmental accounting and financial reporting principles. Enterprise funds and similar component units also apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The following is a summary of the more significant accounting and reporting policies of the City.

(a) Reporting Entity

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

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

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

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Discretely Presented Component Units

Business-Type

Fort Smith Parking Authority (the Authority)

The Authority's governing board is appointed by the City's Board; the operation and administration of the Authority's property is conducted by City personnel; and the legal liability for the Authority's revenue bond obligation remains with the City. In addition, the City provides a subsidy to fund the Authority's operations; however, the Authority functions almost entirely for the benefit of residents and other customers. The Authority is a special purpose government engaged solely in business-type activities and is discretely presented in the City's basic financial statements. Separate financial statements are not prepared for the Authority. See Note 14 on pages 78-79 of these notes for condensed financial statements.

Airport Commission

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

Governmental

Advertising and Promotion Commission (the Commission)

The Commission was established during 1989 to promote the City and increase tourism. The Commission is governed by seven members appointed by the Board. The Mayor and one board member serve as two of the seven members of the Commission. The City levies taxes for the Commission's revenue, performs administrative services for collection of taxes and provides financial services to the Commission. However, the Commission functions for the benefit of the citizens and visitors to the City. The Commission is a special purpose government engaged in governmental activities and is discretely presented in the City's basic financial statements. Separate financial statements are not prepared for the Commission. See Note 14 on pages 78-79 of these notes for condensed financial statements.

Public Library

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

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Related Organizations:

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

(b) Change in Accounting Principles

Effective January 1, 2003, the City implemented the following new financial accounting and reporting standards issued by GASB:

- Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis for State and Local Governments* (as amended by Statement No. 37)
- Statement No.38, *Certain Financial Statement Note Disclosures*
- Statement No. 40, *Deposit and Investment Risk Disclosure*
- Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

Statement No. 34 established new financial reporting requirements for state and local governments throughout the United States. Statement No. 34 establishes that the basic financial statements include government-wide financial statements, consisting of a statement of net assets and a statement of activities prepared using the economic resources measurement focus and the accrual basis of accounting. The government-wide financial statements distinguish between governmental and business-type activities of the primary government and between the primary government and its discretely presented component units. As a result, the City's capital assets, including infrastructure assets constructed since 1980, and long-term obligations are included in the balances of the government-wide statements. The basic financial statements also include *fund financial statements*, consisting of a series of statements that focus on information about the government's major governmental and enterprise funds. Fund financial statements should also report information about a government's fiduciary funds. Governmental fund financial statements should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements should be prepared using the economic resources measurement focus and the accrual basis of accounting. Notes to the financial statements are included to provide essential information to a user's understanding of the basic financial statements. Statement 34 made additions and modification to certain note disclosures. The basic financial statements are preceded by a Management's Discussion and Analysis, which is required supplementary information (RSI). Furthermore, the budgetary information for the General Fund and the Street Maintenance Fund is now presented in the RSI, rather than as part of the basic financial statements.

Statement No. 38 modifies, establishes and rescinds certain financial statement disclosure requirements. Significant changes to disclosures were made to the summary of significant accounting polices, debt and lease obligations, and violations of finance-related legal or contractual provisions.

Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

Interpretation No. 6 clarifies the existing modified accrual standards for certain liabilities distinguishing the portion of a liability that should be reported as a governmental fund liability and expenditure from the portion that should be reported as a general long-term liability (i.e., government-wide reporting only).

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

The table below reconciles the beginning fund balances and equity as previously reported to the beginning net assets. The most significant adjustments for the implementation of GASB 34 related to the recognition of general obligation debt and other long-term liabilities previously recorded in the general long-term debt account group, and recognition of capital assets previously recorded in the general fixed assets accounts group including infrastructure assets placed in service since 1980.

<u>Primary Government</u>	January 1, 2003		January 1, 2003
	Fund Balances/Equity as Previously Reported	GASB 34 Implementation	
Governmental Activities	\$ 54,321,723	\$ 181,391,567	\$ 235,713,290
Business-type Activities	141,014,357	814,563	141,828,920
	<u>\$ 195,336,080</u>	<u>\$ 182,206,130</u>	<u>\$ 377,542,210</u>

(c) Government-Wide and Fund Financial Statements

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

The City reports the following major governmental funds:

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

The *Street Maintenance Fund* is a special revenue fund which accounts for resources related to street and traffic control operations. Minor maintenance, repair and construction of streets and traffic control signals as well as street lighting are included in this fund.

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

The *1997 Sales and Use Tax Fund* is a debt service fund which accounts for the resources accumulated and payments made for principal and interest on the 1997 Sales and Use Tax bond issue.

The City reports the following major proprietary funds:

The *Water and Sewer Fund* is an enterprise fund which accounts for the activities of the water and wastewater operations. The City operates water treatment plants and distribution lines and wastewater treatment plants, pumping stations and collection systems.

The *Sanitation Fund* is an enterprise fund which accounts for the activities of providing solid waste collection and disposal. The City's landfill activities are included in this fund.

Additionally, the City reports the following fund types:

Special Revenue Funds- The special revenue funds, which include federal and state grants, are used to account for the proceeds of specific revenue sources, other than major capital projects, that are legally restricted to expenditures for specified purposes.

Capital Projects Funds-The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by enterprise funds.

Internal Service Funds- The internal service funds are used to account for centralized services, employee health care, and workers' compensation coverage provided to the City departments on a cost-reimbursement basis.

Agency Fund- Accounts for payroll activities for the City. The City's agency fund is the Payroll Fund.

(d) ***Measurement Focus and Basis of Accounting***

Government-Wide, Proprietary and Fiduciary Funds

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Proprietary fund operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the fund. All revenues and expenses not meeting this definition are reported as nonoperating items.

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2003

Nonexchange transactions, in which the City receives (or gives) value without directly giving (or receiving) equal value in exchange, include taxes; fines and forfeitures; grants, entitlements, and similar items; and contributions. Recognition standards are based on the characteristics and classes of nonexchange transactions. Property taxes are recognized as revenues in the year for which they are levied. Franchise fees, other taxes, and fines and forfeitures are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources, is required or is first permitted. Grants, entitlements, and contributions are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as deferred revenues. Grants and similar aid to other organizations are recognized as expenses as soon as recipients have met all eligibility requirements. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

Governmental Fund Financial Statements

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

(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 are carried at fair value. Interest earned on investments is recorded in the funds in which the investments are recorded.

(f) ***Inventories***

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

CITY OF FORT SMITH, ARKANSAS

Notes to Financial Statements

December 31, 2003

(g) Capital Assets

Capital assets, which include infrastructure assets constructed since 1980, are reported in the government-wide financial statements and the fund financial statements for proprietary funds.

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

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

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

Fixed Assets	Useful life (years)
Governmental Activities:	
Buildings	10 to 50
Improvements other than buildings	5 to 50
Infrastructure-	
Streets	40
Bridges	30
Drainage	20
Machinery and equipment	5 to 20
Business-Type Activities:	
Enterprise Funds:	
Water and Sewer System:	
Water system	10 to 50
Sewer system	10 to 50
Machinery and equipment	5 to 10
Sanitation:	
Buildings	35
Leasehold improvements	10 to 30
Machinery and equipment	3 to 10
Discretely Presented Component Units:	
Public Library:	
Fixtures and equipment	5 to 10
Transportation equipment	5
Parking Authority:	
Buildings	30
Machinery and equipment	3 to 10
Airport Commission:	
Buildings and improvements	10 to 30
Improvements other than buildings	5 to 20
Machinery and equipment	3 to 15
Furniture and fixtures	3 to 10
Ramps, runways, taxiways, and improvements	3 to 50

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

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Interest is capitalized on enterprise fund capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Interest capitalized in 2003 approximated \$2,591,000.

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

(h) *Property Tax Revenue*

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

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

The City is permitted by Arkansas State Law to levy taxes up to \$0.50 per \$100 of assessed valuation on real and personal property for general governmental services, \$0.50 per \$100 of assessed valuation on real and personal property for the payment of principal and interest on long-term debt, \$0.10 per \$100 of assessed valuation on real and personal property for the police pension funds and \$0.10 per \$100 of assessed valuation on real and personal property for the fire pension funds. The combined tax rate levied by the City in 2003 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 \$4,878,240 of additional taxes could be raised per year based on the current year's assessed value of \$674,529,414 for real property and \$301,118,605 for personal property before the limit is reached.

(i) *Compensated Absences*

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

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

The City records a liability for compensated absences as the employee earns benefits attributable to services already rendered that are not contingent on a specific event that is outside the control of the City. All compensated absences are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured such as a result of employee resignations and retirements.

(j) Risk Management

The City maintains a medical self-insurance plan funded by the City and administered by a third party. The plan provides certain healthcare benefits to active and retired City employees. Substantially all regular, full-time City employees are eligible for these benefits. The City's cost of providing these benefits, including premiums, totaled \$6,543,192 in 2003, and are included in operating expenses in the Employee Insurance Fund. The City contributes fully for each employee and shares in the contribution for any dependants. Retired employees may continue coverage under the City's policy, but must bear the entire cost of these contributions.

The City also makes contributions to fund a self-insured workers' compensation program. The City contributed \$246,260 in 2003 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.

(k) 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 at year-end totaled \$15,635,325 for fiscal year 2003, and are included in the Sales Tax Fund's sales tax revenues in the accompanying financial statements. Sales tax revenues are restricted for repair, maintenance, and improvement of City streets, bridges, and associated drainage. The City refers the tax to the voters every ten years for reapproval. The tax is currently in place through November 2005.

In August 1994, Sebastian County began assessing a 1% sales and use tax on retail sales in the county. Each city within Sebastian County receives a portion of the tax based upon population of the city. Currently, the City receives approximately 70% of the county tax. The tax is collected by the state and remitted to the City, net of a collection fee. Taxes totaled \$12,295,853 for fiscal year 2003. These taxes are included in the General Fund's sales tax revenues. The City refers the tax to the voters every ten years for reapproval. The tax is currently in place through August 2014 as the tax was reapproved during 2003 for the period August 2004 through August 2014.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

In January 1998, the City began assessing a ½% 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 at year-end totaled \$7,817,663 for fiscal year 2003, and are included in the 1997 Sales and Use Tax Bond 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 funded the Convention Center, Library, and Riverfront Park improvements. These bonds are anticipated to be retired during 2004.

In May 2001, the City began assessing a ½% 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 at year-end totaled \$7,817,663 for fiscal year 2003, and are included in the Water and Sewer Fund nonoperating revenues 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 supply expansion project. Once the Sales and Use Tax Construction Bonds, Series 1997 are redeemed, the ½% 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.

(l) *Statements of Cash Flows*

For purpose of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents, which are classified as cash and restricted cash in the accompanying statement of net assets.

(m) *Long-Term Obligations*

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

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

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

(n) Net Assets

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

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

(o) Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from these estimates.

(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 participates in the pool. In addition, investments are separately held by some of the City's funds.

The City follows GASB Statement 3, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement 40, *Deposit and Investment Risk Disclosure*.

The investments and deposits of the primary government are stated at quoted fair values. As a result, an unrealized loss of \$1,023,271 is recorded as a decrease in fair value of investments for the primary government in 2003, all related to the City's enterprise funds.

(a) Deposits

State and City statutes authorize the City's funds to be deposited in demand deposits or certificates of deposit. The bank balances and carrying amount of the City's deposits held as of December 31, 2003, were as follows:

Pooled and Nonpooled Funds (excluding pension fund)

<u>Description</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Demand deposits	\$26,505,389	\$29,343,150
Certificates of deposit	<u>63,956,320</u>	<u>63,988,056</u>
	<u>\$90,461,709</u>	<u>\$93,331,206</u>

Pension Fund

<u>Description</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Demand deposits	\$ -	\$ 9,557
Certificates of deposit	<u>1,003,680</u>	<u>1,004,891</u>
	<u>\$ 1,003,680</u>	<u>\$ 1,014,448</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Component Units

At yearend, the carrying amount and the bank balance of the Advertising and Promotion Commission deposits was \$185,490.

At year-end, the carrying amount of the Public Library's deposits was \$581,696 and the bank balance was \$664,298.

At year-end, the carrying amount and the bank balance of the Parking Authority's deposits was \$27,830.

At year-end, the carrying amount of the Airport Commission's deposits was \$3,620,198 and the bank balance was \$3,573,029.

(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, including accrued interest, held as of December 31, 2003, were as follows:

Pooled and Nonpooled Funds (excluding pension fund)

<u>Description</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u> <u>Less than 1 year</u>
U.S. Treasury Bills	\$ 3,478,707	\$ 3,478,707
U.S. Treasury Notes	<u>99,559,484</u>	<u>99,559,484</u>
	<u>\$ 103,038,191</u>	<u>\$103,038,191</u>

Component Units

At year-end, the Public Library held \$250,496 in mutual funds. The Public Library reports investments at fair value.

At year-end, the Parking Authority fund held \$78,867 in U.S. Treasury Notes. The Parking Authority reports investments at fair value and the maturity of the notes is May 31, 2004.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Interest Rate Risk. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The City's investments at December 31, 2003 are securities issued by the U.S. Government.

Custodial Credit Risks. The City's certificates of deposit are collateralized at a minimum of 100% of the deposits fair value. The collateral is held by the Federal Reserve Bank and the Arkansas Bankers' Bank.

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

Primary Government:

Carrying value of deposits-	
Pooled and nonpooled funds	\$93,331,206
Pension fund	<u>1,014,448</u>
	94,345,654
Deposits classified as investments	<u>(90,894,924)</u>
	<u>\$ 3,450,730</u>
Cash as reported on the government-wide statement of net assets	\$ 2,835,157
Restricted cash as reported on the government-wide statement of net assets	606,016
Cash as reported on the fiduciary fund statement of net assets	<u>9,557</u>
	<u>\$ 3,450,730</u>
Carrying value of investments-	
Pooled and nonpooled funds	\$103,038,191
Deposits classified as investments	<u>90,894,924</u>
	<u>\$193,933,115</u>
As reported on the government-wide statement of net assets:	
Investments	\$ 53,307,009
Interest receivable	58,683
Restricted investments	137,620,049
Restricted interest receivable	1,942,483
As reported on the fiduciary statement of net assets:	
Investments	1,003,680
Accrued interest	<u>1,211</u>
	<u>\$193,933,115</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Component Units:

Governmental type-

Carrying value of deposits:

Advertising and Promotion

Commission

\$ 185,490

Public Library

581,696

Carrying value of investments:

Public Library

250,496

\$1,017,682

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

Cash

\$ 489,040

Investments

528,277

Interest receivable

365

\$ 1,017,682

Business-type-

Carrying value of deposits:

Parking Authority

\$ 27,830

Airport Commission

3,620,198

Carrying value of investments:

Parking Authority

78,867

\$3,726,895

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

Cash

\$1,371,588

Investments

500,000

Interest receivable

4,414

Restricted cash

845,941

Restricted investments

1,002,292

Restricted interest receivable

2,660

\$ 3,726,895

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

(3) Capital Assets

Capital asset activity for the year ended December 31, 2003 was as follows:

Primary Government-

	December 31, 2002	Additions	Deletions/ Transfers	December 31, 2003
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 15,804,540	\$ 2,185,858	\$ (646,151)	\$ 17,344,247
Construction in progress	224,025	820,140	(544,992)	499,173
Total capital assets not being depreciated	<u>16,028,565</u>	<u>3,005,998</u>	<u>(1,191,143)</u>	<u>17,843,420</u>
Capital assets being depreciated:				
Buildings	65,589,966	364,993	143,135	66,098,094
Improvements other than buildings	5,932,268	239,471	401,857	6,573,596
Infrastructure	133,519,392	14,009,612	-	147,529,004
Machinery and equipment	18,762,107	1,447,127	(412,362)	19,796,872
Total capital assets at historical cost	<u>223,803,733</u>	<u>16,061,203</u>	<u>132,630</u>	<u>239,997,566</u>
Less accumulated depreciation for:				
Buildings	4,173,986	1,697,949	-	5,871,935
Improvements other than buildings	4,027,434	202,641	-	4,230,075
Infrastructure	25,129,468	3,337,985	-	28,467,453
Machinery and equipment	10,296,103	1,614,793	(396,786)	11,514,110
Total accumulated depreciation	<u>43,626,991</u>	<u>6,853,368</u>	<u>(396,786)</u>	<u>50,083,573</u>
Capital assets being depreciated, net	<u>180,176,742</u>	<u>9,207,835</u>	<u>529,416</u>	<u>189,913,993</u>
Governmental activities capital assets, net	<u>\$ 196,205,307</u>	<u>\$ 12,213,833</u>	<u>\$ (661,727)</u>	<u>\$ 207,757,413</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Primary Government-

	<u>December 31,</u> <u>2002</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31,</u> <u>2003</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 8,553,142	\$ 487,101	\$ -	\$ 9,040,243
Construction in progress	<u>51,243,707</u>	<u>60,666,985</u>	<u>(15,262,574)</u>	<u>96,648,118</u>
Total capital assets not being depreciated	<u>59,796,849</u>	<u>61,154,086</u>	<u>(15,262,574)</u>	<u>105,688,361</u>
Capital assets being depreciated:				
Water system	109,666,690	514,073	90,164	110,270,927
Sewer system	80,967,414	319,391	15,116,629	96,403,434
Buildings	1,334,375	-	-	1,334,375
Improvements other than buildings	14,449,141	8,750	55,780	14,513,671
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	<u>19,290,691</u>	<u>1,104,043</u>	<u>(938,072)</u>	<u>19,456,662</u>
Total depreciable capital assets at historical cost	<u>226,418,263</u>	<u>1,946,257</u>	<u>14,324,501</u>	<u>242,689,021</u>
Less accumulated depreciation for:				
Water system	36,494,331	3,885,144	-	40,379,475
Sewer system	33,632,052	2,932,729	-	36,564,781
Buildings	329,256	46,709	-	375,965
Improvements other than buildings	9,483,949	72,544	-	9,556,493
Leasehold improvements	557,736	32,532	-	590,268
Machinery and equipment	<u>11,289,459</u>	<u>1,232,144</u>	<u>(633,480)</u>	<u>11,888,123</u>
Total accumulated depreciation	<u>91,786,783</u>	<u>8,201,802</u>	<u>(633,480)</u>	<u>99,355,105</u>
Capital assets being depreciated net	<u>134,631,480</u>	<u>(6,255,545)</u>	<u>14,957,981</u>	<u>143,333,916</u>
Business-type activities capital assets, net	<u>\$ 194,428,329</u>	<u>\$ 54,898,541</u>	<u>\$ (304,593)</u>	<u>\$ 249,022,277</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government-	
Administration	\$ 54,865
Legal	7,650
Finance	74,134
Public safety-	
Police	431,316
Fire	437,571
Public Works-	
Operations	17,743
Streets	3,579,608
Traffic Control	19,532
Community services-	
Health and social services	3,241
Parks and recreation	1,176,867
Convention center	757,559
Transit	179,173
Housing and rehabilitation	<u>114,109</u>
 Total governmental activities	
depreciation expense	<u>6,853,368</u>
 Business type activities:	
Water and Sewer	7,274,483
Sanitation	<u>927,319</u>
 Total business-type	
activities depreciation expense	<u>8,201,802</u>
 Total depreciation expense	<u><u>\$ 15,055,170</u></u>

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

Capital asset activity (on the preceding page):	
Additions for capital assets not being depreciated	\$ 3,005,998
Additions for capital assets being depreciated	<u>16,061,203</u>
	<u>\$ 19,067,201</u>
 Capital outlay reported on the statement of revenues, expenditures and changes in fund balances- governmental funds	\$18,729,660
Contributed capital assets	<u>337,541</u>
	<u>\$ 19,067,201</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Capital asset activity for the year ended December 31, 2003 for the major enterprise funds was as follows:

Primary Government-	<u>December 31, 2002</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2003</u>
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 8,179,370	\$ 487,101	\$ -	\$ 8,666,471
Construction in Progress	50,681,486	60,410,935	(15,206,794)	95,885,627
Total capital assets not being depreciated:	<u>58,860,856</u>	<u>60,898,036</u>	<u>(15,206,794)</u>	<u>104,552,098</u>
Capital assets being depreciated:				
Water system	109,666,690	514,073	90,164	110,270,927
Sewer system	80,967,414	319,391	15,116,629	96,403,434
Machinery and equipment	6,812,565	188,293	(46,292)	6,954,566
Total depreciable capital assets at historical cost	<u>197,446,669</u>	<u>1,021,757</u>	<u>15,160,501</u>	<u>213,628,927</u>
Less accumulated depreciation for:				
Water system	36,494,331	3,885,144	-	40,379,475
Sewer system	33,632,052	2,932,729	-	36,564,781
Machinery and equipment	4,108,738	456,610	(46,293)	4,519,055
Total accumulated depreciation	<u>74,235,121</u>	<u>7,274,483</u>	<u>(46,293)</u>	<u>81,463,311</u>
Capital assets being depreciated, net	<u>123,211,548</u>	<u>(6,252,726)</u>	<u>15,206,794</u>	<u>132,165,616</u>
Total water and sewer fund capital assets, net	<u>\$ 182,072,404</u>	<u>\$ 54,645,310</u>	<u>\$ -</u>	<u>\$ 236,717,714</u>
Sanitation Fund:				
Capital assets not being depreciated:				
Land	\$ 373,772	\$ -	\$ -	\$ 373,772
Construction in Progress	562,221	256,050	(55,780)	762,491
Total capital assets not being depreciated:	<u>935,993</u>	<u>256,050</u>	<u>(55,780)</u>	<u>1,136,263</u>
Capital assets being depreciated:				
Buildings	1,334,375	-	-	1,334,375
Improvements other than buildings	14,449,141	8,750	55,780	14,513,671
Leasehold improvements	709,952	-	-	709,952
Machinery and equipment	12,478,126	915,750	(891,780)	12,502,096
Total depreciable capital assets at historical cost	<u>28,971,594</u>	<u>924,500</u>	<u>(836,000)</u>	<u>29,060,094</u>
Less accumulated depreciation for:				
Buildings	329,256	46,709	-	375,965
Improvements other than buildings	9,483,949	72,544	-	9,556,493
Leasehold improvements	557,736	32,532	-	590,268
Machinery and equipment	7,180,721	775,534	(587,187)	7,369,068
Total accumulated depreciation	<u>17,551,662</u>	<u>927,319</u>	<u>(587,187)</u>	<u>17,891,794</u>
Capital assets being depreciated, net	<u>11,419,932</u>	<u>(2,819)</u>	<u>(248,813)</u>	<u>11,168,300</u>
Total sanitation fund capital assets, net	<u>\$ 12,355,925</u>	<u>\$ 253,231</u>	<u>\$ (304,593)</u>	<u>\$ 12,304,563</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Component Units-

	<u>December 31, 2002</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31, 2003</u>
Governmental Activities:				
Public Library-				
Capital assets not being depreciated:				
Land	\$ 422,132	\$ -	\$ -	\$ 422,132
Capital assets being depreciated:				
Equipment	447,076	2,097	-	449,173
Transportation equipment	135,952	-	-	135,952
Total depreciable capital assets at historical cost	583,028	2,097	-	585,125
Less accumulated depreciation	563,120	2,820	-	565,940
Capital assets being depreciated, net	19,908	(723)	-	19,185
Governmental activities capital assets, net-Public Library	<u>\$ 442,040</u>	<u>\$ (723)</u>	<u>\$ -</u>	<u>\$ 441,317</u>
Business-type activities:				
Parking Authority-				
Capital assets not being depreciated:				
Land	\$ 1,654,161	\$ -	\$ -	\$ 1,654,161
Capital assets being depreciated:				
Buildings	1,700,743	28,223	-	1,728,966
Machinery and equipment	97,307	-	-	97,307
Total depreciable capital assets at historical cost	1,798,050	28,223	-	1,826,273
Less accumulated depreciation for:				
Buildings	838,035	73,023	-	911,058
Machinery and equipment	48,214	11,552	-	59,766
Total accumulated depreciation	886,249	84,575	-	970,824
Capital assets being depreciated, net	911,801	(56,532)	-	855,449
Business-type activities capital assets, net-Parking Authority	<u>\$ 2,565,962</u>	<u>\$ (56,352)</u>	<u>\$ -</u>	<u>\$ 2,509,610</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

	<u>December 31,</u> <u>2002</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>December 31,</u> <u>2003</u>
Airport Commission:				
Capital assets not being depreciated:				
Land	\$ 6,010,552	\$ -	\$ -	\$ 6,010,552
Construction in progress	<u>16,703</u>	<u>14,581</u>	<u>(9,470)</u>	<u>21,814</u>
Total capital assets not being depreciated	<u>6,027,255</u>	<u>14,581</u>	<u>(9,470)</u>	<u>6,032,366</u>
Capital assets being depreciated:				
Buildings and improvements	15,928,214	216,423	(24,011)	16,120,626
Machinery and equipment	1,059,803	51,700	(32,663)	1,078,840
Improvements other than buildings	5,940,776	58,648	(31,453)	5,967,971
Furniture and fixtures	859,619	41,898	(65,983)	835,534
Ramps, runways & taxiways	<u>34,089,247</u>	<u>-</u>	<u>-</u>	<u>34,089,247</u>
Total depreciable capital assets at historical cost	<u>57,877,659</u>	<u>368,669</u>	<u>(154,110)</u>	<u>58,092,218</u>
Less accumulated depreciation for:				
Buildings and improvements	4,549,636	396,667	(23,950)	4,922,353
Machinery and equipment	851,724	59,580	(32,663)	878,641
Improvements other than buildings	906,838	399,464	(30,704)	1,275,598
Furniture and fixtures	271,973	67,079	(65,783)	273,269
Ramps, runways & taxiways	<u>16,548,665</u>	<u>1,592,788</u>	<u>-</u>	<u>18,141,453</u>
Total accumulated depreciation	<u>23,128,836</u>	<u>2,515,578</u>	<u>(153,100)</u>	<u>25,491,314</u>
Capital assets being depreciated, net	<u>34,748,823</u>	<u>(2,146,909)</u>	<u>(1,010)</u>	<u>32,600,904</u>
Business-type activities capital assets, net- Airport Commission	<u>\$ 40,776,078</u>	<u>\$ (2,132,328)</u>	<u>\$ (10,480)</u>	<u>\$ 38,633,270</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Construction-in-progress is composed of the following:

	<u>Primary Appropriation</u>	<u>Expended to December 31, 2003</u>	<u>Committed</u>
Primary government:			
Governmental activities	\$ 710,789	\$ 499,173	\$ 211,616
Business-type activities:			
Water and sewer capital improvements	204,730,217	95,885,627	108,844,590
Solid waste capital improvements	<u>882,683</u>	<u>762,491</u>	<u>120,192</u>
Total	<u>\$ 206,323,589</u>	<u>\$ 97,147,291</u>	<u>\$ 109,176,398</u>
Component unit:			
Airport Commission	<u>\$ 494,920</u>	<u>\$ 21,814</u>	<u>\$ 473,106</u>

The City's governmental construction projects include phase two for the riverfront park improvements and Carol Ann Cross (CAC) Parks dam improvements. The riverfront project financing is in place, however, funds will have to be provided to complete the CAC dam improvements during 2005. 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 2005. Additionally, the Airport Commission does not anticipate additional financing associated with capital improvements other than through grant funding.

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

	<u>Governmental</u>	<u>Business-Type</u>		
		<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Primary Government:				
Net book value	\$ 207,757,413	\$ 236,717,714	\$ 12,304,563	\$ 249,022,277
Current and non-current debt	(7,207,331)	(214,281,452)	(7,252,163)	(221,533,615)
Restricted assets-				
unspent bond proceeds	<u>-</u>	<u>108,418,895</u>	<u>-</u>	<u>108,418,895</u>
Invested in capital assets, net of related debt	<u>\$ 200,550,082</u>	<u>\$ 130,855,157</u>	<u>\$ 5,052,400</u>	<u>\$ 135,907,557</u>
Component Units:				
Net book value	\$ 441,317	\$ 41,142,880		
Current and non-current debt	<u>-</u>	<u>(6,171,231)</u>		
Invested in capital assets, net of related debt	<u>\$ 441,317</u>	<u>\$ 34,971,649</u>		

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

(4) Long-Term Liabilities

(a) Changes in long-term liabilities for the year ended December 31, 2003 were as follows:

Primary Government -

	Balance December 31, 2002	Increases	Decreases	Balance December 31, 2003	Amounts Due in One year
Governmental Activities:					
Bonds payable-					
1997 Sales and & Use Tax Bonds	\$ 14,325,000	\$ -	\$ 7,785,000	\$ 6,540,000	\$ 3,940,000
Capital leases payable	576,453	277,990	187,112	667,331	275,774
Compensated Absences	1,421,182	113,658	35,213	1,499,627	-
Claims Payable- General Fund					
Legal	328,000	-	175,500	152,500	152,500
Employee insurance/workers' compensation	700,018	-	60,654	639,364	639,364
Other	195,567	222,700	71,908	346,359	-
Total governmental activities long-term liabilities	<u>\$ 17,546,220</u>	<u>\$ 614,348</u>	<u>\$ 8,315,387</u>	<u>\$ 9,845,181</u>	<u>\$ 5,007,638</u>
Business-Type Activities:					
Bonds payable-					
Revenue Bonds	\$ 154,200,000	\$ -	\$ 3,155,000	\$ 151,045,000	\$ 6,200,000
Less issuance discounts	(601,050)	-	(57,018)	(544,032)	-
Add issuance premiums	3,430,390	-	177,022	3,253,368	-
Less deferrals on refunded issues	(1,253,572)	-	(191,939)	(1,061,633)	-
Revenue bonds payable, net	<u>155,775,768</u>	<u>-</u>	<u>3,083,065</u>	<u>152,692,703</u>	<u>6,200,000</u>
Sales tax bonds	73,680,000	-	5,265,000	68,415,000	3,085,000
Less issuance discounts	(333,610)	-	(63,196)	(270,414)	-
Add issuance premium	318,711	-	63,142	255,569	-
Sales tax bonds payable, net	<u>73,665,101</u>	<u>-</u>	<u>5,264,946</u>	<u>68,400,155</u>	<u>3,085,000</u>
Capital leases payable	-	440,757	-	440,757	142,442
Compensated absences	1,014,079	80,090	12,657	1,082,112	-
Claims Payable-Employee insurance and workers' comp.	341,094	-	29,554	311,540	311,540
Closure/postclosure landfill costs	2,653,065	-	501,940	2,151,125	-
Total business-type activities long-term liabilities	<u>\$ 233,449,107</u>	<u>\$ 521,447</u>	<u>\$ 8,892,162</u>	<u>\$ 225,078,392</u>	<u>\$ 9,738,982</u>
Reconciliation of business-type activities to the government-wide statement of net assets:					
Liabilities payable from restricted assets:					
Current portion of long-term debt				\$ 9,285,000	
Noncurrent liabilities:					
Due within one year				453,982	
Due in more than one year				<u>215,339,410</u>	
Total business-type activities long term liabilities				<u>\$ 225,078,392</u>	

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Changes in long-term liabilities for the year ended December 31, 2003 for the major enterprise funds were as follows:

	Balance December 31, 2002	Increases	Decreases	Balance December 31, 2003	Amounts Due in One year
Water and Sewer Fund:					
Bonds payable-					
Revenue Bonds	\$ 146,130,000	\$ -	\$ 2,370,000	\$ 143,760,000	\$ 5,395,000
Less issuance discounts	(577,264)	-	(53,620)	(523,644)	-
Add issuance premiums	3,430,390	-	177,022	3,253,368	-
Less deferrals on refunded issues	(737,399)	-	(128,972)	(608,427)	-
Revenue bonds payable, net	<u>148,245,727</u>	-	<u>2,364,430</u>	<u>145,881,297</u>	<u>5,395,000</u>
Sales tax bonds	73,680,000	-	5,265,000	68,415,000	3,085,000
Less issuance discounts	(333,610)	-	(63,196)	(270,414)	-
Add issuance premium	318,711	-	63,142	255,569	-
Sales tax bonds payable, net	<u>73,665,101</u>	-	<u>5,264,946</u>	<u>68,400,155</u>	<u>3,085,000</u>
Compensated absences	767,851	64,837	12,588	820,100	-
Total water and sewer fund	<u>\$ 222,678,679</u>	<u>\$ 64,837</u>	<u>\$ 7,641,964</u>	<u>\$ 215,101,552</u>	<u>\$ 8,480,000</u>
Sanitation Fund:					
Bonds payable-					
Revenue Bonds	\$ 8,070,000	\$ -	\$ 785,000	\$ 7,285,000	\$ 805,000
Less issuance discounts	(23,786)	-	(3,398)	(20,388)	-
Less deferrals on refunded issues	(516,173)	-	(62,967)	(453,206)	-
Revenue bonds payable, net	<u>7,530,041</u>	-	<u>718,635</u>	<u>6,811,406</u>	<u>805,000</u>
Capital leases payable	-	440,757	-	440,757	142,442
Compensated Absences	246,228	15,853	69	262,012	-
Closure/postclosure landfill costs	2,653,065	-	501,940	2,151,125	-
Total sanitation fund	<u>\$ 10,429,334</u>	<u>\$ 456,610</u>	<u>\$ 1,220,644</u>	<u>\$ 9,665,300</u>	<u>\$ 947,442</u>

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

	Water and Sewer Fund	Sanitation Fund
Liabilities payable from restricted assets:		
Revenue bonds payable	\$ 5,395,000	\$ 805,000
Sales tax bonds payable	3,085,000	-
Capital leases payable	-	142,442
Accrued vacation and sick leave	820,100	262,012
Landfill closure and postclosure care	-	2,151,125
Revenue bonds, net	140,486,297	6,006,406
Sales and use tax bonds, net	65,315,155	-
Capital lease payable	-	298,315
Total long-term liabilities for major enterprise funds	<u>\$ 215,101,552</u>	<u>\$ 9,665,300</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Component Units:	Balance December 31, 2002	Increases	Decreases	Balance December 31, 2003	Amounts Due in One year
Business-type activities-					
Parking Authority:					
Bonds payable-					
Revenue Bonds	1,820,000	-	75,000	1,745,000	75,000
Less issuance discounts	(28,314)	-	(1,888)	(26,426)	-
Bonds payable, net	1,791,686	-	73,112	1,718,574	75,000
Capital leases payable	47,895	-	9,177	38,718	9,738
Compensated absences	792	204	-	996	-
Total	1,840,373	204	82,289	1,758,288	84,738
Airport Commission:					
Bonds payable-					
Revenue Bonds	\$ 5,245,000	\$ -	\$ 1,190,000	\$ 4,055,000	\$ 90,000
Less issuance discounts	(44,332)	-	(1,656)	(42,676)	-
Bonds payable, net	5,200,668	-	1,188,344	4,012,324	90,000
Notes payable	492,590	-	90,975	401,615	95,391
Unearned rent	867,684	-	58,262	809,422	90,117
Total	6,560,942	-	1,337,581	5,223,361	275,508
Total Component Units	<u>\$ 8,401,315</u>	<u>\$ 204</u>	<u>\$ 1,419,870</u>	<u>\$ 6,981,649</u>	<u>\$ 360,246</u>

(b) Operating Leases

The City leases office space under a noncancelable operating lease. Total costs for the lease to the General Fund was \$165,000 for the year ended December 31, 2003. The future minimum lease payments for the lease are as follows:

2004	\$ 172,400
2005	172,400
2006	<u>28,800</u>
Total	<u>\$ 373,600</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

(c) Capital Leases

The City and the Parking Authority, a component unit, have entered into lease agreements for the acquisition of capital assets in 2002 and 2003. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date in the statement of net assets.

The assets acquired through capital lease are as follows:

	Primary Government		Component Unit
	Governmental	Business-Type	Business-Type
	Activities	Activities- Sanitation	Activities
Machinery and Equipment	\$ 867,445	\$ 534,757	\$ 50,835
Less accumulated depreciation	(94,987)	(25,388)	(13,556)
Total	<u>\$ 772,458</u>	<u>\$ 509,369</u>	<u>\$ 37,279</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2003 were as follows:

	Primary Government		Component Unit
	Governmental	Business-Type	Business-Type
	Activities	Activities- Sanitation	Activities
2004	\$ 303,239	\$ 157,058	\$ 11,779
2005	303,237	157,058	11,779
2006	109,173	157,058	11,779
2007	-	-	7,853
Total minimum lease payments	715,649	471,174	43,190
less interest	(48,318)	(30,417)	(4,472)
Present value of minimum lease payments	<u>\$ 667,331</u>	<u>\$ 440,757</u>	<u>\$ 38,718</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

(d) Notes Payable
Component Unit-Business-Type
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 \$95,391 and the long-term portion is \$306,224 for a total notes payable due of \$401,615 at December 31, 2003.

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

2004	\$ 95,391
2005	100,165
2006	105,122
2007	<u>100,937</u>
Total	401,615
Interest	<u>40,126</u>
Total principal & interest	<u>\$ 441,741</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, 2003 was \$1,548,421. The limit as of December 31, 2003 was \$148.8 million, therefore management believes, the City is in compliance with state statutes for short-term financing at December 31, 2003.

(e) Sales and Use Tax Bonds- Governmental Activities

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 convention center, library, and park improvements. The principal amount of the Bonds was allocated among the three projects at \$20,405,000 for convention 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 cent (½%) 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 Basic Financial Statements

December 31, 2003

The Bonds mature on December 1 of each year through December 1, 2005, with interest ranging from 4.5% to 5% 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. During 2003, bonds redeemed prior to maturity totaled \$4,015,000.

Debt service requirements of the 1997 Sales and Use Tax Bonds at December 31, 2003 were as follows:

		<u>Sales and Use Tax Bonds</u>	
		<u>Principal</u>	<u>Interest</u>
2004		\$ 3,940,000	\$ 307,300
2005		<u>2,600,000</u>	<u>130,000</u>
	Total	<u>\$ 6,540,000</u>	<u>\$ 437,300</u>

(f) Revenue Bonds and Sales and Use Tax Bonds- Business-Type Activities

Revenue bonds and sales and use tax bonds outstanding at December 31, 2003, are comprised of the following individual issues:

Water and Sewer:

<p>\$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</p>	\$ 9,115,000
<p>\$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</p>	22,915,000
<p>\$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</p>	68,415,000
<p>\$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 semi-annually; \$13,240,000 of which are term bonds due October 1, 2021 with an interest rate of 5% payable semiannually</p>	82,590,000
<p>\$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</p>	7,810,000

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

\$21,330,000 of Series 2002C Water and Sewer Refunding 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 1,790,000

\$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 1.4% to 4.05% payable semiannually 5,495,000

Bonds Outstanding, December 31, 2003 219,460,000

Less:

Unamortized bond premium, net 2,694,491
Deferred amount on refunding (1,061,633)

Net bonds outstanding, December 31, 2003 \$ 221,092,858

Revenue bonds, net \$ 152,692,703
Sales and use tax bonds, net 68,400,155
\$ 221,092,858

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 System 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 provided resources for all future debt payments on the refundable debt. The refunded debt is considered defeased and the related liabilities have been removed from the Water and Sewer Fund statement of net assets. 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 \$176,630 as of December 31, 2003.

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.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

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 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 outstanding. The refunded debt is considered defeased and the related liabilities have been removed from the Water and Sewer Fund statement of net assets. The balance of the defeased debt at December 31, 2003 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 \$431,797 as of December 31, 2003. 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 revenue of the water and sewer system and the various special funds established by the authorizing bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system, second to establish and maintain the revenue bond funds and third to pay the cost of replacements made necessary by the depreciation of the system. Any remaining revenues may then be used for redemption of the bonds prior to maturity, as discussed previously, for the purchase of bonds at a price not to exceed par and accrued interest, for construction, extension, betterments and improvements to the system, or for any other lawful purpose.

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, 2003, management believes 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, 2003 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, 2003.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

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 sale 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 were approved at a special election held March 20, 2001.

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. During 2003 the City paid principal due of \$2,980,000 and called \$2,285,000 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, 2003.

Sanitation-

In November 1994, the City issued \$4,560,000 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 issued 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 statement of net assets. 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 \$151,613 as of December 31, 2003.

On September 3, 2002, the City issued \$6,305,000 Solid Waste Refunding Revenue Bonds. The Series 2002 Bonds were issued to refund the outstanding Series 1995 Bonds. The 1995 Bonds were redeemed at 101% on December 1, 2002. The refunded debt is considered defeased and the related liabilities have been removed from the Sanitation Fund statement of net assets. The reacquisition price exceeded the carrying amount of the old debt by \$376,991. The unamortized amount is netted against the new debt and is being amortized over the refunded debt's life using the straight-line method, which approximates the effective interest method. The remaining unamortized deferred amount on refunding was \$301,593 as of December 31, 2003. 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.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

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

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 previously, 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 use.

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, 2003, 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, 2003. 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, 2003.

Maturity Schedule

Aggregate debt service requirements at December 31, 2003 for business-type activity related bonds were as follows:

	<u>Water and Sewer</u>		<u>Sanitation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 8,480,000	\$ 10,075,289	\$ 805,000	\$ 264,413
2005	10,815,000	9,692,580	820,000	241,943
2006	16,180,000	9,217,318	850,000	216,403
2007	16,885,000	8,513,363	875,000	187,827
2008	17,645,000	7,767,999	910,000	156,227
2009-2013	71,485,000	27,098,288	3,025,000	247,487
2014-2018	41,395,000	14,157,296	0	0
2019-2023	<u>29,290,000</u>	<u>3,312,627</u>	<u>0</u>	<u>0</u>
TOTAL	<u>\$212,175,000</u>	<u>\$ 89,834,760</u>	<u>\$ 7,285,000</u>	<u>\$ 1,314,300</u>

	<u>Total Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 9,285,000	\$ 10,339,702
2005	11,635,000	9,934,523
2006	17,030,000	9,433,721
2007	17,760,000	8,701,190
2008	18,555,000	7,942,226
2009-2013	74,510,000	27,345,775
2014-2018	41,395,000	14,157,296
2019-2023	<u>29,290,000</u>	<u>3,312,627</u>
	<u>\$219,460,000</u>	<u>\$ 91,149,060</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

(g) Component Units Revenue Bonds-Business-Type Activities

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. At December 31, 2003, bonds payable were \$4,055,000. 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 amortized discount at December 31, 2003, were \$4,012,324

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

	<u>Principal</u>	<u>Interest</u>
2004	\$ 90,000	\$ 244,082
2005	95,000	239,538
2006	100,000	234,550
2007	105,000	229,250
2008	110,000	223,580
2009-2013	655,000	1,017,763
2014-2018	875,000	799,635
2019-2023	1,180,000	493,385
2024-2026	<u>845,000</u>	<u>104,687</u>
 Total payments	 4,055,000	 <u>\$ 3,586,470</u>
 Less unamortized bond discount	 <u>42,676</u>	
 Net bonds outstanding, December 31, 2003	 <u>\$ 4,012,324</u>	

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 1, 2009, at a redemption price equal to the principal amount being 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. On October 1, 2003, the Airport Commission redeemed \$1,125,000 of the Series 1999 Bonds. This resulted in the Airport Commission paying the final three years of bond payments early which reduced the maturity date from October 1, 2029 to October 1, 2026. To the extent not previously redeemed, the Series 1999 Bonds maturing on October 1, 2021, are subject to mandatory sinking fund redemption. The bond covenants require the maintenance of the following restricted account:

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

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, 2003. The Airport Commission held investments equal to this amount at December 31, 2003.

Parking Authority-

On November, 1998, the Parking Authority issued \$2,025,000 of Parking Facilities and Refunding and Improvement Revenue Bonds, Series 1998. Together with \$675,000 of existing funds, approximately \$2,072,000 of the net proceeds were being used to acquire and improve off-street parking facilities, including necessary demolition, and \$849,000 was used to redeem \$825,000 of Series 1999 Bonds on January 1, 1999. 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, 2003, the Parking Authority held investments equal to this amount.

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

At December 31, 2003, Parking Authority Revenue Bonds payable was \$1,745,000. 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 amortized discount and deferred amount on refunding at December 31, 2003, was \$1,718,574.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Debt service requirements for the bonds at December 31, 2003 were as follows:

	<u>Principal</u>	<u>Interest</u>
2004	\$ 75,000	\$ 78,918
2005	80,000	75,842
2006	85,000	72,523
2007	90,000	68,952
2008	90,000	65,128
2009-2013	525,000	262,262
2014-2018	650,000	130,255
2019	<u>150,000</u>	<u>7,125</u>
Total payments	\$1,745,000	<u>\$ 761,005</u>
Less unamortized bond discount	<u>26,426</u>	
Net bond outstanding, December 31, 2003	<u>\$ 1,718,574</u>	

(h) Conduit Debt Obligations

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

As of December 31, 2003, there were two series of Industrial Development Revenue Bonds outstanding with an aggregate principal amount payable of \$3,750,000, one series of Fair and Exhibition Facilities Bonds outstanding with an aggregate principal amount payable of \$2,200,000, and one series of Tourism Bonds outstanding with an aggregate principal payable of \$2,200,000.

(5) Risk Management

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

All funds of the City participate in the City's insurance programs and make payments to the respective self-insurance funds based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for future claims. The Airport Commission participates in the City's health plans by making contributions as required by the City. At December 31, 2003, the net assets were \$513,921 and \$366,146 in the Employee Insurance and Workers' Compensation Funds, respectively. The claims liability balances of \$712,611 and \$238,293 reported in the Employee Insurance and Workers' Compensation Funds,

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

respectively, are based on the requirements of GASB Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The claims liability includes the effect of specific incremental claims, adjustment expenses, and if probable and material, 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 2003 are detailed below:

	<u>Employee Insurance</u>	<u>Workers' Compensation</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	831,767	209,345
Current year claims and changes in estimate	6,424,036	235,611
Claim payments	<u>(6,543,192)</u>	<u>(206,663)</u>
Self-insurance liability, December 31, 2003	<u>\$ 712,611</u>	<u>\$ 238,293</u>

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

The Plan, available to all permanent City employees, permits them to defer until future years up to 25% of annual gross earnings not to exceed \$12,000. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

(7) Pension Plans

(a) *Public Employees Retirement System*

Plan Description

Effective April 1, 1997, the Public Employees' Retirement System (PERS) was converted to a money purchase retirement plan, a defined contribution plan, that is qualified under Section 401(a) of the Internal Revenue Code (the 401(a) Plan). The International City Management Association Retirement Corporation (ICMARC) serves as administrator of the 401(a) Plan. All full-time, non-uniformed employees with the exception of the two district judges and the District Court Clerk are covered by the 401(a) Plan. Each participant has a plan account to which the contributions are made and each participant manages their account by selecting various investments options offered by ICMARC. Plan benefits are base upon the total amount of money in an individual's account at retirement. Plan provisions and contribution rates are established by the 401(a) Plan agreement between the Board and ICMARC. Approval from both the Board and ICMARC is required for 401(a) Plan amendments. Employees make no contributions to the 401(a) Plan; however, the City makes contributions equal to 10% of each covered employees' earnings. Employer contributions to the PERS plan totaled approximately \$1,850,000 for 2003.

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 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 district court judges and the District Court Clerk. The Plan was established by the City in accordance with Arkansas statutes and is included in the City's primary government as a separate pension trust fund. Benefits of one-half of the highest annual salary for 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 2003 was \$223,921.

At December 31, 2003, 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 violation and \$0.20 for each summons in a civil action. Total contributions from fines and forfeitures in 2003 amounted to \$54,871. 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 the 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.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

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 made. 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.

(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 the Arkansas local police and fire (LOPFI) retirement system whereby LOPFI assumed responsibility for administration and a portion of the obligation of the Old Plans pursuant to Act 364 of 1981, as amended, and Act 655 of 1983 of the General Assembly of the State of Arkansas. Per the Agreement between the City and LOPFI, the City will contribute an actuarially determined rate sufficient to support the current plan benefit levels and fund the Old Plan's net pension obligation over a 40-year period. The Old Plan's 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, 2003 are:

	<u>Fire</u>	<u>Police</u>
Active Members:		
Vested	15	8
Nonvested	-	-
Retirees and beneficiaries	<u>166</u>	<u>136</u>
Total	<u>181</u>	<u>144</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 date of employment. Members of the Old Plans who retire with 20 years of credited service are entitled to a retirement benefit payable monthly for life equal to one-half of the participants's annual salary. Employees become vested after 20 years of service.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

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 2003 plan year were based upon the December 31, 2002, actuary report.

The actuarially required contributions rate as of December 31, 2003, 2002, and 2001, and amounts required by the City and active participants of the Old Plans for 2003, 2002, and 2001 were as follows:

	Fire Plan			Police Plan		
	2003	2002	2001	2003	2002	2001
Employer actuarially required contribution rates	25.24%	25.58%	29.46%	18.00%	18.11%	21.92%
Employer contributions as a percentage of annual covered payroll	25.24%	25.58%	29.46%	18.00%	18.11%	21.92%
Employer contributions to LOPFI \$	251,082	\$ 348,890	\$ 453,858	\$ 102,164	\$ 152,889	\$ 238,420
Annual Pension Cost (APC) \$	251,082	\$ 348,890	\$ 453,858	\$ 102,164	\$ 152,889	\$ 238,420
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, 2003, for the Old Plans:

Old Fire and Police Plans

Valuation date	December 31, 2002
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%

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

(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, 1983, 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 as benefit plans which were established by Arkansas statutes. The New Plans do not issue separate stand-alone financial statements.

Members and participants of the new plans at December 31, 2003 are:

	<u>Fire</u>	<u>Police</u>
Active Members:		
Vested	63	94
Nonvested	47	58
Retirees and beneficiaries	<u>-</u>	<u>2</u>
Total	<u>110</u>	<u>154</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.

The actuarially computed contribution rates as of December 31, 2003, 2002, and 2001, and amounts required by the City and active participants of the New Plans for 2003, 2002, and 2001 were as shown on the following page:

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

	Fire Plan			Police Plan		
	2003	2002	2001	2003	2002	2001
Employer actuarially required contribution rates	25.24%	25.58%	29.46%	18.00%	18.11%	21.92%
Employer contributions as a percentage of annual covered payroll	25.24%	25.58%	29.46%	18.00%	18.11%	21.92%
Employer contributions to LOPFI	\$ 1,072,040	\$ 975,057	\$ 1,016,939	\$ 983,112	\$ 863,494	\$ 1,020,906
Annual Pension Cost (APC)	\$ 1,072,040	\$ 975,057	\$ 1,016,939	\$ 983,112	\$ 863,494	\$ 1,020,906
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, 2003, for the Old Plans:

New Fire and Police Plans

Valuation date	December 31, 2002
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% every other year

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

(8) **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 necessary to meet settlements and awards. The City accrues a liability when it is incurred and when the contingency is probable and reasonably estimable.

(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.

(9) **Individual Fund Disclosures**

Interfund receivables and payables as of December 31, 2003 are as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
Governmental Funds:		
General Fund	\$ 22,049	\$ -
Special Revenue Fund	-	22,622
Internal Service Funds	573	-
Total	<u>\$ 22,622</u>	<u>\$ 22,622</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Operating transfers in (out) for the year ended December 31, 2003, are as follows:

<u>Fund</u>	<u>Operating Transfers</u>	
	<u>In</u>	<u>Out</u>
Governmental Funds:		
Major funds:		
General Fund	\$ 1,919,600	\$ 580,797
Special revenue-		
Street Maintenance Fund	-	50,400
Sales Tax Fund	-	1,690,999
Nonmajor funds	20,396	197,000
	<hr/>	<hr/>
Total governmental funds	<u>1,939,996</u>	<u>2,519,196</u>
Proprietary Funds:		
Water and Sewer Fund	365,000	50,400
Sanitation Fund	<u>315,000</u>	<u>50,400</u>
	<hr/>	<hr/>
Total proprietary funds	<u>680,000</u>	<u>100,800</u>
	<hr/>	<hr/>
Total	<u>\$ 2,619,996</u>	<u>\$ 2,619,996</u>

The transfers out of \$1,690,999 from the Sales Tax Fund includes a \$1,686,000 transfer out to the General Fund which represents the allocation of overhead costs provided by General Fund programs during 2003.

10) Landfill Closure and Post Closure Care Costs

In October 1991, the EPA issued rules and regulations which require the City to place a final cover on its Municipal Solid Waster 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.

During 2003, the City's permitted landfill capacity was increased from a total of 13,507,000 cubic yards to 72,607,000 cubic yards. The life of the landfill is now projected to last through 2045 rather than 2013. The landfill was opened on October 9, 1993. Because the capacity increased more than five times the original capacity, the City's reported landfill closure and postclosure care liability at December 31, 2003, is \$2,151,125 which is \$501,940 less than the prior year. The remaining estimated closure and postclosure care costs of approximately \$32.6 million will be recognized as the remaining capacity is filled. The percentage of landfill capacity used to date was approximately 6.2% at December 31, 2003. These amounts are based upon annual engineering estimates of what it would cost to perform all closure and postclosure costs, based on the City's approved closure plan, through December 31, 2003. 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 Basic Financial Statements

December 31, 2003

The City is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care costs. The amount of financial assurance required by the state as of December 31, 2003, is \$4,690,693. In order to comply with this requirement, the City held an irrevocable standby letter of credit with BancorpSouth which is pledged to the Arkansas Department of Environmental Quality in the amount of \$4,660,000 at December 31, 2003. The letter of credit will be increased during 2004 to meet the financial assurance requirement.

(11) New Applicable GASB Standards

GASB has issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. The City was not affected by this statement for the year ended December 31, 2003 but it will apply this statement, as applicable, in future reports.

(12) Violation of Bond Covenant

Component Unit

The Parking Authority Fund facilities operations provided debt service coverage of 99% for the fiscal year ended December 31, 2003. 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 principal and interest due on the bonds. The Parking Authority plans to monitor the revenue requirements during 2004 and authorize adjustments to fees or expenses as necessary to meet debt service requirements. The Parking Authority is current on its payments of debt service requirements.

(13) Subsequent Event

On January 8, 2004, the City issued \$8.7 million Water and Sewer Revenue Refunding Bonds, Series 2004. The Bonds were issued to refund the remaining Series 1994 Water and Sewer Refunding and Construction Revenue Bonds on a current basis. The remaining 1994 Series Bonds were redeemed at 101% on April 1, 2004. The 2004 Bonds carry interest rates ranging from 2% to 4% and mature October 1, 2009.

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

(14) Condensed Financial Statements-Discretely Presented Component Units

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

Statement of Net Assets

	Governmental		Business-Type		Total
	Advertising and Promotion	Public Library	Parking Authority	Airport Commission	
Assets:					
Current assets	\$ 218,163	\$ 883,714	\$ 3,128	\$ 1,971,090	\$ 3,076,095
Sales taxes receivable from the City	-	60,790	-	-	60,790
Capital Assets, net of accumulated depreciation, as applicable	-	441,317	2,509,610	38,633,270	41,584,197
Noncurrent assets	-	-	132,071	1,999,390	2,131,461
Total Assets	218,163	1,385,821	2,644,809	42,603,750	46,852,543
Liabilities:					
Current liabilities	19,103	31,202	86,895	322,822	460,022
Noncurrent liabilities	-	-	1,683,288	5,133,361	6,816,649
Total liabilities	19,103	31,202	1,770,183	5,456,183	7,276,671
Net Assets:					
Investment in capital assets, net of related debt	-	441,317	752,318	34,219,331	35,412,966
Restricted	-	-	79,476	1,744,196	1,823,672
Unrestricted	199,060	913,302	42,832	1,184,040	2,339,234
Total net assets	\$ 199,060	\$ 1,354,619	\$ 874,626	\$ 37,147,567	\$ 39,575,872

CITY OF FORT SMITH, ARKANSAS

Notes to Basic Financial Statements

December 31, 2003

Statement of Activities

For the Year Ended December 31, 2003

	Program Revenues			Net (Expense) Revenue and Changes in net Assets		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities		
				Advertising and Promotion	Public Library	Total
Advertising/Promotion	\$ 559,262	\$ -	\$ 4,236	\$ (555,026)	\$ -	\$ (555,026)
Public Library	1,911,235	100,579	40,987		(1,769,669)	(1,769,669)
Total	\$ 2,470,497	\$ 100,579	\$ 45,223	(555,026)	(1,769,669)	(2,324,695)

General revenues:

Property taxes	-	924,026	924,026
Sales taxes	-	737,751	737,751
Hospitality hotel/motel taxes	525,935	-	525,935
Unrestricted investments earnings	3,159	3,989	7,148
Other	-	574	574
Total general revenues	529,094	1,666,340	2,195,434
Change in net assets	(25,932)	(103,329)	(129,261)
Net assets, beginning	224,992	1,457,948	1,682,940
Net assets, ending	<u>\$ 199,060</u>	<u>\$ 1,354,619</u>	<u>\$ 1,553,679</u>

	Program Revenues			Net (Expense) Revenue and Changes in net Assets		
	Expenses	Fees, Fines, and Charges for Services	Capital Grants and Contributions	Business-Type Activities		
				Parking Authority	Airport Commission	Total
Parking Authority	\$ 347,736	\$ 239,233	\$ -	\$ (108,503)	\$ -	\$ (108,503)
Airport Commission	4,610,107	2,121,406	1,457,037	-	(1,031,664)	(1,031,664)
Total	\$ 4,957,843	\$ 2,360,639	\$ 1,457,037	(108,503)	(1,031,664)	(1,140,167)

General revenues:

Unrestricted investment earnings	1,599	31,627	33,226
Gain on sale of capital assets	-	1,477	1,477
Payment from City of Fort Smith	160,000	-	160,000
Other	-	296,833	296,833
Total general revenues	161,599	329,937	491,536
Change in net assets	53,096	(701,727)	(648,631)
Net assets, beginning	821,530	37,849,294	38,670,824
Net assets, ending	<u>\$ 874,626</u>	<u>\$ 37,147,567</u>	<u>\$ 38,022,193</u>

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City of Fort Smith, Arkansas
Required Supplementary Information
Analysis of Funding Progress-Pension Plans
Combined Fire and Police Plans
(Unaudited)

Actuarial Valuation Date	(1)	(2)	(3)	(4)	(5)	(6)
	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funded Ratio (1)/(2)	Total Funded Excess (Unfunded) Actuarial Liability* (1) - (2)	Annual Covered Payroll	Ratio of Funded Excess (Unfunded) Actuarial Liability to Annual Covered Payroll (4)/(5)
Fire Plan:						
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)%
2002	6,776,797	16,975,413	40%	(10,198,616) **	5,242,165	(195)%
Police Plan:						
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)%
2002	10,890,093	16,132,666	68%	(5,242,573) **	6,029,314	(87)%

* 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 the percentage, the stronger the plan.

** 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
Required Supplementary Information
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
Revenues						
Taxes	\$ 4,898,500	\$ 4,893,500	\$ 4,654,968	\$ -	\$ 4,654,968	\$ (238,532)
Sales taxes	12,021,128	12,153,232	12,295,853	-	12,295,853	143,621
Licenses and permits	1,192,000	1,192,280	1,171,724	-	1,171,724	(20,556)
Utility franchise fees	4,922,300	5,322,300	5,530,957	-	5,530,957	208,657
Intergovernmental	3,268,802	3,349,480	3,345,924	-	3,345,924	(3,556)
Fines and forfeitures	1,658,700	1,607,598	1,963,399	-	1,963,399	355,801
Fees for services	1,116,900	897,094	881,942	-	881,942	(15,152)
Interest	60,000	72,000	65,861	-	65,861	(6,139)
Miscellaneous	259,184	272,122	222,403	-	222,403	(49,719)
Total Revenues	29,397,514	29,758,606	30,133,031	-	30,133,031	374,425
Expenditures						
Current:						
General government						
Administration	2,795,738	2,957,405	2,811,711	34,890	2,846,601	110,804
Legal	1,449,394	1,456,565	1,327,546	81,850	1,409,396	47,169
Finance	1,015,965	877,187	824,245	1,198	825,443	51,744
Public safety						
Police	11,571,015	11,453,326	10,638,712	21,829	10,660,541	792,785
Fire	7,997,591	7,900,001	7,473,517	347,906	7,821,423	78,578
Community services						
Health and Social Services	101,690	102,800	81,748	1,386	83,134	19,666
Parks and Recreation	1,770,956	1,570,630	1,452,410	(3,288)	1,449,122	121,508
Convention Center	1,137,776	1,143,776	1,047,363	-	1,047,363	96,413
Transit	1,835,070	1,813,850	1,726,100	24,000	1,750,100	63,750
Other	1,593,030	1,925,540	1,638,316	277,702	1,916,018	9,522
Capital Outlay	1,790,992	2,175,809	1,702,462	467,339	2,169,801	6,008
Total Expenditures	33,059,217	33,376,889	30,724,130	1,254,812	31,978,942	1,397,947
Excess (Deficiency) of revenues over (under) expenditures	(3,661,703)	(3,618,283)	(591,099)	(1,254,812)	(1,845,911)	1,772,372
Other Financing Sources (Uses):						
Transfers in	2,078,200	2,027,600	1,919,600	-	1,919,600	(108,000)
Transfers out	(725,000)	(565,000)	(580,797)	-	(580,797)	(15,797)
Capital lease financing	-	-	277,990	-	277,990	277,990
Total Other Financing Sources and Uses	1,353,200	1,462,600	1,616,793	-	1,616,793	154,193
Net Change in Fund Balances	(2,308,503)	(2,155,683)	1,025,694	(1,254,812)	(229,118)	1,926,565
Fund Balances, January 1	4,960,268	4,960,268	5,532,288	(572,020)	4,960,268	-
Fund Balances, December 31	\$ 2,651,765	\$ 2,804,585	\$ 6,557,982	\$ (1,826,832)	\$ 4,731,150	\$ 1,926,565

City of Fort Smith, Arkansas
 Required Supplementary Information
 Street Maintenance Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual
 For the Year Ended December 31, 2003

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
Revenues						
Taxes	\$ 1,454,500	\$ 1,454,500	\$ 1,394,921	\$ -	\$ 1,394,921	\$ (59,579)
Intergovernmental	3,716,400	3,772,500	3,772,596	-	3,772,596	96
Interest	170,000	118,300	98,272	-	98,272	(20,028)
Miscellaneous	18,000	18,000	20,101	-	20,101	2,101
Total Revenues	5,358,900	5,363,300	5,285,890	-	5,285,890	(77,410)
Expenditures						
Current:						
General government						
Administration	349,048	350,130	327,539	11,876	339,415	10,715
Legal	38,868	38,868	38,697	-	38,697	171
Finance	435,335	444,405	411,606	11,389	422,995	21,410
Public works						
Operations	347,040	354,270	317,337	-	317,337	36,933
Streets	2,498,979	2,460,089	2,116,580	2,797	2,119,377	340,712
Traffic Control	1,506,736	1,593,396	1,433,416	28,584	1,462,000	131,396
Community services						
Parks and Recreation	198,750	287,766	241,052	35,452	276,504	11,262
Other	190,000	200,641	93,676	50,000	143,676	56,965
Capital Outlay	548,559	383,750	440,800	9,950	450,750	(67,000)
Total Expenditures	6,113,315	6,113,315	5,420,703	150,048	5,570,751	542,564
Excess (Deficiency) of revenues over (under) expenditures	(754,415)	(750,015)	(134,813)	(150,048)	(284,861)	465,154
Other Financing Uses:						
Transfers out	(50,400)	(50,400)	(50,400)	-	(50,400)	-
Total Other Financing Uses	(50,400)	(50,400)	(50,400)	-	(50,400)	-
Net Change in Fund Balances	(804,815)	(800,415)	(185,213)	(150,048)	(335,261)	465,154
Fund Balances, January 1	4,947,818	4,947,818	5,785,298	(837,480)	4,947,818	-
Fund Balances, December 31	\$ 4,143,003	\$ 4,147,403	\$ 5,600,085	\$ (987,528)	\$ 4,612,557	\$ 465,154

City of Fort Smith, Arkansas

**Notes to Required Supplementary Information
December 31, 2003**

Budgets and Budget Accounting

By December 1 of each year, the City Administrator is required to submit to the Board of Directors ("Board") a proposed budget for the fiscal year beginning on the following January 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted prior to adoption of the budget to allow citizen input. The state statute governing adoption of annual budgets requires the Board to approve the budget prior to February 1. For practical purposes, the Board usually adopts the budget in December.

Annual budgets are legally adopted for the General Fund and the Street Maintenance Fund, a special revenue fund.

The City Administrator is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures of any department must be approved by the Board. During 2003, supplemental appropriations (expenditures and transfers out) were adopted by the Board for the General Fund totaling \$157,672 to provide funds for settlement of a lawsuit and additional senior programs. For budgetary purposes, unencumbered appropriations lapse at yearend.

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

CITY OF FORT SMITH, ARKANSAS

Nonmajor Governmental Funds

For the Fiscal Year Ended December 31, 2003

Special Revenue Funds:

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

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

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

Special Grants- To account for federal, state, and local grants received by the City. Current grants include: Economic Development Administration (EDA) for infrastructure projects, 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.

Convention Center- To account for the state tourism turnback received by the City to be used for operations and capital asset acquisition for the convention center. The turnback is restricted for tourism related uses.

Capital Projects Funds:

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 Board. 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 sale and use tax bonds fund the three projects.

City of Fort Smith, Arkansas
 Combining Balance Sheet
 Nonmajor Governmental Funds
 December 31, 2003

	Special Revenue					Capital Projects			Total Nonmajor Governmental Funds
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Convention Center	Sidewalk Construction	1997 Sales & Use Tax Construction	
Assets									
Cash	\$ 10,307	\$ -	\$ 184,578	\$ 7,334	\$ 226,422	\$ 13,036	\$ 43,439	\$ -	\$ 485,116
Investments	4,415	4,170	-	739,592	11,958,684	830,796	544,920	106,735	14,189,312
Receivables, net of allowance for uncollectibles	-	-	-	-	-	-	-	-	-
Taxes	-	-	-	-	-	-	-	-	-
Accounts	30	-	-	97	1,943,687	-	-	-	1,943,687
Accrued interest	6	-	-	965	14,191	1,570	658	160	17,555
Due from other governments	29,822	-	-	6,833	-	-	-	-	36,655
Total Assets	\$ 44,580	\$ 4,175	\$ 184,578	\$ 754,821	\$ 14,142,984	\$ 845,402	\$ 589,017	\$ 106,895	\$ 16,672,452
Liabilities and Fund Balances									
Liabilities:									
Accounts payable and accrued liabilities	\$ 21,431	\$ -	\$ 3,181	\$ 6,774	\$ 346,824	\$ 77,156	\$ 35,757	\$ 9,142	\$ 500,265
Retainage payable	-	-	-	-	-	-	3,972	33,189	37,161
Due to other funds	20,170	-	2,452	-	-	-	-	-	22,622
Deferred revenues	14	-	178,945	638,204	1,951,880	-	-	-	2,749,043
Other	2,923	-	-	-	-	-	-	-	2,323
Total Liabilities	43,938	-	184,578	644,978	2,278,704	77,156	39,729	42,331	3,311,414
Fund Balances:									
Reserved for:									
Encumbrances	-	-	-	-	-	13,000	-	-	13,000
Other purposes	642	4,175	-	-	-	755,246	-	64,564	824,627
Unreserved, reported in nonmajor:									
Special revenue funds	-	-	-	109,843	11,864,280	-	-	-	11,974,123
Capital projects funds	-	-	-	-	-	-	549,288	-	549,288
Total Fund Balances	642	4,175	-	109,843	11,864,280	768,246	549,288	64,564	13,361,038
Total Liabilities and Fund Balances	\$ 44,580	\$ 4,175	\$ 184,578	\$ 754,821	\$ 14,142,984	\$ 845,402	\$ 589,017	\$ 106,895	\$ 16,672,452

City of Fort Smith, Arkansas
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended December 31, 2003

	Special Revenue						Capital Projects		Total Nonmajor Governmental Funds
	Community Development Block Grant	Tilles Park	HOME Investment Partnership Act	Special Grants	LOPFI Contribution	Convention Center	Sidewalk Construction	1997 Sales & Use Tax Construction	
Revenues									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,859,859	\$ -	\$ -	\$ -	\$ 1,859,859
Licenses and permits	-	-	-	-	0	-	167,225	-	167,225
Intergovernmental	1,098,371	-	335,070	785,917	1,334,401	1,734,186	-	-	5,287,945
Fines and forfeitures	-	-	-	-	118,229	-	-	-	118,229
Interest	-	67	-	6,710	177,261	8,291	9,071	5,117	206,517
Contributions	-	-	-	-	765,030	-	-	20,000	785,030
Miscellaneous	-	-	-	5,353	2,068	-	-	165	7,586
Total Revenues	1,098,371	67	335,070	797,980	4,256,848	1,742,477	176,296	25,282	8,432,391
Expenditures									
Current:									
Public safety	-	-	-	46,089	1,287,004	-	-	-	1,333,093
Police	-	-	-	-	1,619,226	-	-	-	1,619,226
Fire	-	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	231,430	-	243,746
Streets	-	-	-	12,316	-	-	-	-	-
Community services	-	-	-	-	-	-	-	-	-
Parks and Recreation	-	-	-	51,812	-	-	-	-	51,812
Transit	-	-	-	60,886	-	-	-	-	60,886
Housing and Rehabilitation	917,244	-	335,070	192,059	-	-	-	-	1,444,373
Other	-	-	-	16,692	2,863	12,088	-	-	31,643
Capital Outlay	181,127	-	-	210,101	-	880,143	-	342,973	1,614,344
Total Expenditures	1,098,371	-	335,070	589,955	2,909,093	892,231	231,430	342,973	6,399,123
Excess (Deficiency) of revenues over (under) expenditures	-	67	-	208,025	1,347,755	850,246	(65,134)	(317,691)	2,033,268
Other Financing Sources (Uses):									
Transfers in	-	-	-	-	-	-	-	20,396	20,396
Transfers out	-	-	-	(115,000)	-	(82,000)	-	-	(197,000)
Total Other Financing Sources and Uses	-	-	-	(115,000)	-	(82,000)	-	20,396	(176,604)
Net Change in Fund Balances	-	67	-	93,025	1,347,755	768,246	(55,134)	(297,295)	1,856,664
Fund Balances, January 1	642	4,108	-	16,818	10,516,525	-	604,422	361,859	11,504,374
Fund Balances, December 31	642	4,175	-	109,843	11,864,280	768,246	549,288	64,564	13,361,038

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CITY OF FORT SMITH, ARKANSAS

Internal Service Funds

For the Fiscal Year Ended December 31, 2003

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

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

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

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Internal Service Funds
December 31, 2003

	Working Capital	Employee Insurance	Workers' Compensation	Total
Assets				
Current Assets:				
Cash	\$ 17,103	\$ 509,357	\$ 16,643	\$ 543,103
Investments	-	747,171	607,995	1,355,166
Receivables, net of allowance for uncollectibles				
Accounts	-	14,760	963	15,723
Accrued interest	-	902	1,289	2,191
Inventory	30,546	-	-	30,546
Due from other funds	573	-	-	573
Total Current Assets	<u>48,222</u>	<u>1,272,190</u>	<u>626,890</u>	<u>1,947,302</u>
Total Assets	<u>48,222</u>	<u>1,272,190</u>	<u>626,890</u>	<u>1,947,302</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	16,249	45,658	22,451	84,358
Claims and judgments	-	712,611	238,293	950,904
Total Current Liabilities	<u>16,249</u>	<u>758,269</u>	<u>260,744</u>	<u>1,035,262</u>
Total Liabilities	<u>16,249</u>	<u>758,269</u>	<u>260,744</u>	<u>1,035,262</u>
Net Assets				
Unrestricted	<u>31,973</u>	<u>513,921</u>	<u>366,146</u>	<u>912,040</u>
Total Net Assets	<u>\$ 31,973</u>	<u>\$ 513,921</u>	<u>\$ 366,146</u>	<u>\$ 912,040</u>

City of Fort Smith, Arkansas
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended December 31, 2003

	Working Capital	Employee Insurance	Workers' Compensation	Total
Operating Revenues				
Charges for services - internal	\$ 355,755	\$ 5,380,798	\$ 246,260	\$ 5,982,813
Charges for services - external	-	361,033	-	361,033
Total Operating Revenues	<u>355,755</u>	<u>5,741,831</u>	<u>246,260</u>	<u>6,343,846</u>
Operating Expenses				
Contractual services	-	359,665	139,330	498,995
Materials and supplies	356,715	-	-	356,715
Insurance claims and expenses	-	6,543,192	206,663	6,749,855
Total Operating Expenses	<u>356,715</u>	<u>6,902,857</u>	<u>345,993</u>	<u>7,605,565</u>
Operating Loss	<u>(960)</u>	<u>(1,161,026)</u>	<u>(99,733)</u>	<u>(1,261,719)</u>
Nonoperating Revenues				
Investment earnings	-	22,970	18,843	41,813
Total Nonoperating Revenues	<u>-</u>	<u>22,970</u>	<u>18,843</u>	<u>41,813</u>
Loss Before Transfers	(960)	(1,138,056)	(80,890)	(1,219,906)
Transfers in	-	450,000	-	450,000
Transfers out	-	-	(450,000)	(450,000)
Change in Net Assets	(960)	(688,056)	(530,890)	(1,219,906)
Total net assets, beginning	<u>32,933</u>	<u>1,201,977</u>	<u>897,036</u>	<u>2,131,946</u>
Total net assets, ending	<u>\$ 31,973</u>	<u>\$ 513,921</u>	<u>\$ 366,146</u>	<u>\$ 912,040</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2003

	Working Capital	Employee Insurance	Workers' Compensation	Total
Cash Flows from Operating Activities:				
Cash received from service users	\$ 356,811	\$ 395,829	\$ -	\$ 752,640
Cash received from city and employee contributions	-	5,343,577	245,469	5,589,046
Cash payments for goods and services	(362,869)	-	-	(362,869)
Cash payments for premiums and other operating expenses	-	(359,665)	(129,379)	(489,044)
Cash payments for claims paid	-	(6,631,600)	(177,715)	(6,809,315)
Net cash provided by (used for) operating activities	<u>(6,058)</u>	<u>(1,251,859)</u>	<u>(61,625)</u>	<u>(1,319,542)</u>
Cash Flows from Noncapital Financing Activities:				
Operating transfers in from other funds	-	450,000	-	450,000
Operating transfers out to other funds	-	-	(450,000)	(450,000)
Net cash provided by (used for) noncapital financing activities	<u>-</u>	<u>450,000</u>	<u>(450,000)</u>	<u>-</u>
Cash Flows from Investing Activities:				
Proceeds from sales and maturities of investment securities	-	1,575,381	662,228	2,237,609
Outlays for purchases of investment securities	-	(628,846)	(355,670)	(984,516)
Interest on investments	-	25,899	19,650	45,549
Net cash provided by (used for) investing activities	<u>-</u>	<u>972,434</u>	<u>326,208</u>	<u>1,298,642</u>
Net increase (decrease) in cash	(6,058)	170,575	(185,417)	(20,900)
Cash, January 1	<u>23,161</u>	<u>338,782</u>	<u>202,060</u>	<u>564,003</u>
Cash, December 31	<u>\$ 17,103</u>	<u>\$ 509,357</u>	<u>\$ 16,643</u>	<u>\$ 543,103</u>

	Working Capital	Employee Insurance	Workers' Compensation	Total
Reconciliation of operating loss to net cash used for operating activities:				
Operating loss	\$ (960)	\$ (1,161,026)	\$ (99,733)	\$ (1,261,719)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:				
Change in assets and liabilities:				
Accounts receivable	-	(2,425)	(791)	(3,216)
Due from other funds	1,057	-	-	1,057
Inventory	(7,703)	-	-	(7,703)
Accounts payable and accrued liabilities	1,548	30,748	9,951	42,247
Liability for claims and judgments	-	(119,156)	28,948	(90,208)
Total adjustments	<u>(5,098)</u>	<u>(90,833)</u>	<u>38,108</u>	<u>(57,823)</u>
Net cash used for operating activities	<u>\$ (6,058)</u>	<u>\$ (1,251,859)</u>	<u>\$ (61,625)</u>	<u>\$ (1,319,542)</u>

CITY OF FORT SMITH, ARKANSAS

Fiduciary Fund

For the Fiscal Year Ended December 31, 2003

(1) **Agency Fund**

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

City of Fort Smith, Arkansas
Combining Statement of Changes in Assets and Liabilities - Payroll Fund
For the Fiscal Year Ended December 31, 2003

	<u>Payroll</u>
Assets:	
Cash balance, January 1	\$ 264,187
Additions	32,934,324
Deductions	<u>(33,198,511)</u>
Cash balance, December 31	-
Total assets	<u>\$ -</u>
Liabilities:	
Account payable balance, January 1	\$ 264,187
Additions	17,924,418
Deductions	<u>(18,188,605)</u>
Account payable balance, December 31	-
Total liabilities	<u>\$ -</u>

CITY OF FORT SMITH, ARKANSAS

Discretely Presented Component Units

For the Fiscal Year Ended December 31, 2003

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.

Proprietary Fund Types- Enterprise Funds

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

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

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Component Units - Governmental
December 31, 2003

	Advertising and Promotion	Public Library	Total
Assets:			
Cash	\$ 7,446	\$ 481,594	\$ 489,040
Investments	177,781	350,496	528,277
Receivables, net of allowance for uncollectibles			
Taxes	32,348	-	32,348
Sales taxes	-	60,790	60,790
Accrued interest	263	102	365
Prepaid items	325	46,522	46,847
Inventory, at cost	-	5,000	5,000
Capital assets:			
Nondepreciable	-	422,132	422,132
Depreciable	-	19,185	19,185
Total Assets	<u>218,163</u>	<u>1,385,821</u>	<u>1,603,984</u>
Liabilities:			
Current:			
Accounts payable and accrued liabilities	19,103	31,202	50,305
Total Liabilities	<u>19,103</u>	<u>31,202</u>	<u>50,305</u>
Net Assets:			
Invested in capital assets	-	441,317	441,317
Unrestricted	199,060	(441,317)	(242,257)
Total Net Assets	<u>\$ 199,060</u>	<u>\$ 1,354,619</u>	<u>\$ 1,553,679</u>

City of Fort Smith, Arkansas
 Combining Statement of Activities - Governmental Component Units
 For the Year Ended December 31, 2003

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Advertising & Promotion	Public Library
Advertising & Promotion	\$ 559,262	\$ 4,236	\$ (555,026)	\$ (555,026)
Public Library	1,911,235	40,987	(1,769,669)	(1,769,669)
Total	\$ 2,470,497	\$ 45,223	(555,026)	(1,769,669)
				(2,324,695)
General revenues:				
Property taxes			924,026	924,026
Sales taxes			737,751	737,751
Hospitality taxes			525,935	525,935
Unrestricted investment earnings			3,989	7,148
Other			574	574
Total general revenues			1,666,340	2,195,434
Change in net assets			(103,329)	(129,261)
Net assets, beginning			224,992	1,457,948
Net assets, ending			\$ 199,060	\$ 1,354,619
			\$ 1,354,619	\$ 1,553,679

City of Fort Smith, Arkansas
Balance Sheet - Advertising and Promotion
Governmental Component Unit
December 31, 2003

Assets:

Cash	\$	7,446
Investments		177,781
Receivables, net of allowance for uncollectibles		
Taxes		32,348
Accrued interest		263
Prepaid items		<u>325</u>
 Total Assets	\$	<u><u>218,163</u></u>

Liabilities and Fund Balance:

Current:		
Accounts payable and accrued liabilities	\$	<u>19,103</u>
 Total Liabilities		19,103

Fund Balance:

Unrestricted		<u>199,060</u>
 Total Liabilities and Fund Balance	\$	<u><u>218,163</u></u>

City of Fort Smith, Arkansas
Statement of Revenues, Expenditures and Change in Fund Balance
Advertising and Promotion - Governmental Component Unit
For the Year Ended December 31, 2003

Revenues	
Taxes	\$ 525,935
Interest	3,159
Contributions	<u>4,236</u>
Total Revenues	<u>533,330</u>
Expenditures	
Current:	
Other	<u>543,484</u>
Total Expenditures	<u>543,484</u>
Deficiency of revenues under expenditures	<u>(10,154)</u>
Other Financing Uses:	
Transfers out to primary government	<u>(15,778)</u>
Total Other Financing Uses	<u>(15,778)</u>
Net Change in Fund Balance	(25,932)
Fund Balance, January 1	<u>224,992</u>
Fund Balance, December 31	<u>\$ 199,060</u>

City of Fort Smith, Arkansas
Combining Statement of Net Assets
Component Units - Business-Type
December 31, 2003

	Parking Authority	Airport	Total
Assets			
Current Assets:			
Cash	\$ -	\$ 1,371,588	\$ 1,371,588
Investments	-	500,000	500,000
Receivables, net of allowance for uncollectibles			
Accounts	1,447	42,753	44,200
Accrued interest	-	4,414	4,414
Prepaid items and deposits	1,681	48,833	50,514
Inventory	-	3,502	3,502
Total Current Assets	<u>3,128</u>	<u>1,971,090</u>	<u>1,974,218</u>
Noncurrent Assets:			
Restricted:			
Cash	-	845,941	845,941
Investments	105,528	896,764	1,002,292
Interest receivable	1,169	1,491	2,660
Deferred charges	25,374	149,927	175,301
Other	-	105,267	105,267
Capital assets:			
Nondepreciable	1,654,161	6,032,366	7,686,527
Depreciable	855,449	32,600,904	33,456,353
Total Noncurrent Assets	<u>2,641,681</u>	<u>40,632,660</u>	<u>43,274,341</u>
Total Assets	<u>2,644,809</u>	<u>42,603,750</u>	<u>45,248,559</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	5,319	171,801	177,120
Payable from restricted assets:			
Accrued interest	6,576	61,021	67,597
Revenue bonds payable, current	75,000	90,000	165,000
Total Current Liabilities	<u>86,895</u>	<u>322,822</u>	<u>409,717</u>
Noncurrent liabilities:			
Due in one year	9,738	185,508	195,246
Due in more than one year	1,673,550	4,947,853	6,621,403
Total Noncurrent Liabilities	<u>1,683,288</u>	<u>5,133,361</u>	<u>6,816,649</u>
Total Liabilities	<u>1,770,183</u>	<u>5,456,183</u>	<u>7,226,366</u>
Net Assets			
Invested in capital assets, net of related debt	752,318	34,219,331	34,971,649
Restricted for bond retirement	79,476	406,930	486,406
Restricted for Federal Aviation Administration (Escrow)	-	627,149	627,149
Restricted for capital projects	-	625,273	625,273
Unrestricted	42,832	1,268,884	1,311,716
Total Net Assets	<u>\$ 874,626</u>	<u>\$ 37,147,567</u>	<u>\$ 38,022,193</u>

City of Fort Smith, Arkansas
Combining Statement of Activities - Business-Type Component Units
For the Year Ended December 31, 2003

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Fees, Fines, and Charges for Services	Capital Grants and Contributions	Parking Authority	Airport Commission	Total
Parking Authority	\$ 347,736	\$ 239,233	\$ (108,503)	\$ (108,503)	\$ (108,503)
Airport	4,610,107	2,121,406	-	(1,031,664)	(1,031,664)
	\$ 4,957,843	\$ 2,360,639	(108,503)	(1,031,664)	(1,140,167)
Total		\$ 1,457,037			(1,140,167)
General revenues:					
Unrestricted investment earnings			1,599	31,627	33,226
Gain on sale of capital assets			160,000	1,477	1,477
Payment from City of Fort Smith			-	296,833	160,000
Other			-	-	296,833
			161,599	329,937	491,536
Total general revenues			53,096	(701,727)	(648,631)
Change in net assets			821,530	37,849,294	38,670,824
Net assets, beginning			-	-	-
Net assets, ending			\$ 874,626	\$ 37,147,567	\$ 38,022,193

City of Fort Smith, Arkansas
Combining Statement of Cash Flows
Component Units - Business-Type
For the Year Ended December 31, 2003

	Parking Authority	Airport	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 239,009	\$ 1,649,107	\$ 1,888,116
Cash payments for goods and services	(64,738)	(889,747)	(954,485)
Cash paid to employees	(142,861)	(775,136)	(917,997)
Cash payments for premiums and other operating expenses	-	(81,561)	(81,561)
Cash received from other operating revenues	-	387,155	387,155
Net cash provided by (used for) operating activities	<u>31,410</u>	<u>289,818</u>	<u>321,228</u>
Cash Flows from Noncapital Financing Activities:			
Operating transfers in from primary government	160,000	-	160,000
Net cash provided by (used for) noncapital financing activities	<u>160,000</u>	<u>-</u>	<u>160,000</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from grants	-	1,591,606	1,591,606
Proceeds from sale of fixed assets	-	2,500	2,500
Acquisition and construction of capital assets	(37,400)	(423,009)	(460,409)
Principal paid on bonds and notes	(75,000)	(1,259,168)	(1,334,168)
Interest paid on bonds and notes	(81,956)	(352,747)	(434,703)
Net cash provided by (used for) capital and related financing activities	<u>(194,356)</u>	<u>(440,818)</u>	<u>(635,174)</u>
Cash Flows from Investing Activities:			
Proceeds from sales and maturities of investment securities	315,910	-	315,910
Outlays for purchases of investment securities	(314,467)	(1,396,764)	(1,711,231)
Interest on investments	1,503	74,280	75,783
Net cash provided by (used for) investing activities	<u>2,946</u>	<u>(1,322,484)</u>	<u>(1,319,538)</u>
Net increase (decrease) in cash and restricted cash	-	(1,473,484)	(1,473,484)
Cash and restricted cash, January 1	-	3,691,013	3,691,013
Cash and restricted cash, December 31	<u>\$ -</u>	<u>\$ 2,217,529</u>	<u>\$ 2,217,529</u>

City of Fort Smith, Arkansas
Combining Statement of Cash Flows
Component Units - Business-Type
For the Year Ended December 31, 2003
(Continued)

	Parking Authority	Airport	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating loss	\$ (22,215)	\$ (2,166,063)	\$ (2,188,278)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	84,575	2,515,578	2,600,153
Miscellaneous expenses	(886)	-	(886)
Change in assets and liabilities:			
Accounts receivable	662	13,803	14,465
Inventory	-	(1,643)	(1,643)
Prepaid items	1,918	3,508	5,426
Accounts payable and accrued liabilities	(32,848)	23,582	(9,266)
Liabilities for accrued vacation and sick leave	204	-	204
Other liabilities	-	(98,947)	(98,947)
Total adjustments	<u>53,625</u>	<u>2,455,881</u>	<u>2,509,506</u>
Net cash provided by operating activities	<u>\$ 31,410</u>	<u>\$ 289,818</u>	<u>\$ 321,228</u>

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**Capital Assets
Used in the Operation
of Governmental Funds**

The following three schedules present the capital asset balances related to governmental funds.

City of Fort Smith, Arkansas
Schedule of Capital Assets Used in the Operation of
Governmental Funds by Source
December 31, 2003

Capital Assets:

Land	\$	17,344,247
Buildings		66,098,094
Improvements other than buildings		6,573,596
Machinery and equipment		19,796,872
Infrastructure		147,529,004
Accumulated depreciation		<u>(50,083,573)</u>
		207,258,240
Construction In Progress		<u>499,173</u>
Total Capital Assets - Governmental Funds	\$	<u>207,757,413</u>

City of Fort Smith, Arkansas
 Schedule of Capital Assets Used in the Operation of Governmental Funds
 By Function and Activity Net of Accumulated Depreciation
 December 31, 2003

Function and Activity	Land	Buildings	Improvements Other Than Buildings	Machinery and Equipment	Infrastructure	Construction In Progress	Total
General Government							
Administration	\$ 81,050	\$ 1,21,980	\$ 27,757	\$ 553,825	\$ 0	\$ 0	\$ 784,612
Legal	0	0	24,005	210,189	0	0	234,194
Finance	0	45,375	61,794	726,344	0	0	833,513
Public Safety							
Police	1,150,000	5,239,015	309,543	3,854,256	0	0	10,552,814
Fire	308,241	2,826,390	0	4,968,389	0	0	8,103,020
Public Works							
Operations	60,933	0	54,689	190,840	0	0	306,462
Streets	5,222,180	0	0	3,347,983	147,529,004	0	156,099,167
Traffic control	0	0	0	344,456	0	0	344,456
Community Services							
Health and social services	0	0	20,002	20,742	0	0	40,744
Parks and recreation	1,850,360	8,050,327	5,762,779	939,110	0	499,173	17,101,749
Convention center	7,583,649	29,183,527	149,896	1,723,421	0	0	38,640,493
Transit	0	118,032	60,638	1,044,336	0	0	1,223,006
Housing and rehabilitation	0	188,071	102,493	18,955	0	0	309,519
Other	1,087,834	20,325,377	0	1,854,026	0	0	23,267,237
Accumulated depreciation	0	(5,871,936)	(4,230,075)	(11,514,110)	(28,467,452)	0	(50,083,573)
Total	\$ 17,344,247	\$ 60,226,158	\$ 2,343,521	\$ 8,282,762	\$ 119,061,552	\$ 499,173	\$ 207,757,413

City of Fort Smith, Arkansas
 Schedule of Changes in Capital Assets Used in the Operation
 of Governmental Funds By Function and Activity
 For the Fiscal Year Ended December 31, 2003

Function and Activity	Capital Assets 12/31/02	Additions	Deletions	Transfers	Capital Assets 12/31/03
General Government					
Administration	\$ 778,249	\$ 48,514	\$ 29,525	\$ (12,626)	\$ 784,612
Legal	223,312	10,882	-	-	234,194
Finance	695,235	158,943	-	(20,665)	833,513
Public Safety					
Police	10,363,416	380,603	178,326	(12,879)	10,552,814
Fire	7,800,340	314,523	19,713	7,870	8,103,020
Public Works					
Operations	306,462	-	-	-	306,462
Streets	141,569,752	15,412,854	823,641	(59,798)	156,099,167
Traffic Control	345,801	-	-	(1,345)	344,456
Community Services					
Health and social services	20,742	20,002	-	-	40,744
Parks and recreation	15,609,849	1,538,722	-	(46,822)	17,101,749
Convention center	37,749,298	891,195	-	-	38,640,493
Transit	973,849	102,892	-	146,265	1,223,006
Housing and rehabilitation	128,756	188,071	7,308	-	309,519
Other	23,267,237	-	-	-	23,267,237
Accumulated Depreciation	(43,626,991)	(6,853,368)	(396,786)	-	(50,083,573)
Total	\$ 196,205,307	\$ 12,213,833	\$ 661,727	\$ -	\$ 207,757,413

Table 1

City of Fort Smith, Arkansas

**Government-Wide Expenses by Function
December 31, 2003**

Governmental Activities:	
General government	
Administration	\$ 3,404,641
Legal	1,540,400
Finance	1,340,678
Public safety	
Police	12,885,754
Fire	9,593,947
Public works	
Operations	341,902
Streets	12,954,878
Traffic control	1,471,076
Community services	
Health and social services	413,845
Parks and recreation	4,059,016
Convention center	1,855,572
Transit	1,990,693
Housing and rehabilitation	1,562,653
Interest on long-term debt	519,078
	<u>53,934,133</u>
Business-Type Activities:	
Water and sewer	30,895,507
Sanitation	8,466,593
	<u>39,362,100</u>
Total Primary Government	<u>\$ 93,296,233</u>

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

Table 2**City of Fort Smith, Arkansas****Government-Wide Revenues
December 31, 2003**

Governmental Activities:	
Charges for services	\$ 3,921,587
Operating grants and contributions	9,786,072
Capital grants and contributions	6,650,958
	<u>20,358,617</u>
Business-Type Activities:	
Charges for services	37,700,141
Operating grants and contributions	596,100
Capital grants and contributions	259,167
	<u>38,555,408</u>
General Revenues:	
Property taxes	16,117,664
Sales taxes	43,566,504
Utility franchise fees	5,530,957
Alcoholic beverage taxes and miscellaneous taxes	463,596
Grants and contributions not restricted to specific programs	1,411,739
Unrestricted investment earnings	3,173,329
Gain on sale of capital assets	4,174
Other	384,308
	<u>70,652,271</u>
Total Primary Government	<u>\$ 129,566,296</u>

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

Table 3

City of Fort Smith, Arkansas

General Governmental Expenditures by Function

Last Ten Fiscal Years
(Unaudited)

Fiscal Year	General Government	Public Safety	Public Works	Community Services	Other	Capital Outlay	Debt Service	Total
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
2003	5,741,344	21,064,548	10,892,564	7,869,379	-	18,729,660	8,304,078	72,601,573

City of Fort Smith, Arkansas
General Governmental Revenues by Source

Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Taxes (1)	Licenses and Permits	Intergovernmental	Fines and Forfeitures	Fees for Services	Interest	Other (2)	Total
1994	\$ 23,430,784	\$ 724,319	\$ 7,850,023	\$ 1,313,112	\$ 221,095	\$ 679,576	\$ 758,061	\$ 34,976,970
1995	27,943,446	764,602	7,614,332	1,585,493	255,280	1,046,327	809,641	40,019,121
1996	28,939,145	886,378	8,341,274	1,758,333	262,531	1,119,307	810,202	42,117,170
1997	29,705,342	845,841	7,757,251	1,835,552	286,989	1,302,501	776,068	42,509,544
1998	36,867,929	964,319	14,578,023	1,757,023	384,289	4,174,469	1,639,154	60,365,206
1999	39,589,126	1,188,651	15,727,224	1,694,367	329,352	2,980,151	1,210,816	62,719,687
2000	47,105,262	1,374,696	10,513,059	1,720,211	340,266	3,921,011	1,198,588	66,173,093
2001	48,151,682	1,462,282	13,943,553	1,615,757	720,524	2,864,102	1,291,358	70,049,258
2002	47,694,830	1,343,203	11,900,040	1,744,309	786,492	1,515,915	1,422,391	66,407,180
2003	49,189,546	1,338,949	16,638,318	2,081,628	881,942	846,138	1,643,551	72,620,072

- (1) Taxes include ad valorem taxes, sales taxes, and utility franchise fees. Details for these revenues is provided in Table 5 below.
- (2) Includes contributions and miscellaneous revenues.

Table 5

City of Fort Smith, Arkansas

General Governmental Taxes by Source

Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Ad Valorem Taxes	Sales Taxes (1)	Utility Franchise Fees	Total
1994	\$ 5,439,602	\$ 14,049,584	\$ 3,941,598	\$ 23,430,784
1995	5,647,772	18,481,174	3,814,500	27,943,446
1996	5,526,875	19,451,766	3,960,504	28,939,145
1997	5,917,006	19,732,421	4,055,915	29,705,342
1998	6,031,319	26,599,219	4,237,391	36,867,929
1999	6,242,972	29,121,222	4,224,932	39,589,126
2000	6,591,586	35,805,269	4,708,407	47,105,262
2001	7,079,863	35,872,020	5,199,799	48,151,682
2002	7,681,552	35,167,253	4,846,025	47,694,830
2003	7,909,748	35,748,841	5,530,957	49,189,546

- (1) The City began collecting the 1% street sales tax in November 1985, the 1/2% sales tax for bond retirement in January 1998, and the City share of the county 1% sales tax in August 1994.

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
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	93.36%	208,685	6,611,872	96.41%	269,196	3.93%
2003	7,668,913	6,593,969	85.98%	286,387	6,880,356	89.72%	298,067	3.89%

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

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	
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	506,720,849	2,533,604,245	225,555,162	1,127,775,810	732,276,011	3,661,380,055	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%
2003	674,592,414	3,372,962,070	301,118,605	1,505,593,025	975,711,019	4,878,555,095	20.00%

(1) Fiscal year is year of valuation.

City of Fort Smith, Arkansas
Property Tax Rates and Tax Levies
All Direct and Overlapping Governments

Last Ten Fiscal Years
(Unaudited)

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

Fiscal Year (l)	City of Fort Smith		Sebastian County		Fort Smith School District		FS Public Library		U of A Fort Smith		Total	
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
1994	\$ 0.70	\$ 0.70	\$ 0.80	\$ 0.80	\$ 3.65	\$ 3.65	\$ 0.10	\$ 0.10	\$ 0.53	\$ 0.53	\$ 5.78	\$ 5.78
1995	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.53	0.53	5.78	5.78
1996	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.53	0.53	5.78	5.78
1997	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.53	0.53	5.78	5.78
1998	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.53	0.53	5.78	5.78
1999	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.53	0.53	5.78	5.78
2000	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.53	0.53	5.78	5.78
2001	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.53	0.53	5.78	5.78
2002	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.00	0.00	5.25	5.25
2003	0.70	0.70	0.80	0.80	3.65	3.65	0.10	0.10	0.00	0.00	5.25	5.25

Tax levies (millages):

Fiscal Year (l)	City of Fort Smith		Sebastian County		Fort Smith School District		FS Public Library		U of A Fort Smith		Total	
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
1994	\$ 7.00	\$ 7.00	\$ 8.00	\$ 8.00	\$ 36.50	\$ 36.50	\$ 1.00	\$ 1.00	\$ 5.25	\$ 5.25	\$ 57.75	\$ 57.75
1995	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
1996	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
1997	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
1998	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
1999	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
2000	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
2001	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	5.25	5.25	57.75	57.75
2002	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	0.00	0.00	52.50	52.50
2003	7.00	7.00	8.00	8.00	36.50	36.50	1.00	1.00	0.00	0.00	52.50	52.50

(1. Fiscal year is year of levy.)

Table 9

City of Fort Smith, Arkansas

Principal Taxpayers
December 31, 2003
(Unaudited)

Name of Taxpayer (1)	Kind of Property	2003 Assessed Valuation (2)	Percentage of Total Assessed Valuation
Gerber Products Company	Baby food processing plant	\$ 8,168,395	0.87%
Whirlpool Corporation	Refrigerator manufacturing plant	6,824,790	0.73%
Georgia Pacific Corporation	Manufacturing plant	5,644,725	0.60%
OK Foods, Inc.	Poultry processing plant	4,940,385	0.53%
Planters Lifesavers	Peanut packaging plant	4,321,150	0.46%
Hiram Walker & Sons, Inc.	Blenders & bottlers of alcoholic beverages	3,823,710	0.41%
GNB Technologies	Industrial plant	3,165,000	0.34%
The Trane Company	Heating/air conditioning manufacturing plant	2,591,835	0.28%
Saint-Gobain Corporation/Norton	Paper goods manufacturing plant	2,326,410	0.25%
Graphic Packaging Corporation	Manufacturing plant	2,202,950	0.23%
	Total	<u>\$ 44,009,350</u>	4.69%

(1) Sebastian County Assessor's Office.

(2) Property taxes collected in 2003 are based upon 2002 assessed valuation.

Table 10

City of Fort Smith, Arkansas

Computation of Direct and Estimated Overlapping Debt
December 31, 2003
(Unaudited)

<u>Taxing Jurisdiction</u>	<u>Total Outstanding Bonded Debt (1)</u>	<u>Estimated Percent Applicable (2)</u>	<u>Direct and Estimated Overlapping Bonded Debt</u>
Direct:			
City of Fort Smith	\$ 74,955,000	100%	\$ 74,955,000
Overlapping:			
Fort Smith Special School District	4,940,000	95%	4,693,000
Greenwood School District	<u>35,700,000</u>	5%	<u>1,785,000</u>
Total Overlapping	<u>40,640,000</u>		<u>6,478,000</u>
Total direct and estimated overlapping bonded debt	<u>\$ 115,595,000</u>		<u>\$ 81,433,000</u>
Ratio, direct and estimated overlapping debt to fiscal 2002 assessed valuation (3)			9%
Per capita direct and estimated overlapping bonded debt (4)			<u>\$ 1,015</u>

(1) Excluding self-supporting debt.

(2) The percentage applicable to the City of Fort Smith is based on the relative assessed values within the city. Sebastian County had no outstanding general debt at December 31, 2003.

(3) From Table 7, \$939,232,967

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

City of Fort Smith, Arkansas

Computation of Legal Debt Margin
December 31, 2003
(Unaudited)

Net assessed value (1)	\$ 975,711,019
Plus exempt property (2)	<u>-</u>
Total assessed value	<u>\$ 975,711,019</u>
Debt limit - 25% of total assessed value (3)	\$ 243,927,755
Amount of debt applicable to limit (4)	<u>-</u>
Debt Margin	<u>\$ 243,927,755</u>

(1) From Table 7.

(2) Not available.

(3) Limitation is established by state statute.

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

City of Fort Smith, Arkansas

**Ratio of Annual Debt Service Expenditures for
General Bonded Debt to Total Governmental Expenditures
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Principal	Interest	Total Debt Service	Total Expenditures (1)	Ratio of Debt Service Expenditures to Total Expenditures
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%
2003	7,785,000	519,078	8,304,078	72,601,573	11.44%

(1) From Table 3.

City of Fort Smith, Arkansas

Revenue Bond Debt Service Coverage

December 31, 2003
(Unaudited)

Fiscal Year	Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest (3)	Total	
Water & Sewer System							
1994	\$13,583,316	\$8,771,983	\$4,811,333	\$545,000	\$1,883,279	\$2,428,279	198%
1995	13,916,768	9,614,955	4,301,813	765,000	1,740,437	2,505,437	172%
1996	14,233,369	10,395,390	3,837,979	1,040,000	1,417,850	2,457,850	156%
1997	14,109,692	10,787,499	3,322,193	1,080,000	1,373,600	2,453,600	135%
1998	14,595,971	11,178,704	3,417,267	1,125,000	1,325,023	2,450,023	139%
1999	17,666,495	11,906,342	5,760,153	1,170,000	1,610,697	2,780,697	207%
2000	23,046,282	12,557,120	10,489,162	2,050,000	2,561,255	4,611,255	227%
2001	23,167,106	13,753,378	9,413,728	2,140,000	2,908,039	5,048,039	186%
2002	28,693,062	14,727,485	13,965,577	2,240,000	5,793,778	8,033,778	174%
2003	30,549,179	15,104,962	15,444,217	2,370,000	7,744,944	10,114,944	153%
Solid Waste System							
1994	\$6,532,027	\$4,844,436	\$1,687,591	\$ -	\$246,052	\$246,052	686%
1995	7,161,396	5,244,807	1,916,589	485,000	613,738	1,098,738	174%
1996	7,253,381	5,305,828	1,947,553	505,000	698,718	1,203,718	162%
1997	7,305,144	5,819,320	1,485,824	525,000	674,991	1,199,991	124%
1998	7,489,476	5,967,537	1,521,939	450,000	617,605	1,067,605	143%
1999	8,220,315	6,533,853	1,686,462	610,000	555,378	1,165,378	145%
2000	10,155,226	7,134,530	3,020,696	635,000	528,529	1,163,529	260%
2001	9,591,135	7,345,440	2,245,695	665,000	499,594	1,164,594	193%
2002	9,803,303	7,054,152	2,749,151	975,000	302,660	1,277,660	215%
2003	9,511,187	7,003,747	2,507,440	785,000	277,400	1,062,400	236%

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

(2) Excludes depreciation expense and amortization expense.

(3) Total interest paid for the fiscal year is presented in this schedule including capitalized interest.

City of Fort Smith, Arkansas

Property Value, Construction, and Bank DepositsLast Ten Fiscal Years
(Unaudited)

Fiscal Year	Property Value (in thousands) (2)	Commercial Construction (1)		Residential Construction (1)		Bank Deposits (in thousands)
		Number of Units	Value	Number of Units	Value	
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)
2003	3,372,962	72	50,705,144	481	36,931,529	(3)

(1) City of Fort Smith Building Department estimate.

(2) From Table 7.

(3) Not available.

City of Fort Smith, Arkansas

Insurance in Force
December 31, 2003
(Unaudited)

Insurance Company	Premium	Policy #	Expiration Date	Description of Coverage	Amount or Limit
St. Paul Fire & Marine Ins. Co. (Fleet)	\$ 261,860	GP09311056	06/19/2004	Vehicle liability with extended coverage and uninsured motorist; medical and physical. (policy includes sanitation and transit fleets)	Actual cash value up to \$100,000 per loss.
St. Paul Fire & Marine Ins. Co. (Property)	254,465	GP09311056	06/19/2004	Property coverage/inland marine/ boiler & machinery coverage - Building & contents Equipment Fine arts	\$172,380,583 \$6,576,562 \$500,000
First Specialty Insurance Co. (Convention Center) JMR	11,998	PGL37136-02	01/22/2005	Comprehensive general liability - convention center	\$1,000,000 combined
Old Republic Surety Co. (R-O-W)	2,500	LSC-0821592	02/10/2005	Arkansas Highway Department right-of-way bond	\$250,000
Essex Insurance Company (Employer)	3,380	3CK2887-01	02/02/2005	Enviro cover & employer support unit - general liability	\$1,000,000
Scottsdale Insurance Co.	1,296	QER494046	03/24/2005	Property and comprehensive general liability - Port Authority (100 Navy Road)	\$52,800 combined
Arkansas Insurance Department	3,895	FBTF10 (Pool)	12/31/2004	Municipal officials and employees blanket bond	\$250,000

Table 16

City of Fort Smith, ArkansasDemographic StatisticsLast Ten Fiscal Years
(Unaudited)

Fiscal Year	City Population	Sebastian County Population	Per Capita Income	Median Age	Education Level in Years of Schooling (1)	School Enrollment	Unemployment Rate (3)
1994	72,798	99,500	\$ 20,101	34	12	12,514	4.70%
1995	72,798	99,500	20,781	34	12	12,570	4.50%
1996	72,798	99,500	21,334	34	12	12,763	5.00%
1997	72,798	99,500	22,088	34	12	12,741	4.70%
1998	72,798	99,500	23,408	34	12	12,496	4.30%
1999	72,798	99,500	21,029	34	12	12,430	3.30%
2000	80,268	115,071	22,270	34	12	12,637	3.60%
2001	80,268	115,071	23,048	34	12	12,596	2.90%
2002	80,268	115,071	23,048	34	12	12,844	5.40%
2003	80,268	115,071	(5)	34	12	12,871	5.00%

(1) Community Development Department's estimate.

(2) Fort Smith School District

(3) Arkansas Employment Security Division

(4) Chamber of Commerce

(5) Not Available

City of Fort Smith, Arkansas

Miscellaneous Statistical Data

December 31, 2003

(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 lights	123
Fire protection:	
Number of stations	10
Number of paid firefighters and officers	128
Police protection:	
Number of stations	1
Number of police members and officers	160
Municipal water statistics:	
Number of consumers	29,509
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
Municipal sewer statistics:	
Sanitary sewers	488 miles
Storm sewers	7,900
Average daily sewage flow	14,760,000 gallons
Building permits issued	2,724
Recreation and culture:	
Number of parks	20
Park acreage	295
Number of libraries	4
Number of volumes	250,782
Municipal employees:	
Exempt	121
Nonexempt	738
Total	<u>859</u>

City of Fort Smith, ArkansasPrincipal Employers by Number of EmployeesContinuing Disclosure RequirementDecember 31, 2003

(Unaudited)

<u>Company</u>	<u>Business or Product</u>	<u>Number of Employees</u>
Whirlpool Corporation	Ice makers, refrigerators	4,300
O K Foods	Frozen processed chicken parts	4,224
Sparks Regional Medical Center	Hospital	2,352
Sr. Edward Mercy Medical Center	Hospital	2,100
Rheem-Ruud	Residential heat/air equipment	1,850
Baldor Electric	Grinders, drives, electric motors	1,780
Fort Smith Public Schools	Education	1,636
Beverly Enterprises	Nursing homes	914
City of Fort Smith	Government	859
Trane Company	Air conditioning equipment, heat pumps	850

City of Fort Smith, ArkansasLocal Sales and Use Tax CollectionsContinuing Disclosure RequirementLast Ten Fiscal Years
(Unaudited)

<u>Fiscal Year</u>	<u>1% City Sales & Use Tax Allocated for Streets (1)</u>	<u>City Share 1% County Sales & Use Tax (2)</u>	<u>1% City Sales & Use Tax Allocated for Bonds (3)</u>	<u>Total</u>
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
2003	15,635,325	12,295,853	15,635,326	43,566,504
Total	\$ 142,733,978	\$ 106,660,489	\$ 64,849,670	\$ 314,244,137

(1) The 1% City Sales and Use Tax allocated for construction, repair and maintenance of street, bridge and associated drainage improvements was initially assessed in 1985 for a period of 10 years. The tax was reaffirmed by the citizens in 1995 for an additional 10 years. The tax is accounted for in the Sales Tax Fund, a special revenue fund.

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

(3) The City currently assesses two 1/2 % City sales and use taxes to total 1% for bond redemption. The first 1/2% is allocated to redeem the City of Fort Smith Sales and Use Tax Bonds, Series 1997. The 1997 Bonds were issued to fund the construction for the convention center, public library facilities, and riverfront park projects. The tax became effective January 1, 1998. The second 1/2% is allocated to redeem the City of Fort Smith Sales and Use Tax Bonds, Series 2001. The 2001 Bonds were issued to fund a portion of the Lake Fort Smith water supply expansion project and to fund wastewater improvements. The tax for the 2001 Bonds became effective May 1, 2001. Once the 1997 Bonds are redeemed, the entire 1% tax will be allocated to the repayment of the 2001 Bonds.

City of Fort Smith, ArkansasSolid Waste Continuing DisclosureDecember 31, 2003

(Unaudited)

<u>Fiscal Year</u>	<u>Sanitation System Customers</u>	<u>Cubic Yardage of Waste at Landfill</u>	<u>Useful Life of Landfill Remaining</u>	<u>Remaining Storage Capacity at Landfill</u>
1994	215,980	957,374	19 yrs	12,907,000 cubic yards
1995	219,075	979,533	18 yrs	12,417,000 cubic yards
1996	220,150	1,076,172	17 yrs	11,857,000 cubic yards
1997	221,300	1,175,821	16 yrs	11,357,000 cubic yards
1998	223,480	1,160,034	15 yrs	10,907,000 cubic yards
1999	272,616	1,369,106	14 yrs	10,550,000 cubic yards
2000	236,376	1,106,718	13 yrs	9,790,000 cubic yards
2001	276,564	1,096,082	12 yrs	9,506,000 cubic yards
2002	277,896	938,670	11 yrs	9,230,000 cubic yards
2003	290,532	871,647	42 yrs	68,100,000 cubic yards (1)

(1) During 2003, the City's landfill permit was expanded to allow for a total storage capacity of approximately 72,607,000 cubic yards. The total capacity prior to this was 13,507,000 cubic yards.

Table 21

City of Fort Smith, ArkansasWater and Sewer Statistics
Continuing Disclosure RequirementWater Use and Sewage Flow
Last Five Fiscal Years
(Unaudited)

Fiscal Year	Average Daily Water Use in Gallons	Maximum Daily Water Use in Gallons	Total Water Use for Year in Gallons	Average Daily Sewage Flow in Gallons
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
2003				

Water Users by Category
Last Five Fiscal Years
(Unaudited)

Fiscal Year	Residential	Commercial	Wholesale	Other	Total
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	12	10	29,921
2003			12	10	22

Sewer Users by Category
Last Five Fiscal Years
(Unaudited)

Fiscal Year	Residential	Commercial	Government	Total
1999	23,262	3,937	10	27,209
2000	26,971	3,722	10	30,703
2001	27,075	3,733	10	30,818
2002	27,129	3,711	10	30,850
2003			10	10

10 Largest Users of the System
For the Fiscal Year Ended December 31, 2002 (1)
(Unaudited)

Entity	Water	Sewer	Total	% of Gross Revenues
City of Van Buren	\$ 1,997,782	\$ 0	\$ 1,997,782	8.5%
Gerber Products	700,913	537,812	1,238,725	5.2%
OK Foods	1,154,733	21,346	1,176,079	5.0%
Sparks Medical Center	131,203	165,673	296,876	1.3%
St. Edwards Med Center	190,453	89,753	280,206	1.2%
Whirlpool	98,275	112,820	211,095	0.9%
Fort Smith Plating	57,332	91,447	148,779	0.6%
Quanex Macsteel	144,300	1,094	145,394	0.6%
Southern Steel & Wire	39,317	61,145	100,462	0.4%
Highland Dairy	38,198	60,161	98,359	0.4%
Top Ten Users	\$ 4,552,506	\$ 1,141,251	\$ 5,693,757	24.1%

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



KPMG LLP
Suite 3100
717 North Harwood Street
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, 2003. 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 that could have a direct and material effect on the above Arkansas state statutes 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 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, 2003.

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

April 23, 2004



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

**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 financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of City of Fort Smith as of and for the year ended December 31, 2003, which collectively comprise the City of Fort Smith's basic financial statements and have issued our report thereon dated April 23, 2004. The City has implemented Governmental Accounting Standards Board (GASB) Statement Nos. 34,37, 38, and 40 effective January 1, 2003. Furthermore, the City implemented GASB Interpretation No. 6 as of January 1, 2003. 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 revenues of 94% and 91%, 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 86% and 77%, respectively, of the related combined totals of the discretely presented governmental column. Those statements were audited by other auditors whose reports have been furnished to us and our opinions insofar as it relates to the amounts included for those entities is based solely on the reports 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 City of Fort Smith's basic 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 basic 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 City of Fort Smith in a separate letter, dated April 23, 2004.



Internal Control over Financial Reporting

In planning and performing our audit, we considered City of Fort Smith's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in 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 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 function. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

The report is intended solely for the information and use of the audit committee, the board of director's, the City's 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

April 23, 2004



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

**Independent Auditors' Report on Compliance With Requirements Applicable to the
Major Programs 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 programs for the year ended December 31, 2003. The City's major federal programs are 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 programs are 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 each of its major federal programs for the year ended December 31, 2003.

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 programs. 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

April 23, 2004

CITY OF FORT SMITH, ARKANSAS
Schedule of Expenditures of Federal and State Awards
Year Ended December 31, 2003

<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 Seventh Entitlement	14.218	B01MC050003	\$ 782,492
Twenty Eighth Entitlement	14.218	B02MC050003	231,304
Home Investment Partnership Act	14.239	M97MC050202	2,025
Home Investment Partnership Act	14.239	M99MC050202	9,285
Home Investment Partnership Act	14.239	M00MC050202	6,728
Home Investment Partnership Act	14.239	M01MC050202	159,610
Home Investment Partnership Act	14.239	M02MC050202	189,106
Total Department of Housing and Urban Development			<u>1,380,550</u>
Department of Justice			
BJA/LLEBG	16.592	2003LBBX0246	43,514
BJA/Bullet Proof Vest Program	16.607	BVP02011932	7,877
Total Department of Justice			<u>51,391</u>
U.S. Department of Transportation:			
Passed through the Arkansas Highway Transportation Department:			
Federal Transit Administration Grant:			
Operating and Capital	20.507	AR090X051	922,416
Job Access/Reverse Commute	20.516	AR37X000300	136,123
Total Department of Transportation			<u>1,058,539</u>
U.S Department of Homeland Security			
Transportation Security Administration			
Law Enforcement Officer-Airport Security	93.XXX	HSTA0204ALEF033	61,875
Law Enforcement Officer-Airport Security	93.XXX	D TSA2002P50272	54,383
Total U.S. Department of Homeland Security			<u>116,258</u>
U. S. Environmental Protection Agency:			
Security Planning - Vulnerability Assessment	66.476	HS82990401	115,000
Total U.S. Environmental Protection Agency			<u>115,000</u>
Total Federal Awards			<u>2,721,738</u>

(Continued)

CITY OF FORT SMITH, ARKANSAS

Schedule of Expenditures of Federal and State Awards

Year Ended December 31, 2003

<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	\$ 358
Equipment, Education, Market Development and Administration	S2-99	1,005
Equipment, Education, Market Development and Administration	S1-00,5-00	1,797
Equipment, Education, Market Development and Administration	S01-01,2-01	32,980
Equipment, Education, Market Development and Administration	S00-02, Adm, 2-02, 51-02, 52-02	57,250
Equipment, Education, Market Development and Administration	S00-03,Adm,4-03,5-03	33,959
Total Arkansas Department of Polution Control and Ecology		<u>127,349</u>
Department of Arkansas Heritage:		
Public Art Implementation Program	F02-170-6756	7,500
CLG Grant-Historic Preservation Program	CLG00-02	153
CLG Grant-Historic Preservation Program	CLG03-02	794
CLG Grant-Historic Preservation Program	CLG02-12	1,444
CLG Grant-Historic Preservation Program	CLG02-02	7,580
Total Arkansas Department of Heritage		<u>17,471</u>
Arkansas Deaptrment of Parks and Tourism		
Tourism Attraction Feasibility Study	N/A	<u>15,000</u>
Total Arkansas Department of Parks and Tourism		<u>15,000</u>
Arkansas Department of Economic Development		
Whirlpool Corp. Project	EIF200301	<u>201,732</u>
Total Arkansas Department of Economic Development		<u>201,732</u>
Arkansas State Highway and Transportation Department:		
Riverfront Levee Trail	NRT-1302-12	40,198
Bicycle Lanes	STPE-ENHN 203	51,032
Alcohol/Other Drug Countermeasures Program	J8-0308-1200	86,117
Public Transit Trust Fund	N/A	<u>96,296</u>
Total Arkansas State Highway and Transportation Department		<u>273,643</u>
Total State Awards		<u>635,195</u>
Total Federal and State Awards		<u>\$ 3,356,933</u>

CITY OF FORT SMITH, ARKANSAS

Notes to Schedule of Expenditures of Federal and State Awards

December 31, 2003

(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 departments 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 eligibility requirements are met.

(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 basic financial statements to the schedule of expenditures of federal and state awards.

Total intergovernmental revenue	\$	16,638,318
State Turnback revenue		(8,071,795)
Local match		(1,014,186)
State/Federal reimbursements		<u>(4,195,400)</u>
Federal and state financial assistance per accompanying schedule	\$	<u><u>3,356,937</u></u>

(Continued)

CITY OF FORT SMITH, ARKANSAS

Notes to Schedule of Expenditures of Federal and State Awards

December 31, 2003

(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	\$ 590,300
HOME Investment Partnership	14.239	187,973

CITY OF FORT SMITH, ARKANSAS

Federal Awards

Schedule of Findings and Questioned Costs

Year ended December 31, 2003

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): **No**
7. Major programs:

14.239	Home Investment Partnership Act
20.507	Federal Transit – Operating and Capital
20.516	Federal Transit – Job/Access/Reverse Commute
8. Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
9. Low-risk auditee: **No**

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

The audit disclosed no findings required to be reported.

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