FORT CHAFFEE
REDEVELOPMENT AUTHORITY

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2013

PRZYBYSZ & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

FORT CHAFFEE REDEVELOPMENT AUTHORITY
DECEMBER 31, 2013

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PRZYBYSZ
& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
A Professional Corporation

Independent Auditor's Report

To the Board of Trustees
Fort Chaffee Redevelopment Authority
Fort Smith, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Chaffee Redevelopment Authority, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Fort Chaffee Redevelopment Authority as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-15 and 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fort Chaffee Redevelopment Authority's basic financial statements. The golf course supplemental statement is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The golf course supplemental statement has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated September 25, 2014, on our consideration of Fort Chaffee Redevelopment Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fort Chaffee Redevelopment Authority's internal control over financial reporting and compliance.

Przybysz & Associates

Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
September 25, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORT CHAFFEE REDEVELOPMENT AUTHORITY
Management's Discussion and Analysis
Year Ended December 31, 2013
(Unaudited)

The following discussion and analysis of Fort Chaffee Redevelopment Authority's financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2013. Readers should consider the information presented here in conjunction with the Authority's financial statements and notes to the financial statements that follow this section.

Fort Chaffee Redevelopment Authority is an Arkansas public trust, charged with redeveloping a portion of the Fort Chaffee Military Base which closed as a result of the 1995 Base Realignment and Closure action. The excess military property, named Chaffee Crossing, is to be developed for the economic benefit of the Authority's beneficiaries, namely the Cities of Fort Smith, Barling, and Greenwood, and Sebastian County. In actuality, development of this property will benefit the entire western Arkansas and eastern Oklahoma region.

Between November 2000 and September 2003, the Authority received approximately 5,555 acres of land, in five phases, from the U.S. Department of the Army, by "no-cost" economic development conveyances. Included in the transfer were approximately 660 buildings and other structures, totaling 2.7 million square feet. A majority of the buildings were constructed during World War II and contain asbestos and/or lead-based paint. An additional 1,530 acres were transferred directly to other state or local government entities by public benefit conveyance.

On January 29, 2008, the Authority experienced a fire disaster caused by power lines that were downed by strong winds. More than 100 acres burned; 155 buildings and 11 small storage structures totaling 611,140 square feet were completely destroyed. At the end of 2008, the liability for the fire cleanup was estimated at $629,800. Approximately 95% of the cleanup was accomplished in 2010, with the remainder completed in 2011. All of the burned debris was removed along with 33 additional condemned buildings and 20 small structures totaling 120,500 square feet.

On August 3, 2011, the Authority experienced a fire disaster in the former hospital area caused by discarded smoking materials. Approximately 80 acres burned along with 111 buildings totaling 448,252 square feet. The Authority hired a private environmental firm to test the debris and the results were negative for contamination. The cleanup is estimated to cost $585,000, which has not yet been performed.

An additional 107 buildings and structures totaling 430,365 square feet have been demolished or removed as of December 31, 2013. The cost to tear down or restore the remaining buildings will be relatively significant. Substantial road and utility infrastructure improvements are also required to develop the excess property, as much of the infrastructure was outdated or nonexistent when the property was transferred to the Authority.

The Authority currently leases 73 buildings to individuals or businesses, which provides monthly income to help finance operations. Most of the vacant buildings that could potentially be leased would first require considerable improvements or repairs. The Authority has sold 1,439 acres of land, including 69 buildings totaling 370,877 square feet. Thirteen of the buildings that were sold have subsequently been demolished. An additional 638 acres and 11 buildings totaling 36,270 square feet have been transferred at no cost to government or nonprofit organizations for public benefit. Five of those buildings were subsequently demolished. A major objective required of the Authority is to create new jobs to replace the approximate 400 jobs lost due to the closure of Fort Chaffee. Businesses located at Chaffee Crossing currently employ about 1,011 employees, of which 551 are new jobs.

FINANCIAL HIGHLIGHTS

- Total assets of the Authority exceeded total liabilities by $19,681,468 at the close of 2013. Net position decreased by $202,185 during 2013.

- Of total net position at year-end, $1,854,218 was invested in fixed assets and $17,827,250 was unrestricted resources that may be used to meet the Authority's on-going obligations.

- Total revenues during 2013 were $6,057,255, an increase of $1,786,914 above the previous year.

- Total expenses during 2013 were $4,757,004, an increase of $995,342 over the previous year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with an overview of the Authority's finances, in a manner similar to private-sector business.

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

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

Both of the government-wide financial statements report all of the functions of the Authority as *governmental activities*.

The government-wide financial statements can be found on pages 16 through 18 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 Authority, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority are included in the *governmental fund type,* which consists of one fund, the *special revenue fund.*

The *fund financial statements* focus on 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. The fund financial statements include the *fund balance sheet* and the *fund statement of revenues, expenditures, and changes in fund balance.*

The fund financial statements can be found on pages 16 through 18 of this report.

A reconciliation is provided to facilitate a comparison of information presented for governmental funds in the fund financial statements with similar information presented for governmental activities in the government-wide financial statements.

Notes to the Financial Statements

The accompanying *notes to the financial statements* provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information,* which includes a Budgetary Comparison Schedule for the Special Revenue Fund. Required supplementary information can be found on page 29 of this report. *Other supplementary information* includes a Golf Course Supplemental Statement, which can be found on pages 30 through 31 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

- As of December 31, 2013, total assets of the Authority's governmental activities were $19,958,662, which is a decrease of $330,302 (2%) below the 2012 year-end balance. Total assets at the end of 2013 consisted of $3,790,869 in current assets and $16,167,793 in capital assets, net of accumulated depreciation.

- Current assets increased by $780,789 (26%), which was mainly the net result of an increase in cash and decrease in government receivables. There was a $969,271 increase in cash due to the retention of approximately 75% of net revenues, which were invested in short-term certificates of deposit. The $204,126 government receivables balance at the end of 2012 was eliminated during 2013. The Authority received payment for $41,290 of receivables from local city and county governments and a $162,836 receivable from the U.S. EPA, which was related to a grant awarded to the Authority in 2012 for a water infrastructure project. Capital assets decreased by $1,111,091 (6%) as a net result of property sales and transfers, and an increase in the investment in fixed assets.

- Total liabilities at the end of 2013 were $277,194, a decrease of $128,117 (32%) from the previous year. This was mostly the net result of a $134,800 reduction in payables for a gas line relocation project, a $50,840 decrease in earnest money held in relation to future property sales, and a $67,515 increase in insurance proceeds, which were funds received, but not yet expended, for repairing roofs damaged by a wind storm. The Authority had no long-term debt at year-end. Therefore, all liabilities are current.

- Total net position decreased by $202,185 (1%) below the prior year, with a balance of $19,681,468 at the close of the current fiscal year.

- The majority of total net position, $17,827,250 (91%), is unrestricted. Of the unrestricted net position, $14,313,575 constitutes donated capital assets (land and buildings), which were transferred to the Authority by no-cost economic development conveyances from the U.S. Army, and are used to generate income for operations and redevelopment of the property. The $3,513,675 balance of unrestricted net position is funds that may be used to meet the Authority's on-going obligations.

- The balance of total net position, $1,854,218 (9%), is the amount invested in fixed assets that are used in operations.

- At the end of the current fiscal year, the Authority reported a positive balance in net position. The Authority's overall financial position remained strong during 2013.

Statement of Activities

- During 2013, total revenues from governmental activities were $6,057,255, an increase of $1,786,914 (42%) over the previous year. This increase was largely the net result of an increase in property sales and decrease in federal grant revenue.

  Gain on sale of capital assets increased by $2,076,171. During 2012, the Authority sold 153 acres of land, mostly for industrial, commercial, and residential development. During 2013, the Authority sold 327 acres of land, which included 13 acres for industrial development, 208 acres for commercial development, 77 acres for three church campuses, 20 acres for mixed-use residential and commercial development, 4 acres for expansion of an RV park, 4 acres for wetland mitigation, and one acre for private recreational use.

Federal grant income decreased by $238,960. In February 2012, the Authority was awarded a grant through the U.S. EPA for a water infrastructure project at Taylor Avenue and Custer Boulevard. Funding for the project was received on a reimbursement basis. A majority of the work was performed and funding received during 2012. The project was completed in February 2013, with a final reimbursement of $26,020 received during 2013.

- Expenses from governmental activities during 2013 totaled $4,757,004, an increase of $995,342 (26%) above the previous year. This was mostly the result of a $1,062,265 increase in construction and development expense. During 2012, one utility construction project was completed and two more began, a gas line was relocated, and two road projects were started at the end of the year. During 2013, five utility projects were completed, two gas lines were relocated, two road projects were completed and one started, and a pad-ready site was prepared for a new industrial development.

  Other items having an impact on the net increase in expenses during 2013 were a $434,471 decrease in grant expenditures for the U.S. EPA water line project, a $190,482 increase in commission expense due to the rise in property sales, a $78,273 increase in property insurance costs, and a $76,413 increase in advertising and marketing expense.

- Governmental activities increased net position by $1,300,251 during the current fiscal year. Reclassifications for the sales and transfers of contributed assets reduced net position by $1,502,436, resulting in an overall decrease in net position of $202,185.

  In addition to the 327 acres of land sold during 2013, the Authority transferred 11 acres to Phoenix Corporation for construction of its $12 million, 65,000-square-foot metal processing plant. This is the sixth industrial development at Chaffee Crossing, which will ultimately employ 40 people. Four acres were transferred to Umarex USA for a $7 million expansion of its current facility to house the North American headquarters of its newly-formed sister company, Walther Arms, Inc. The Authority repurchased approximately 13 acres of industrial property that it had sold in 2012.

FINANCIAL ANALYSIS OF THE AUTHORITY’S FUNDS

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

The focus of the Authority’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority’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, 2013, the Authority's governmental funds reported total fund equity of $21,338,660. The majority of this amount (73%) is comprised of contributed capital. The balance of total fund equity (27%) consists of $2,221,757 invested in fixed assets and unreserved fund balance of $3,513,675.

During 2013, the Authority's governmental funds reported total revenues of $6,118,880 and total expenditures of $5,209,972, with a net result of $908,908 in excess revenues over expenditures. Factors concerning the finances of the Authority's governmental funds have already been addressed in the discussion of the Authority's governmental activities on the government-wide financial statements.

The difference between the amounts reported for governmental funds and the amounts reported for governmental activities is due to capital outlays being reported as expenditures in the fund financial statements, whereas capital assets are depreciated and expensed over their estimated useful lives in the government-wide financial statements.

BUDGETARY HIGHLIGHTS

An annual budget is prepared for governmental funds based on generally accepted accounting principles. The Authority is not required to operate strictly within this budget, but uses it for internal planning and management.

In February 2013, the Authority's Board of Trustees adopted a special revenue fund budget for 2013, which reflected revenues of $5,729,300 and expenditures of $4,953,943.

- During 2013, actual revenues were more than budgeted revenues by $389,580 (7%), which was basically due to property sales being higher than expected. Property sales revenue was above budget by $419,195 (9%), golf course income was below budget by $69,010 (16%), and there was $38,467 in other miscellaneous income that was not budgeted for.

- Actual expenditures during 2013 were above budgeted expenditures by $256,029 (5%). The excess amount was mainly a net result of the following:

    - Advertising and marketing expense was over budget by $38,672 (25%), mostly due to additional costs for ads and events that were not planned for when the budget was prepared.
    - Commission expense was over budget by $67,145 (18%) due to property sales being higher than expected.
    - Construction and development expense was below budget by $139,762 (7%) due to the "H" Street extension project starting later than anticipated.
    - There was $47,310 in grant expenditures for a water line project, which was not included in the annual budget. Budgets for grant projects are prepared for overall grant periods, and not on an annual basis.
    - Insurance expense was over budget by $30,527 (10%). The annual renewal rates were higher than expected due to the Authority's loss history and general industry rate increases.
    - Outside contracting was below budget by $49,074 (26%) due to an overestimation of costs for general engineering services.

- Capital expenditures & demolition were over budget by $248,494 (58%). This was mostly due to the repurchase of almost 13 acres of land for $283,829. As part of an agreement with a buyer who purchased almost 106 acres in 2013, the Authority agreed to first buy back 12.88 acres that the same buyer had purchased in 2012. Demolition was below budget by $45,617 because the Authority delayed tearing down some of the buildings that it had planned to demolish in 2013.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2013, the Authority's capital assets totaled $16,167,793, net of accumulated depreciation. Total capital assets consisted of $14,313,575 in donated assets (net), $1,278,244 invested in fixed assets (net), and $575,974 in land improvements. Donated assets include land and buildings; the investment in fixed assets includes buildings, building improvements, parking lots, landscaping and site improvements, furniture and fixtures, vehicles, equipment, and railroad track improvements; land improvements include capitalized demolition costs.

Total capital assets decreased by $1,111,091 (6%) during 2013. There was $283,829 of land purchased, $29,383 in land improvements due to demolition, $360,908 of additions to fixed assets, $11,180 in fixed assets (net) sold, and a reduction of $1,553,505 in donated land and buildings (net) and land improvements resulting from property sales and no-cost conveyances. Depreciation expense during 2013 totaled $220,526.

Additional information on the Authority's capital assets can be found in Note 1 on page 21 and Note 9 on pages 25 and 26 of this report.

Infrastructure Assets

The Authority's redevelopment activities include upgrading and creating infrastructure assets such as roads and water and wastewater utilities. The costs for such projects are recorded as grant expenditures or construction and development expense. Project timelines often span over more than one year, and once completed, the assets are transferred to the respective municipal entity to maintain. Since the Authority does not retain ownership for any significant length of time, these assets are not capitalized. Following are examples of infrastructure projects completed by the Authority:

- The construction of Chad Colley Boulevard, including water and wastewater lines, between Highway 255 and Roberts Boulevard. Completed in 2003, total costs were approximately $3 million.

- The construction of a twelve-inch water line along Wells Lake Road during 2005, which cost approximately $360,000.

- The construction of three water projects near the Massard Road extension, which include a water line, pump station, and elevated water storage tank. Completed at the end of 2006, total costs were approximately $2 million.

- An 8-inch sewer line constructed during 2008 between Wintergreen and Mahogany Avenues, which cost approximately $68,000.

- The replacement of a 30-inch sewer line and a 12-inch sewer line extension near the intersection of Massard Road and Zero Street. Completed in 2009, total costs were approximately $1.5 million.

- Construction of 17 sewer manholes between Chad Colley Boulevard and Wells Lake Road at a cost of $92,594 and 1,400 linear feet of 8-inch sewer line near Wintergreen Avenue at a cost of $51,600. Both projects were completed in 2010.

- An 8-inch water line constructed in 2011 to serve the soccer fields at Taylor Avenue and Fort Chaffee Boulevard at a cost of $30,200.

- Construction of 3,100 linear feet of 12" water line along Massard Road and Chad Colley Boulevard, 2,300 linear feet of 8" sewer line on Massard Road, 3,750 linear feet of 12" water line from the elevated water tank to Wells Lake Road, and 1,950 linear feet of 10" sewer line on Custer Boulevard. Completed in 2012, total costs were approximately $1.13 million.

- Construction of 6,000 linear feet of 16" water line along Taylor Avenue and Custer Boulevard, 3,500 linear feet of 12" water line and 2,250 linear feet of 8" sewer line near Massard Road and Chad Colley Boulevard, 1,887 linear feet of 10" sewer line and 318 linear feet of 8" sewer line on Massard Road, and 1,250 linear feet of 12" water line on Roberts Boulevard. Completed in 2013, total costs were approximately $1.34 million.

- The construction of McClure Drive from Massard Road to the McClure Amphitheater and the extension of Flagstone Road to the Old Dominion Freight Lines facility. The Authority agreed to equally share the costs for both road projects with the City of Fort Smith, which were completed at the end of 2013. Total costs for each project were $1.1 million and $607,000, respectively.

Long-term Debt

As of December 31, 2013, the Authority had no long-term debt.

NEXT YEAR'S BUDGET AND EXPECTATIONS

In January 2014, the Board of Trustees adopted a special revenue fund budget for 2014, reflecting revenues of $3,702,000 and expenditures of $3,599,293.

Approximately 81% of budgeted revenues are expected to be from property sales, 11% from lease income, 4% from local government contributions, 2% from golf course income, and 2% from mining income, rail car storage, and historic district income. In 2014, property sales revenue is expected to be about 39% lower than 2013. As a result, the amount budgeted for closing costs and commission expense was decreased by 38%. There were no property sales pending at the end of 2013.

Over the last three years, the Authority has sold several large, prime tracts of land along Massard Road, Chad Colley Boulevard, and the I-49 right-of-way. The year 2013 was a record-breaking and possibly peak year for property sales. The remaining property available for sale includes many smaller tracts of land, some with development challenges such as terrain, elevation and flood plain issues, or existing structures that require improvements or need to be demolished. As of September 2014, three sales had closed totaling $191,200, which was 6% of the annual property sales budget. Another $1.7 million in offers were pending, which are all expected to close by year-end.

In addition, although no sales revenue was realized, there was a no-cost conveyance of land in June 2014 that will have a significant, wide-reaching impact for years to come. The Authority transferred 200 acres of land to The Degen Foundation to build a proposed osteopathic medical school, along with support services such as clinics, offices, housing and retail establishments. The accreditation process should be complete by the end of the year and, if approved, the school is expected to open in August 2016. The Authority has already realized an effect from this proposed development through an increase in the value of surrounding property. Future impacts will be unlimited from revenue, growth and job creation to increased services and quality of life. It has been estimated that this development will have a $100 million annual economic impact on the western Arkansas and eastern Oklahoma region.

Current pending sales include 60 acres for commercial and retail development and 27 acres for residential development. Another significant event in June 2014 was the announcement of ArcBest, Inc.'s plans to relocate its corporate headquarters to Chaffee Crossing and expand its operations in Fort Smith. The Authority approved selling 30 acres to ArcBest to construct a $30 million office building and data center. Approximately 975 jobs will be created in the next seven years as ArcBest plans to retain its current headquarters building in Fort Smith for expansion of other operations.

Housing construction and sales at Chaffee Crossing continued at a steady pace during 2013 and are expected to continue well into 2014 and beyond. There are currently one multi-family and five single-family residential developments occupied and/or under construction that will ultimately comprise approximately 500 homes and 500 apartments. With the paving of the six-mile stretch of I-49 through Chaffee Crossing expected to be completed by the end of 2014, development of many of the commercial tracts sold in the last three years is expected to explode.

Budgeted lease income was decreased 20% from actual income in 2013. Although new leasing opportunities will be created with capital investments made in vacant buildings, this is a trend that will likely continue as lease properties are sold. The Authority lost a significant government tenant in 2013 that accounted for almost 5% of lease income that year. Also, at the end of 2013, seven leased building were sold that accounted for 20% of actual lease income in 2013. At the end of August 2014, the Authority had 67 buildings leased to 63 tenants with monthly rental rates totaling $30,400.

Budgeted contribution income includes annual commitments from the City of Fort Smith and Sebastian County of $31,000 each, per the agreements for services related to the Graphic Packaging industrial property. Also included is an estimated $96,000 expected to be received from two additional agreements for services related to the Mars Petcare and Umarex USA properties. Continued job growth is expected at these facilities, as all three have experienced expansions in the past year. Graphic Packaging made a $3.4 million expansion and currently employs 350 people, Mars Petcare made a $50 million expansion that has created 30 jobs so far in addition to the 126 jobs that existed at the plant at the end of 2013, and Umarex USA invested $7.8 million on four acres it received from the Authority in 2013 to expand its facility and house the North American headquarters of its sister company Walther Arms, Inc. This expansion is expected to create up to 125 new jobs in the next five years.

Other industrial-related job growth is expected to occur at the $6 million, 25,000-square-foot Old Dominion Freight Lines facility that opened at Chaffee Crossing in 2013, at the $12 million, 65,000-square-foot Phoenix Metals facility that opened in 2014, and at the $100 million, 200,000-square-foot Mitsubishi Power Systems plant that was completed 2012. A lawsuit between Mitsubishi and General Electric, which was settled at the end of 2013, a decline in the wind energy market, and the expiration of wind energy tax credits all contributed to operations at the new Mitsubishi plant being put on hold. However, the Authority is confident per continued communications with Mitsubishi officials that the plant, which was expected to employ 400 people, will be put to use in the near future.

The amount budgeted for golf course income is based on a 3-month operating period. On April 1, 2014, the Authority sold the golf course business operation for the cost of inventory to a newly-formed non-profit entity called Deer Trails Country Club, which was established by the existing golf course membership. The Authority agreed to lease the real property to Deer Trails at no cost for five years, and to sell all of the equipment to Deer Trails under a four-year capital lease. The budget for several expense items was reduced in 2014 due to the transfer of the golf course operation, including salaries, health insurance, equipment rent, maintenance and repairs, utilities expense, and cost of goods sold.

In 2013, a new line item was added for historic district income. The amount budgeted in 2014 was increased to $32,000, more than five times the actual income realized in 2013. In 2008, the Authority began operating the Chaffee Barbershop Museum, which is where Elvis Presley received his first G.I. haircut. In 2011, approximately 40 buildings were added to the National Register of Historic Places, creating the Chaffee Crossing Historic District. In 2013, the Authority made improvements to the historic district's administrative office building to house a second museum, the Museum of Chaffee History. Since the opening of the first museum, income generated by the historic district has solely been donations from museum visitors, which was included in contribution income. In the 2014 budget, the Authority planned for several fundraising activities to increase revenue for the historic district and to start working toward the district becoming self-sustaining.

Shale and rock mining and rail car storage are expected to continue, but at a reduced level. The amount budgeted in 2014 for both of these activities, which totals $50,000, is approximately 50% lower than actual revenues in 2013.

The Authority budgeted $1 million for construction and development in 2014 for road and utility infrastructure improvements, which is 46% lower than actual expenditures in 2013. More than one-half of the 2013 expenditures were for the completion of two road projects and two utility projects that began in 2012. Almost 80% of this amount was for road construction. The Authority had agreed to equally share the cost with the City of Fort Smith to improve the road going up to the McClure Amphitheater, opening up development on the ridge, and to extend Flagstone Road further south to serve the new Old Dominion Freight Lines facility. Both of these projects were completed at the end of 2013 with a total cost of $1.1 million and $607,000, respectively. The Authority also agreed to equally share the cost with the City of Barling to construct an extension of "H" Street east of Highway 59 into Chaffee Crossing, which will provide access to future residential developments and the new Barling city park. The 2014 budget includes $425,000 for the completion of the "H" Street extension and $575,000 to extend a sewer line to the ridge area and complete other utility projects.

Several other projects are currently planned or under construction at Chaffee Crossing. At the end of 2014, the Arkansas Highway and Transportation Department expects to complete paving the 6-mile stretch of I-49 that runs through Chaffee Crossing from Highway 22 going south to Highway 71 at a cost of $23 million. This is the final project of six that first began in 2006 to construct this portion of I-49, which will end up at a total cost of $97 million. It will actually be labeled I-549 until it is connected to the rest of I-49 to the north and south. There is a 15-mile gap on the north end and a 185-mile gap to the south. In June 2014, a campaign was started called "Build the Bridge" in support of completing the 15-mile connection from Highway 22 to Alma, which will include construction of a new bridge over the Arkansas River, at a total estimated cost of $350 million. The cost to complete the 185-mile stretch going south to Texarkana is estimated at $3 billion. There will be an enormous impact on economic development at Chaffee Crossing with the opening of its six-mile portion of I-49 alone.

In June 2014, the Authority approved an agreement with the City of Fort Smith to equally share the cost of two new road projects with a total estimated cost of $3.8 million. McClure Drive, which was constructed from Massard Road to the McClure Amphitheater in 2013, will be extended further east to Wells Lake Road. This will provide further access for the ridge area and the southern end of the future ArcBest development. A second road will be constructed from the north end of the future ArcBest site to Wells Lake Road. These projects are expected to begin at the end of 2014.

The City of Fort Smith completed construction of its new $3 million, 12,500-square-foot fire station at Chaffee Crossing in February 2014. This station has reduced the average response time in the area from 8 minutes to 3 minutes and will also help the City retain its Class 2 ISO rating, which in turn can have a positive effect on fire insurance rates for residents and businesses.

The City also has several water infrastructure projects underway that will be completed by the end of 2014. These include a $1.42 million water pump station on Massard Road, construction of a

24” water line from Highway 45 to the pump station and a 30” water line from the pump station to Chad Colley Boulevard at a total cost of $4.56 million, and a $2 million 2.5-MG water reservoir, which will serve all of Chaffee Crossing and the surrounding area. The City has also budgeted $1.6 million to help build a softball field complex on 63 acres donated by the Authority in 2012. As a training exercise, the U.S. Army Reserve is providing approximately $500,000 of in-kind work for grading, drainage, and parking lot construction. Work began in August 2014 and the complex is expected to be completed by July 2015. Sebastian County completed biking and walking trail improvements in 2014 around the Torians (Stick) Lake property, which was donated to the County by the Authority in 2011.

The Authority has plans for capital expenditures during 2014 totaling $350,000, which is 46% lower than actual expenditures in 2013. At least 80% of the budgeted amount is for improvements to leased or leasable buildings, for site improvements and restoration of a barracks in the historic district, and for roof replacements. The remainder of budgeted capital expenditures is for the purchase of a used pickup truck, HVAC equipment, and property maintenance equipment. The 2014 budget also includes $10,000 for the demolition of one or two dilapidated buildings.

In July 2014, the Authority was close to completing the repairs to 50 buildings damaged by a wind storm at the end of 2012, at a total cost of almost $300,000, when it sustained substantial losses from a gustnado storm that damaged 50 buildings, of which at least four were a total loss. The Authority’s insurance company has estimated total damages at almost $2 million. Most of these buildings are in the historic district. The Authority has begun making repairs to the occupied buildings and is currently awaiting the initial claim report and funds from the insurance company.

With current construction and plans for future development of residential, commercial, industrial, and recreational properties, the Authority anticipates that Chaffee Crossing will realize considerable growth during 2014.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority’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:

Fort Chaffee Redevelopment Authority
7020 Taylor Avenue
Fort Smith, AR 72916

BASIC FINANCIAL STATEMENTS

FORT CHAFFEE REDEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET

AS OF DECEMBER 31, 2013

	Governmental Fund	Adjustments	Statement of Net Position	(Memorandum Only) 2012 Statement of Net Position
Assets				
Cash and cash equivalents	$ 3,608,782	$ -	$ 3,608,782	$ 2,639,511
Accounts receivable				
Government	-	-	-	204,126
Other	112,189	-	112,189	110,240
Prepaid expenses	54,500	-	54,500	44,700
Inventory	12,215	-	12,215	9,711
Interest receivable	2,683	-	2,683	1,172
Capital assets				
Donated assets				
Donated land	13,779,539	-	13,779,539	14,837,770
Donated buildings (net of accumulated depreciation)	1,823,689	(1,289,653) ①	534,036	733,463
Other capital assets (net of accumulated depreciation)	1,645,783	(367,539) ①	1,278,244	1,040,163
Land improvements	575,974	-	575,974	667,488
Deposits	500	-	500	620
Total Assets	21,615,854	(1,657,192)	19,958,662	20,288,964
Liabilities				
Accounts payable	84,524	-	84,524	242,696
Payroll and payroll taxes payable	867	-	867	139
Other accrued expenses	98,583	-	98,583	28,512
Lease deposits and prepayments	93,220	-	93,220	133,964
Total Liabilities	277,194	-	277,194	405,311
Fund equity:				
Contributed capital	15,603,228	(15,603,228)	-	-
Investment in fixed assets	2,221,757	(2,221,757)	-	-
Fund balances:				
Nonspendable	66,715	(66,715)	-	-
Spendable:				
Unassigned	3,446,960	(3,446,960)	-	-
Total Fund Balances	21,338,660	(21,338,660)	-	-
Total Liabilities and Fund Balances	$ 21,615,854			
Net Position:				
Net investment in capital assets		1,854,218	1,854,218	1,707,651
Unrestricted		17,827,250	17,827,250	18,176,002
Total Net Position		19,681,468	19,681,468	19,883,653
Total Liabilities and Net Position		$ (1,657,192)	$ 19,958,662	$ 20,288,964

① Amounts reported for governmental activities in the Statement of Net Position are different because capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

See accompanying notes to financial statements.

FORT CHAFFEE REDEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2013

	Governmental Fund	Adjustments	Statement of Activities	(Memorandum Only) 2012 Statement of Activities
Revenues				
Federal grants	$ 26,020	$ -	$ 26,020	$ 264,980
Local government contributions	166,506	-	166,506	168,624
Golf course income	356,190	-	356,190	378,281
Historic district income	5,921	-	5,921	6,386
Lease income	501,422	-	501,422	531,269
Mining income	64,027	-	64,027	71,224
Property sales	4,919,195	(4,919,195) ①	-	-
Rail car storage	34,646	-	34,646	22,999
RV park income	-	-	-	27,758
Interest income	6,486	-	6,486	6,875
Gain on sale of capital assets	-	4,857,570 ①	4,857,570	2,781,399
Other income	38,467	-	38,467	10,546
Total Revenues	6,118,880	(61,625)	6,057,255	4,270,341
Cost of Goods Sold	64,817	-	64,817	57,479
Gross Profit	6,054,063	(61,625)	5,992,438	4,212,862
Expenditures				
Advertising and marketing	191,172	-	191,172	114,759
Automobile expenses	21,991	-	21,991	23,200
Commissions	437,145	-	437,145	246,663
Conferences	6,490	-	6,490	3,980
Construction and development	1,860,238	-	1,860,238	797,973
Depreciation	-	220,526 ①	220,526	209,251
Fuel	34,369	-	34,369	33,375
Grant expenditures	47,310	-	47,310	481,781
Insurance	325,527	-	325,527	247,254
Maintenance and repairs	176,265	-	176,265	185,663
Miscellaneous	72,104	-	72,104	70,201
Office expenses	45,739	-	45,739	35,327
Outside contracting	142,926	-	142,926	202,183
Payroll taxes	76,497	-	76,497	67,493
Professional fees	51,339	-	51,339	27,311
Security	3,466	-	3,466	1,066
Training and reference material	1,447	-	1,447	6,183
Travel	17,114	-	17,114	12,414
Utilities	60,771	-	60,771	71,444
Wages and employee benefits	899,751	-	899,751	866,662
Capital expenditures and demolition	673,494	(673,494) ①	-	-
Total Expenditures	5,145,155	(452,968)	4,692,187	3,704,183
Excess of Revenues Over Expenditures	908,908	391,343	1,300,251	508,679

See accompanying notes to financial statements.

FORT CHAFFEE REDEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2013

	Governmental Fund	Adjustments	Statement of Activities	(Memorandum Only) 2012 Statement of Activities
Excess of Revenues Over Expenditures	908,908	391,343	1,300,251	508,679
Fund Balance/Net Position Beginning of Year	21,394,388	(1,510,735)	19,883,653	20,267,264
Reclassification:				
Capital expenditures	673,494	(673,494)	-	-
Cost of capital assets sold	(135,694)	135,694	-	-
Change due to sales/transfers of contributed assets	(1,502,436)	-	(1,502,436)	(892,290)
Fund Balance/Net Position End of Year	$ 21,338,660	$ (1,657,192)	$ 19,681,468	$ 19,883,653

① Amounts reported for governmental activities in the Statement of Activities are different because governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. Also, when assets are sold, the difference between sales proceeds and cost, less accumulated depreciation is recorded as a gain or loss on sale of capital assets in the Statement of Activities.

See accompanying notes to financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Fort Chaffee Redevelopment Authority (the Authority) is a public trust created under the provisions of Title 28, Chapter 72, Subchapter 2 of the Arkansas Code of 1987 Annotated and is a tax-exempt organization. The trust agreement allows the Authority to act on behalf of its beneficiaries in the closure and redevelopment of a portion of the Fort Chaffee Military Base, which has been conveyed to the Authority by the Department of Defense. Beneficiaries of the trust are Sebastian County, the City of Barling, the City of Fort Smith, and the City of Greenwood, all of which are in Arkansas.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board (GASB) Statement No. 14 have been considered.

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. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity and are offset by program revenues. 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 Authority's funds. The emphasis of fund financial statements is on major governmental funds.

The Authority reports the following major governmental fund:

The *Special Revenue Fund* is established to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

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

Nonexchange transactions, in which the Authority receives (or gives) value without directly giving (or receiving) equal value in exchange, include grants, entitlements and similar items and contributions. Recognition standards are based on the characteristics and classes of nonexchange transactions. Grants, entitlements and contributions are recognized as revenues, net of 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. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

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 current liabilities are generally included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance 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 reportable as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. 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.

Capital Assets and Donated Assets

Capital assets and donated assets consist of buildings, land, building improvements, furniture and fixtures, vehicles and equipment purchased by or donated to the Authority. Capital assets and donated assets are reported in the government-wide financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets and Donated Assets - Continued

Capital assets are recorded at cost. Donated assets are recorded at fair market value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

Buildings	5-30	years
Rail road improvements	30	years
Parking lots	20	years
Furniture and fixtures	7-15	years
Landscaping & site improvements	7-15	years
Machinery and equipment	2-15	years
Office equipment	5-10	years
Vehicles	5-10	years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities. In governmental funds, long-term liabilities are only recorded to the extent they are due and payable.

Advertising and Promotions

The Authority follows the policy of charging advertising and promotions to expense as incurred.

Net Position

Net Position is recorded as restricted when constraints placed on it are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

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

Use of Estimates

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributed Capital

Contributed capital represents the value of properties conveyed to the Authority for redevelopment purposes. The fair market value of the land at the time of donation was estimated based on comparable sales and real estate listings in an appraisal prepared for similar land. The fair market value of the buildings was based on the insurable value of the buildings as prepared by an independent insurance appraiser.

Subsequent Events

Subsequent events are evaluated through the end of the audit period which is the date of the Independent Auditors' Report.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

NOTE 2: DEPOSITS IN FINANCIAL INSTITUTIONS

The Authority uses financial institutions in which it maintains cash balances, which at times may exceed federally insured limits. The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash. The Authority's uninsured cash balance totaled $1,242,119 at December 31, 2013.

Legal or Contractual Provisions for Deposits and Investments

Governmental Fund Types

> State law generally requires that Municipal funds be deposited in federally insured banks located in the State of Arkansas. The Municipal deposits may be in the form of checking accounts, savings accounts, and/or time deposits. Public funds may also be invested in direct obligations of the United States of America and obligations the principal and interest on which are fully guaranteed by the United States of America.

NOTE 3: GRANT

On February 21, 2012, the Authority was awarded a grant from the United States Environmental Protection Agency (EPA) for the construction of water infrastructure in an amount not to exceed $291,000. As of December 31, 2013, in accordance with the agreement, the Authority utilized $238,801 of grant matching funds. The grant period is from February 29, 2012 through May 15, 2016.

NOTE 4: GRANT EXPENDITURES

Grant expenditures for the year ended December 31, 2013 were as follows:

EPA IV Grant - Construction	$ 47,310

NOTE 5: CONCENTRATION OF CREDIT RISK

The Authority receives a majority of its support from lease income and proceeds from the sale of property.

NOTE 6: CONTINGENCIES

The Authority was the recipient of a federal grant. Grant programs are subject to audit by the Federal government or their representatives. Accordingly, the amount, if any, of expenditures which may be disallowed by the program representatives cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

Portions of the property that are to be redeveloped by the Authority contain certain environmental hazards, such as lead paint and asbestos. In addition, certain buildings were identified in the transfer application to be demolished. The Authority has developed a plan to dispose of these buildings and related hazards. The Authority's ultimate exposure for loss on the remaining buildings had not yet been determined and the period over which the remediation costs will be incurred is not determinable; however, the Authority does not expect to incur a material amount of costs during the next year.

The Authority worked with the United States Environmental Protection Agency and the Arkansas Department of Pollution Control and Ecology to clean up environmental hazards located on the excess Fort Chaffee military base property. The Authority requested that the Department of Defense not convey any property that is unusable or unsafe due to environmental or safety hazards to the Authority. The Department of the Army Corps of Engineers issued a Findings of Suitability to Transfer (FOST) before each conveyance occurred stating that the buildings and improvements had been determined to be environmentally safe for transfer. Also, on February 25, 2004, the Authority received a Ready for Reuse Determination from the Arkansas Department of Environmental Quality and the United States Environmental Protection Agency, Region 6, acknowledging that the environmental conditions on the property are protective of human health and the environment.

As a result of the ordinary course of business, the Authority is involved in various litigation as of December 31, 2013. The ultimate outcome of such litigation is uncertain. However, management and legal counsel are of the opinion that any resulting unfavorable outcomes would have a minimal adverse economic impact on the Authority.

NOTE 7: LEASES

The Authority leases buildings to area businesses and organizations under cancelable operating leases. Prior to full conveyance, the Authority leased some of these buildings from the Army and subleased them to tenants. These leases normally had stated monthly rental amounts for the first six months of the lease. The second period was re-negotiated and most leases were renewed for twelve months. As the property was conveyed from the Army, the leases terminated and were renegotiated. The first conveyances of property occurred during 2000, and the final conveyances were completed during the year ended December 31, 2003.

The Authority has non-cancelable operating leases with a state agency and a Federal agency for building space leased to these entities. The following schedule presents minimum future rentals receivable from these operating leases.

Year ending December 31:	
2014	55,159
2015	56,000
2016	56,858
2017	37,307
2018-2022	105,939
Total minimum lease payments receivable	$ 311,263

NOTE 8: REDEVELOPMENT SERVICE AGREEMENTS

In July 2004, the Authority entered into Agreements for Services with the City of Fort Smith and Sebastian County. In exchange for certain services to be provided by the Authority in relation to economic development, the City and County have each agreed to pay the Authority $31,000 per year for 13 years conditioned on the annual appropriations of that amount by the Fort Smith Board of Directors and Sebastian County Quorum Court, respectively. The City agreement commenced in 2006 and $31,000 was received for the year ended December 31, 2013. The sum of this future funding is $155,000. The County agreement commenced in 2007 and $31,000 was received during the year ended December 31, 2013. The sum of this future funding is $186,000.

NOTE 8: REDEVELOPMENT SERVICE AGREEMENTS - CONTINUED

In February 2009, the Authority entered into two Agreements for Services with the City of Fort Smith and Sebastian County. In exchange for certain services to be provided by the Authority in relation to economic development, the City and County have each agreed to pay the Authority on an annual basis a sum equal to the general purpose millage tax collection by the City and County from the real property associated with each agreement until each have paid thirty annual payments for one of the agreements and $500,000 for the other agreement. During the year ended December 31, 2013, the Authority received $104,506 from both the City and County.

NOTE 9: CHANGES IN CAPITAL ASSETS

During the year ended December 31, 2013, changes in capital assets were as follows:

	Balance January 1, 2013	Additions	Deletions	Balance December 31, 2013
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 14,837,770	$ 283,829	$(1,342,060)	$ 13,779,539
Land improvements	667,488	29,383	(120,897)	575,974
	$ 15,505,258	$ 313,212	$(1,462,957)	$ 14,355,513
Other capital assets:				
Donated buildings	$ 1,984,689	$ -	$ (161,000)	$ 1,823,689
Buildings	8,065	-	-	8,065
Landscaping/site work	27,800	-	-	27,800
Office equipment	46,388	-	-	46,388
Furniture and fixtures	63,737	4,365	(809)	67,293
Remodeling and furnishings	481,925	176,778	(11,489)	647,214
Parking lots	-	73,013	-	73,013
Railroad improvements	187,071	-	-	187,071
Vehicles	46,010	33,412	(2,499)	76,923
Equipment	438,676	73,340	-	512,016
Total other capital assets at cost or FMV	$ 3,284,361	$ 360,908	$ (175,797)	$ 3,469,472

FORT CHAFFEE REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 9: CHANGES IN CAPITAL ASSETS - CONTINUED

Less accumulated depreciation for:				
Donated buildings	$ 1,251,226	$ 108,879	$ (70,452)	$ 1,289,653
Buildings	353	403	-	756
Landscaping/site work	4,174	2,450	-	6,624
Office equipment	20,803	5,956	-	26,759
Furniture and fixtures	30,855	6,964	(739)	37,080
Remodeling and furnishings	60,506	30,615	(1,004)	90,117
Parking lots	-	913	-	913
Railroad improvements	8,834	6,236	-	15,070
Vehicles	11,891	8,347	(1,874)	18,364
Equipment	122,093	49,763	-	171,856
Total accumulated depreciation	$ 1,510,735	$ 220,526	$ (74,069)	$ 1,657,192
Capital assets being depreciated, net	$ 1,773,626	$ 140,382	$ (101,728)	$ 1,812,280
Governmental activities capital assets, net	$ 17,278,884	$ 453,594	$(1,564,685)	$ 16,167,793

NOTE 10: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The amount of settlements has not exceeded the insurance coverage for the past three years. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

NOTE 11: CASUALTY LOSS

On August 3, 2011, the Authority experienced a casualty loss of approximately 111 buildings on 80 acres due to fire damage. The Occupational & Environmental Hazard Control, Inc. has tested the debris and there is no contaminated debris. The Authority estimates cleanup costs of $585,000. The Authority has applied for assistance from the Army in the cleanup due to their presence and possible involvement when the fire occurred.

The Authority's insurance policy effective April 19, 2009 through April 19, 2010 was through Brown Hiller Clark. In September 2009, the Authority received insurance proceeds for roof repairs to buildings due to wind damage of $110,263, which was included in Other Accrued Expenses on the Balance Sheet. The repairs were completed during 2010. The Authority believed the policy obtained was on the basis of Functional Replacement Cost, but the policy obtained did not include a Functional Replacement Cost endorsement. The Authority made a claim against Brown Hiller Clark for breach of contract and sought proceeds equal to the replacement cost of the property damaged. The claim was settled in June 2011 for $325,000. During the year ended December 31, 2012, all repairs had been made.

On July 7, 2012, the Authority experienced a casualty loss due to a wind storm resulting in an estimated cost to repair buildings of $15,407. During the year ended December 31, 2013, the Authority received $10,351 in insurance proceeds and all repairs had been made.

On December 20, 2012, the Authority experienced a casualty loss. The estimated cost to repair 50 buildings that were damaged due to a wind storm is $291,410. During the year ended December 31, 2013, the Authority received $148,695 of insurance proceeds of which $71,476 is included in Accrued Expenses. As of December 31, 2013, all repairs have not been made and a receivable of $20,685 has been recorded.

Note 12: Subsequent Events

On March 7, 2014, the Authority entered into a purchase and sale agreement with Deer Trails Country Club ("DTCC"). This agreement states DTCC will lease the golf course and clubhouse for a term of sixty months, purchase clubhouse and pro shop inventory for its book value on April 1, 2014, which was $9,271, lease equipment for $1,570 per month for forty-eight months, and assume the lease between FCRA and G & L Investors, Inc. Prepaid accounts receivable as of March 31, 2014 are to be paid to DTCC and past-due accounts receivable as of March 31, 2014 will be remitted to FCRA when collected.

On July 23, 2014, the Authority experienced a casualty loss. The estimated cost to repair 50 buildings that were damaged due to a wind storm is estimated at $2 million.

REQUIRED SUPPLEMENTARY INFORMATION

FORT CHAFFEE REDEVELOPMENT AUTHORITY

BUDGETARY COMPARISON SCHEDULE SPECIAL REVENUE FUND

FOR THE YEAR ENDED DECEMBER 31, 2013

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Federal grants	$ -	$ -	$ 26,020	$ 26,020
Local government contributions	168,600	168,600	166,506	(2,094)
Golf course income	425,200	425,200	356,190	(69,010)
Historic district income	3,500	3,500	5,921	2,421
Lease income	510,000	510,000	501,422	(8,578)
Mining income	80,000	80,000	64,027	(15,973)
Property sales	4,500,000	4,500,000	4,919,195	419,195
Rail car storage	42,000	42,000	34,646	(7,354)
Interest income	-	-	6,486	6,486
Other income	-	-	38,467	38,467
Total Revenues	5,729,300	5,729,300	6,118,880	389,580
Cost of Goods Sold	61,600	61,600	64,817	(3,217)
Gross Profit	5,667,700	5,667,700	6,054,063	386,363
Expenditures				
Advertising and marketing	152,500	152,500	191,172	(38,672)
Automobile expenses	24,500	24,500	21,991	2,509
Commissions	370,000	370,000	437,145	(67,145)
Conferences	4,000	4,000	6,490	(2,490)
Construction and development	2,000,000	2,000,000	1,860,238	139,762
Fuel	35,000	35,000	34,369	631
Grant expenditures	-	-	47,310	(47,310)
Insurance	295,000	295,000	325,527	(30,527)
Maintenance and repairs	150,300	150,300	176,265	(25,965)
Miscellaneous	72,250	72,250	72,104	146
Office expenses	37,700	37,700	45,739	(8,039)
Outside contracting	192,000	192,000	142,926	49,074
Payroll taxes	76,700	76,700	76,497	203
Professional fees	41,500	41,500	51,339	(9,839)
Security	2,600	2,600	3,466	(866)
Training and reference material	3,000	3,000	1,447	1,553
Travel	12,000	12,000	17,114	(5,114)
Utilities	72,000	72,000	60,771	11,229
Wages and employee benefits	926,293	926,293	899,751	26,542
Capital expenditures and demolition	425,000	425,000	673,494	(248,494)
Total Expenditures	4,892,343	4,892,343	5,145,155	(252,812)
Excess of Revenues Over Expenditures	$ 775,357	$ 775,357	908,908	$ 133,551
Fund Balance Beginning of Year			21,394,388	
Reclassifications			(964,636)	
Fund Balance End of Year			$ 21,338,660	

Budget and Budgetary Accounting

The GAAP basis budget data reflected in this schedule has been taken from the budget formally enacted by the Board of Trustees.

See independent auditor's report.

ADDITIONAL INFORMATION

FORT CHAFFEE REDEVELOPMENT AUTHORITY

GOLF COURSE SUPPLEMENTAL STATEMENT (UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2013

	FCRA	Golf Course	Total
Revenues			
Federal grant income	$ 26,020	$ -	$ 26,020
Local gov't contributions	166,506	-	166,506
Golf course income:			
Golf fees	-	248,222	248,222
Sales - pro shop	-	14,652	14,652
Sales - snack bar	-	98,183	98,183
Cash over/short	-	(4,867)	(4,867)
Historic district income	5,921	-	5,921
Lease income	501,422	-	501,422
Mining income	64,027	-	64,027
Property sales	4,919,195	-	4,919,195
Rail car storage	34,646	-	34,646
Interest income	6,486	-	6,486
Other income	32,461	6,006	38,467
Total Revenues	5,756,684	362,196	6,118,880
Cost of Goods Sold	496	64,321	64,817
Gross Profit	5,756,188	297,875	6,054,063
Expenditures			
Advertising & marketing	187,903	3,269	191,172
Automobile expenses	20,623	1,368	21,991
Commissions	437,145	-	437,145
Conferences	6,490	-	6,490
Construction & development	1,860,238	-	1,860,238
Fuel	29,307	5,062	34,369
Grant expenditures	47,310	-	47,310
Insurance	265,295	60,232	325,527
Maintenance & repairs	143,439	32,826	176,265
Miscellaneous	42,304	29,800	72,104
Office expenses	40,394	5,345	45,739
Outside contracting	117,603	25,323	142,926
Payroll taxes	55,797	20,700	76,497
Professional fees	49,339	2,000	51,339
Security	2,252	1,214	3,466
Training & reference	1,393	54	1,447
Travel	17,114	-	17,114
Utilities	33,828	26,943	60,771
Wages & emp. benefits	683,914	215,837	899,751
Capital expenditures & demolition	665,394	8,100	673,494
Total Expenditures	4,707,082	438,073	5,145,155
Excess of Revenues Over Expenditures	1,049,106	(140,198)	908,908

See independent auditor's report.

FORT CHAFFEE REDEVELOPMENT AUTHORITY

GOLF COURSE SUPPLEMENTAL STATEMENT (UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2013

	FCRA	Golf Course	Total
Excess of Revenues Over Expenditures	1,049,106	(140,198)	908,908
Fund Balance Beginning of Year	21,570,398	(176,010)	21,394,388
Reclassification:			
Capital expenditures	665,394	8,100	673,494
Cost of capital assets sold	(135,694)	-	(135,694)
Change due to sales/transfers of contributed assets	(1,502,436)	-	(1,502,436)
Fund Balance End of Year	$ 21,646,768	$ (308,108)	$ 21,338,660

See independent auditor's report.

ADDITIONAL REQUIRED REPORT

PRZYBYSZ
& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
A Professional Corporation

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To the Board of Trustees
Fort Chaffee Redevelopment Authority
Fort Smith, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Fort Chaffee Redevelopment Authority, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Fort Chaffee Redevelopment Authority's basic financial statements, and have issued our report thereon dated September 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fort Chaffee Redevelopment Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fort Chaffee Redevelopment Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Fort Chaffee Redevelopment Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Przybysz & Associates

Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
September 25, 2014