FORT CHAFFEE
REDEVELOPMENT AUTHORITY

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2014

PRZYBYSZ
& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

FORT CHAFFEE REDEVELOPMENT AUTHORITY
DECEMBER 31, 2014

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PRZYBYSZ & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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, 2014, 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 policies used and the

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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, 2014, 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 4-16 and 28 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 October 7, 2015, 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
October 7, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORT CHAFFEE REDEVELOPMENT AUTHORITY
Management's Discussion and Analysis
Year Ended December 31, 2014
(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, 2014. 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.

To date, the Authority has sold 1,457 acres of land, including 74 buildings totaling 390,757 square feet. Thirteen of the buildings that were sold have subsequently been demolished. An additional 838 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. Capital investments made so far at Chaffee Crossing by the Authority, local, state and federal government, and developers of industrial, commercial, and residential properties is estimated to total at least $575 million.

One 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 1,165 employees, of which 620 are new jobs.

The Authority currently leases 65 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 majority of the Authority's revenue comes from the sale of property.

On January 29, 2008, the Authority experienced a fire disaster caused by power lines 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. On July 23, 2014, four buildings totaling 30,164 square feet were lost in a gustnado wind storm.

An additional 110 buildings and structures totaling 438,996 square feet have been demolished or removed from the year 2002 through the end of 2014. The cost to tear down or restore the remaining buildings will be relatively significant. Also, substantial road and utility infrastructure improvements are still required to develop the excess property, as much of the infrastructure was outdated or nonexistent when the property was transferred to the Authority.

FINANCIAL HIGHLIGHTS

- Total assets of the Authority exceeded total liabilities by $18,464,376 at the close of 2014. Net position decreased by $1,217,092 during 2014.

- Of total net position at year-end, $1,829,903 was invested in fixed assets and $16,634,473 was unrestricted resources that may be used to meet the Authority’s on-going obligations.

- Total revenues during 2014 were $2,570,645, a decrease of $3,486,610 below the previous year.

- Total expenses during 2014 were $2,667,067, a decrease of $2,089,937 below 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 17 through 19 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 17 through 19 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 28 of this report. *Other supplementary information* includes a Golf Course Supplemental Statement, which can be found on pages 29 through 30 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

- ♦ As of December 31, 2014, total assets of the Authority's governmental activities were $18,820,726, which is a decrease of $1,137,936 (6%) below the 2013 year-end balance. Total assets at the end of 2014 consisted of $3,817,416 in current assets and $15,003,310 in capital assets, net of accumulated depreciation.

- ♦ Current assets increased by $26,547 (1%), which was the net result of an increase in accounts receivable. Capital assets decreased by $1,164,483 (7%) due to property sales and transfers. The Authority's mission is to sell property for redevelopment and reinvest the sales proceeds into infrastructure, which become assets of the respective municipalities. This trend of declining assets will continue until the Authority has completed its mission.

- ♦ Total liabilities at the end of 2014 were $356,350, an increase of $79,156 (29%) over the previous year. This was the net result of an increase in insurance proceeds, which were funds received, but not yet expended, for repairing buildings damaged by a gustnado wind storm. The Authority had no long-term debt at year-end. Therefore, all liabilities are current.

- ♦ Total net position decreased by $1,217,092 (6%) below the prior year, with a balance of $18,464,376 at the close of the current fiscal year.

- ♦ The majority of total net position, $16,634,473 (90%), is unrestricted. Of the unrestricted net position, $13,173,407 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 $3,461,066 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, $1,829,903 (10%), 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 2014.

Statement of Activities

- ♦ During 2014, total revenues from governmental activities were $2,570,645, a decrease of $3,486,610 (56%) below the previous year. The majority (98%) of this decrease was the net result of the following:

  - ▪ Gain on sale of capital assets decreased by $4,147,062. 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. During 2014, the Authority sold 18 acres of land, which included 4 acres for industrial development, 13 acres for commercial development, and one acre for private use.

- Golf course income decreased by $306,890. On April 1, 2014, the Authority sold its golf course operation to a non-profit membership organization called Deer Trails Country Club (DTCC) for the cost of inventory, and sold the equipment to DTCC through a four-year capital lease. The golf course property was retained by the Authority and leased to DTCC under a five-year no-cost lease.

- Lease income decreased by $134,835, mainly due to the loss of 11 leased buildings. In December 2013, the Authority sold 7 buildings that were leased, and 4 leased buildings were destroyed in the gustnado wind storm in July 2014.

- Other income increased by $1,179,878. Most of this increase (98%) was income from insurance proceeds. The Authority received $1,079,193 for the four buildings that were lost in the gustnado storm, which were not rebuilt, $20,252 for one building damaged in the gustnado storm that was sold without making repairs, $10,947 for staff time spent on storm debris cleanup and repairs, and $44,641 for a tractor, loader and brush hog that were lost by fire.

♦ Expenses from governmental activities during 2014 totaled $2,667,067, a decrease of $2,089,937 (44%) below the previous year. Approximately 95% of this decrease was due to reductions in construction and development, real estate commissions, and golf course expenses. With significantly lower property sales during 2014, commission expense was down by $369,251 from 2013. Fewer funds were available for road and utility projects, resulting in a $1,225,978 decline in construction and development expense. With the sale of the golf course operation on April 1, 2014, golf course expenses for the year decreased by approximately $389,000.

♦ Governmental activities reduced net position by $96,422 during the current fiscal year. Reclassifications for the sales and transfers of contributed assets reduced net position by $1,120,670, resulting in a total decrease in net position of $1,217,092.

In addition to the 18 acres of land sold during 2014, the Authority transferred 200 acres to The Degen Foundation, at no cost, to build the Arkansas Colleges of Health Education University campus along with supporting residential, commercial and retail developments. The first building is currently under construction, which will be a $32.4 million, 102,000-square-foot facility to house the proposed Arkansas College of Osteopathic Medicine. The medical college expects to receive provisional accreditation and begin its first class in 2016. The college will serve 600 students and initially create at least 65 new jobs.

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, 2014, the Authority's governmental funds reported total fund equity of $20,186,365. The majority of this amount (72%) is comprised of contributed capital. The balance of total fund equity (28%) consists of $2,242,741 invested in fixed assets and unreserved fund balance of $3,461,066.

During 2014, the Authority's governmental funds reported total revenues of $2,690,339 and total expenditures of $2,742,948, with a net result of $52,609 in expenditures over revenues. 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.

On January 23, 2014, the Authority's Board of Trustees adopted a special revenue fund budget for 2014, which reflected revenues of $3,702,000 and expenditures of $3,599,293.

- During 2014, actual revenues were below budgeted revenues by $1,011,661 (27%), due to property sales being lower than expected. The impact of the shortfall in property sales was reduced by the receipt of other miscellaneous income that was not expected.

  Property sales revenue was under budget by $2,169,798 (72%). In 2012 and 2013, the Authority experienced record-breaking land sales. Many of the sales prior to 2014 were for larger, more buildable parcels for industrial, commercial and residential development. It was anticipated that sales would be lower in 2014 as remaining parcels are becoming smaller and more specialized. However, with the unpredictability of the real estate market, property sales fell much shorter than expected.

The Authority received $1,218,345 of other miscellaneous income during 2014 that was not budgeted for. Approximately 95% of this income was from insurance proceeds.

- Actual expenditures during 2014 were below budgeted expenditures by $856,345 (24%), which was largely due to the following:

  - Construction and development expense was under budget by $365,740 (37%) due to the delay of some utility projects.
  - Commission expense was below budget by $202,106 (75%) due to property sales being lower than expected.
  - Capital expenditures & demolition were below budget by $61,408 (17%), mainly because the Authority delayed restoration of a barracks building in the historic district.
  - Insurance expense was under budget by $56,877 (18%). In 2014, the Authority moved its property, liability and other insurance policies to a new insurance agent who was able to obtain annual premiums that were lower than expected.
  - Outside contracting was below budget by $50,785 (33%) due to a reduction in general engineering services. With the shortfall in property sales, fewer land surveys and exhibits were needed.
  - Advertising and marketing expense was under budget by $48,278 (25%), mostly due to a delay in projects such as a marketing video and website overhaul.
  - The $71,151 balance of the deficit in budgeted expenditures was largely the result of efforts made by the Authority's staff to reduce spending in light of revenue shortfalls.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2014, the Authority's capital assets totaled $15,003,310, net of accumulated depreciation. Total capital assets consisted of $13,173,407 in donated assets (net), $1,257,171 invested in fixed assets (net), and $572,732 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 $1,164,483 (7%) during 2014. There was $5,900 in land improvements due to demolition, $292,691 of additions to fixed assets, $191,946 in fixed assets (net) written off or sold, and a reduction of $1,048,417 in donated land and buildings (net) and land improvements resulting from property sales and no-cost conveyances. Depreciation expense during 2014 totaled $222,711.

Additional information on the Authority's capital assets can be found in Note 1 on pages 21 through 22 and Note 8 on page 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 is a summary of infrastructure projects completed by the Authority:

Water and Wastewater Projects

Year Completed	Total Project Cost	Project Description
2005	$358,000 *17% state funds*	12-inch water line along Wells Lake Road
2006	$2,166,000 *EPA Grant* *45% state funds*	Water line, pump station, and elevated water storage tank near Massard Road
2008	$68,000	8-inch sewer line between Wintergreen Avenue and Mahogany Avenue
2009	$1,577,000 *EPA Grant* *60% state & city funds*	30-inch sewer line replacement and 12-inch sewer line extension near Massard Road and Zero Street
2010	$144,000	8-inch sewer line near Wintergreen Avenue and 17 sewer manholes between Chad Colley Blvd. and Wells Lake Road
2011	$30,000	8-inch water line to serve soccer fields at Taylor Avenue and Fort Chaffee Blvd.
2012	$1,130,000	12-inch water line along Massard Road and Chad Colley Blvd., 8-inch sewer line along Massard Road, 12-inch water line from elevated water tank to Wells Lake Road, 10-inch sewer line on Custer Blvd.
2013	$643,000 *EPA Grant* *55% FCRA funds*	16-inch water line along Taylor Avenue and Custer Blvd.
2013	$693,000	12-inch water line and 8-inch sewer line near Massard Road and Chad Colley Blvd., 8-inch and 10-inch sewer lines on Massard Road, 12-inch water line on Roberts Blvd.
2014	$79,000 *67% city & developer funds*	8-inch water and sewer lines on Frontier Road for APAC-Central office building

Roadway Projects

Year Completed	Total Project Cost	Project Description
2003	$2,974,000 *EDA Grant* *50% state/city/FCRA funds*	Chad Colley Blvd. between Highway 255 and Roberts Blvd., including water and wastewater lines.
2013	$1,098,000 *50% city funds*	McClure Drive from Massard Road to McClure Amphitheater
2013	$607,000 *50% city funds*	Flagstone Road extension to Old Dominion Freight Lines facility
2014	$1,244,000 *50% city funds*	"H" Street between Highway 59 and Interstate 49 right-of-way

Long-term Debt

As of December 31, 2014, the Authority had no long-term debt.

NEXT YEAR'S BUDGET AND EXPECTATIONS

In January 2015, the Board of Trustees adopted a special revenue fund budget for 2015, reflecting revenues of $4,091,000 and expenditures of $5,429,150.

Approximately 86% of budgeted revenues are expected to be from property sales, 9% from lease income, 4% from local government contributions, and 1% from historic district income. With the majority of revenue coming from property sales, it is expected that the Authority will experience net losses during some years, as land sales can be unpredictable, often due to factors beyond the Authority's control. Therefore, it is important to keep a reserve of funds to cover shortfalls during years of loss. At the end of 2014, the Authority's cash reserves were approximately two and one half times the $1,338,150 loss budgeted for 2015.

In 2015, property sales revenue is expected to be about four times that in 2014. One reason, is that sales in 2014 fell significantly short and some that were expected in 2014 are now anticipated to occur in 2015. Also, the conveyance of land in 2014 for the Arkansas Colleges of Health Education medical school campus, the planned relocation and expansion of ArcBest Corporation's headquarters to Chaffee Crossing, and the opening of the 6.5-mile stretch of future Interstate 49 through Chaffee Crossing are expected to have a significant impact on sales in 2015 and in future years.

As of August 2015, eight sales had closed totaling $1,274,370, which was 36% of the annual property sales budget, and another $3.2 million in offers were pending. In April 2015, the Authority sold 40 acres to ArcBest Corporation to build a new corporate headquarters with supporting commercial and retail development. Construction has begun for its 200,000 square-foot, $40 million office building and data center. Approximately 975 jobs will be created in the next six years as ArcBest plans to retain its current headquarters building in Fort Smith for expansion of other operations. It has also asked to exercise its option to purchase an additional 30 acres for future expansion of the new facility at Chaffee Crossing, which should close by the end of 2015.

The other sales that have closed in 2015 include smaller tracts of land for single and multi-family housing, insurance and engineering offices, a cross-fit fitness center, a duplex development with a community center for senior citizens, and a long-term residential rehab center for children and young adults with severe mental and physical disabilities. Pending sales include 24 acres for commercial and retail development, 98 acres for single and multi-family residential development, and 26 acres for additional support facilities for the medical school.

The medical school will have a significant, wide-reaching impact for years to come. The Authority has already realized an effect from this planned development through an increase in the value of surrounding property. Future impacts will be unlimited from revenue, economic 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 alone.

Housing construction, sales and leasing at Chaffee Crossing continued at a steady pace during 2014, with much more planned for 2015 and beyond. There are currently three multi-family and five single-family residential developments occupied and/or under construction that will ultimately comprise approximately 560 homes and 500 apartments. To date, development at Chaffee Crossing has mostly consisted of residential and industrial developments. With the opening of AR-549 (future I-49) in July 2015, the start of construction on the new medical school building and ArcBest corporate headquarters, and continued housing growth, development of many of the commercial tracts sold in the last four years is expected to commence during 2015 and explode.

Budgeted lease income for 2015 is equal to actual income in 2014, which was about $360,000. Although leasing has dropped in recent years due to the sale of leased buildings, it is expected to remain steady during 2015. 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 $124,000 expected to be received from two additional agreements for services related to the Mars Petcare and Umarex USA properties.

The amount budgeted in 2015 for historic district income is more than double the actual income realized in 2014. The $45,000 budget includes revenues from donations, fundraisers, and merchandise sales. This is just the beginning of the Authority's long-term goal for the historic district to become self-sustaining through a non-profit organization that was established in 2010 called the Chaffee Crossing Historic Preservation Organization. The historic district was created in 2011 when 41 buildings and structures were added to the National Register of Historic Places. In April 2015, an additional 14 buildings and structures were added to the National Register, bringing the total to 55. This designation increases the marketability of these buildings by making federal and state tax credits available for renovation costs.

Various efforts are in place or being planned to fund operations, further develop the historic district area, restore buildings, and expand the two museums that the Authority currently operates. In addition to annual fundraising events, an engraved brick campaign was kicked off at the end of 2014 to raise funds to build a Veterans Memorial Plaza, in which the bricks will be placed. In June 2015, the Authority was awarded an Arkansas Historic Preservation grant for $55,900, including a one-third matching requirement, to make renovations and repairs to the barracks building where Elvis Presley temporarily stayed when he was first inducted into the U.S. Army. Also in 2015, a college intern was hired for the summer to assist with drafting a capital campaign plan. The success of this campaign is vital to the survival of the historic district as complete restoration of the district will require millions of dollars.

The Authority budgeted approximately $2.1 million in 2015 for total operating expenses, which is about 18% more than actual operating expenses in 2014. Almost 75% of this difference is related to commission expense and closing costs. As a result of budgeted property sales revenue being four times actual sales revenue in 2014, the amount budgeted in 2015 for commissions and closing costs is also four times the actual costs in 2014.

A total of $310,000 was budgeted for capital expenditures and demolition in 2015, which is about 4% higher than actual expenditures in 2014. At least 80% of the budgeted amount is for improvements to leased or leasable buildings, site improvements in the historic district, and the restoration of a barracks building. Approximately 17% is for the purchase of a new mower, the replacement of four office computers, and the potential replacement of HVAC and other equipment. The remaining 3% is for building demolition.

In July 2014, the Authority sustained substantial losses from a gustnado wind storm that damaged 50 buildings, of which four were a total loss. The Authority's insurance company estimated total damages at approximately $1.9 million. Most of these buildings are in the historic district. The Authority received about $1.5 million of insurance proceeds during 2014 for damages and was reimbursed almost $70,000 in 2015 for temporary repairs and storm debris cleanup. The Authority expects to complete all repairs by the end of 2015. At the end of August 2015, the balance of insurance proceeds was slightly over $100,000.

The Authority budgeted $3 million for construction and development in 2015 for road and utility infrastructure improvements, which is almost five times the actual expenditures in 2014. About 76% of the 2014 expenditures were for the construction of "H" Street in Barling. The Authority agreed to equally share the cost with the City of Barling to extend "H" Street east of Highway 59 into Chaffee Crossing to provide access to future residential developments and the new Barling city park.

In 2015, the Authority budgeted $1.9 million for road construction and $1.1 million for water & sewer improvements. The amount budgeted for road construction is for 50% of the cost to build two new roads, which are estimated to cost a total of $3.8 million. The Authority agreed to equally share the cost of the two roads with the City of Fort Smith. McClure Drive, which was constructed from Massard Road to the McClure Amphitheater in 2013, is being extended further east to Wells Lake Road. This will provide further access to the ridge area and the southern end of the ArcBest development. A second road, called R.A. Young, Jr. Drive, is being constructed from the north end of the ArcBest site to Wells Lake Road. This road will also provide access to a future residential development north of the ArcBest site. The two road projects are expected to be completed by the end of 2015.

Several utility projects are planned for 2015. The largest project, estimated to cost $600,000, is construction of a new sewer line from Zero Street to McClure Drive to serve the ridge area and the ArcBest development. Other projects include the extension of water and sewer lines along Frontier Road to serve future commercial, retail and multi-family residential developments, and several smaller water and sewer extensions along Massard Road and Wells Lake Road to serve future developments in those areas.

In addition to the projects described above, the City of Fort Smith currently has road and utility projects underway in association with the future medical school development. The City is reconstructing and overlaying a portion of Veterans Avenue and installing a cul-de-sac in the vicinity of the medical school property at an estimated cost of $725,000. The City is also installing several new water and sewer lines to serve the medical school and surrounding area at a total estimated cost of $780,000. Another project currently being planned by the City is the construction of two wastewater pump stations and force mains at Chaffee Crossing. One pump station, to be located on the west side of Fort Chaffee Blvd. a short distance south of Highway 22, is designed to relieve the sewer lagoons in the City of Barling and re-direct the sewage to the City of Fort Smith's treatment facility. The other pump station will be located off of Roberts Blvd. and will serve the area west of the AR-549 interchange up to Wells Lake Road.

One of the most significant events to occur since the Authority was established was the opening of the 6.5-mile stretch of future Interstate 49 through Chaffee Crossing in July 2015. At a total cost of $97 million, this section begins at Highway 22 and runs south to Highway 71. It is currently labeled AR-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.

In spite of the remaining gaps in I-49, there has been and will be an enormous impact on economic development at Chaffee Crossing from the opening of its 6.5-mile portion alone. With the opening of the interstate and development underway for the new ArcBest headquarters and Arkansas College of Osteopathic Medicine, the Authority has realized immediate effects in 2015 from increased land values and property interests to a surge of construction on land previously sold by the Authority. It is anticipated that Chaffee Crossing will experience considerable growth during 2015 and in short years to come.

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, 2014

	Governmental Fund	Adjustments	Statement of Net Position	(Memorandum Only) 2013 Statement of Net Position
Assets				
Cash and cash equivalents	$ 3,534,129	$ -	$ 3,534,129	$ 3,608,782
Accounts receivable	221,643	-	221,643	112,189
Prepaid expenses	56,100	-	56,100	54,500
Inventory	1,901	-	1,901	12,215
Interest receivable	3,643	-	3,643	2,683
Capital assets				
Donated assets				
Donated land	12,772,469	-	12,772,469	13,779,539
Donated buildings (net of accumulated depreciation)	1,710,089	(1,309,151) ①	400,938	534,036
Other capital assets (net of accumulated depreciation)	1,670,009	(412,838) ①	1,257,171	1,278,244
Land improvements	572,732	-	572,732	575,974
Deposits	-	-	-	500
Total Assets	20,542,715	(1,721,989)	18,820,726	19,958,662
Liabilities				
Accounts payable	85,620	-	85,620	84,524
Payroll and payroll taxes payable	199	-	199	867
Other accrued expenses	226,209	-	226,209	98,583
Lease deposits and prepayments	44,322	-	44,322	93,220
Total Liabilities	356,350	-	356,350	277,194
Fund equity:				
Contributed capital	14,482,558	(14,482,558)	-	-
Investment in fixed assets	2,242,741	(2,242,741)	-	-
Fund balances:				
Nonspendable	58,001	(58,001)	-	-
Spendable:				
Unassigned	3,403,065	(3,403,065)	-	-
Total Fund Balances	20,186,365	(20,186,365)	-	-
Total Liabilities and Fund Balances	$ 20,542,715			
Net Position:				
Net investment in capital assets		1,829,903	1,829,903	1,854,218
Unrestricted		16,634,473	16,634,473	17,827,250
Total Net Position		18,464,376	18,464,376	19,681,468
Total Liabilities and Net Position		$ (1,721,989)	$ 18,820,726	$ 19,958,662

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, 2014

	Governmental Fund	Adjustments	Statement of Activities	(Memorandum Only) 2013 Statement of Activities
Revenues				
Federal grants	$ -	$ -	$ -	$ 26,020
Local government contributions	186,020	-	186,020	166,506
Golf course income	49,300	-	49,300	356,190
Historic district income	19,769	-	19,769	5,921
Lease income	366,587	-	366,587	501,422
Mining income	5,469	-	5,469	64,027
Property sales	830,202	(830,202) ①	-	-
Rail car storage	1,053	-	1,053	34,646
Interest income	13,594	-	13,594	6,486
Gain on sale of capital assets	-	710,508 ①	710,508	4,857,570
Other income	1,218,345	-	1,218,345	38,467
Total Revenues	2,690,339	(119,694)	2,570,645	6,057,255
Cost of Goods Sold	14,908	-	14,908	64,817
Gross Profit	2,675,431	(119,694)	2,555,737	5,992,438
Expenditures				
Advertising and marketing	141,722	-	141,722	191,172
Automobile expenses	23,217	-	23,217	21,991
Bad debts	10,035	-	10,035	-
Commissions	67,894	-	67,894	437,145
Conferences	6,115	-	6,115	6,490
Construction and development	634,260	-	634,260	1,860,238
Depreciation	-	222,711 ①	222,711	220,526
Fuel	24,560	-	24,560	34,369
Grant expenditures	-	-	-	47,310
Insurance	262,323	-	262,323	325,527
Maintenance and repairs	124,989	-	124,989	176,265
Miscellaneous	28,397	-	28,397	72,104
Office expenses	32,930	-	32,930	45,739
Outside contracting	105,215	-	105,215	142,926
Payroll taxes	67,920	-	67,920	76,497
Professional fees	30,056	-	30,056	51,339
Security	1,614	-	1,614	3,466
Training and reference material	3,655	-	3,655	1,447
Travel	11,706	-	11,706	17,114
Utilities	51,027	-	51,027	60,771
Wages and employee benefits	801,813	-	801,813	899,751
Capital expenditures and demolition	298,592	(298,592) ①	-	-
Total Expenditures	2,728,040	(75,881)	2,652,159	4,692,187
Excess of Revenues Over Expenditures	(52,609)	(43,813)	(96,422)	1,300,251

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, 2014

	Governmental Fund	Adjustments	Statement of Activities	(Memorandum Only) 2013 Statement of Activities
Excess of Revenues Over Expenditures	(52,609)	(43,813)	(96,422)	1,300,251
Fund Balance/Net Position Beginning of Year	21,338,660	(1,657,192)	19,681,468	19,883,653
Reclassification:				
Capital expenditures and demolition	298,592	(298,592)	-	-
Cost of capital assets sold	(277,608)	277,608	-	-
Change due to sales/transfers of contributed assets	(1,120,670)	-	(1,120,670)	(1,502,436)
Fund Balance/Net Position End of Year	$ 20,186,365	$ (1,721,989)	$ 18,464,376	$ 19,681,468

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.

FORT CHAFFEE REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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 them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

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 $1,621,323 at December 31, 2014.

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, 2014, in accordance with the agreement, the Authority utilized $238,091 of grant matching funds. The grant period is from February 29, 2012 through May 15, 2016.

***NOTE 4*: CONCENTRATION OF CREDIT RISK**

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

***NOTE 5:* 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, 2014. 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 6: 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:	
2015	$ 56,000
2016	56,858
2017	59,708
2018	37,748
2019-2022	46,565
Total minimum lease payments receivable	$ 256,879

NOTE 7: 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, 2014. The sum of this future funding is $124,000. The County agreement commenced in 2007 and $31,000 was received during the year ended December 31, 2014. The sum of this future funding is $155,000.

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, 2014, the Authority received $124,020 from both the City and County.

FORT CHAFFEE REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 8: **CHANGES IN CAPITAL ASSETS**

During the year ended December 31, 2014, changes in capital assets were as follows:

	Balance January 1, 2014	Additions	Deletions	Balance December 31, 2014
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 13,779,539	$ -	$(1,007,070)	$ 12,772,469
Land improvements	575,974	5,900	(9,142)	572,732
	$ 14,355,513	$ 5,900	$(1,016,212)	$ 13,345,201
Other capital assets:				
Donated buildings	$ 1,823,689	$ -	$ (113,600)	$ 1,710,089
Buildings	8,065	2,173	-	10,238
Landscaping/site work	27,800	-	(2,042)	25,758
Office equipment	46,388	1,629	(1,403)	46,614
Furniture and fixtures	67,293	-	-	67,293
Remodeling and furnishings	647,214	179,888	(80,607)	746,495
Parking lots	73,013	10,910	(10,910)	73,013
Railroad improvements	187,071	-	-	187,071
Vehicles	76,923	2,000	(11,285)	67,638
Equipment	512,016	96,091	(162,219)	445,888
Total other capital assets at cost or FMV	$ 3,469,472	$ 292,691	$ (382,066)	$ 3,380,097
Less accumulated depreciation for:				
Donated buildings	$ 1,289,653	$ 100,893	$ (81,395)	$ 1,309,151
Buildings	756	503	-	1,259
Landscaping/site work	6,624	2,450	-	9,074
Office equipment	26,759	5,650	(959)	31,450
Furniture and fixtures	37,080	7,115	-	44,195
Remodeling and furnishings	90,117	43,844	(9,564)	124,397
Parking lots	913	3,650	-	4,563
Railroad improvements	15,070	6,235	-	21,305
Vehicles	18,364	9,630	(4,559)	23,435
Equipment	171,856	42,741	(61,438)	153,159
Total accumulated depreciation	$ 1,657,192	$ 222,711	$ (157,915)	$ 1,721,988
Capital assets being depreciated, net	$ 1,812,280	$ 69,980	$ (224,151)	$ 1,658,109
Governmental activities capital assets, net	$ 16,167,793	$ 75,880	$(1,240,363)	$ 15,003,310

NOTE 9: 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 10: CASUALTY LOSS

On August 3, 2011, the Authority experienced a casualty loss of approximately 111 buildings on 80 acres due to fire damage. 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 its presence and possible involvement when the fire occurred. During the year ended December 31, 2014, the Authority learned its request for assistance from the Army for the cleanup efforts was denied. Subsequent to year end, the Authority submitted a request for reconsideration which was also denied. On September 9, 2015, the Authority filed a lawsuit against the United States regarding these negligent acts that caused the fire damage. See also Note 5.

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. As of December 31, 2014, all repairs had been made and a receivable of $983 has been recorded.

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 $1,900,000. During December 31, 2014, the Authority received $1,515,200 of insurance proceeds of which $204,330 is included in Accrued Expenses. As of December 31, 2014, all repairs have not been made and a receivable of $80,347 has been recorded.

NOTE 11: COMMITMENTS

The Authority entered into an agreement dated June 3, 2014 with the City of Fort Smith to jointly develop and construct public streets to serve the development of real property associated with and in the vicinity of the McClure Amphitheater area. The above entities have agreed to equally share the cost of the project which is estimated in total to cost $3,800,000. As of December 31, 2014, total expenses incurred but not yet paid on this agreement were $67,120. This amount is included in accounts payable on the Statement of Net Position and Governmental Fund Balance Sheet.

REQUIRED SUPPLEMENTARY INFORMATION

FORT CHAFFEE REDEVELOPMENT AUTHORITY

BUDGETARY COMPARISON SCHEDULE SPECIAL REVENUE FUND

FOR THE YEAR ENDED DECEMBER 31, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Local government contributions	$ 158,000	$ 158,000	$ 186,020	$ 28,020
Golf course income	62,000	62,000	49,300	(12,700)
Historic district income	32,000	32,000	19,769	(12,231)
Lease income	400,000	400,000	366,587	(33,413)
Mining income	30,000	30,000	5,469	(24,531)
Property sales	3,000,000	3,000,000	830,202	(2,169,798)
Rail car storage	20,000	20,000	1,053	(18,947)
Interest income	-	-	13,594	13,594
Other income	-	-	1,218,345	1,218,345
Total Revenues	3,702,000	3,702,000	2,690,339	(1,011,661)
Cost of Goods Sold	14,700	14,700	14,908	(208)
Gross Profit	3,687,300	3,687,300	2,675,431	(1,011,869)
Expenditures				
Advertising and marketing	190,000	190,000	141,722	48,278
Automobile expenses	23,300	23,300	23,217	83
Bad debts	-	-	10,035	(10,035)
Commissions	270,000	270,000	67,894	202,106
Conferences	6,000	6,000	6,115	(115)
Construction and development	1,000,000	1,000,000	634,260	365,740
Fuel	31,000	31,000	24,560	6,440
Insurance	319,200	319,200	262,323	56,877
Maintenance and repairs	149,500	149,500	124,989	24,511
Miscellaneous	48,825	48,825	28,397	20,428
Office expenses	34,700	34,700	32,930	1,770
Outside contracting	156,000	156,000	105,215	50,785
Payroll taxes	70,775	70,775	67,920	2,855
Professional fees	35,000	35,000	30,056	4,944
Security	2,650	2,650	1,614	1,036
Training and reference material	4,000	4,000	3,655	345
Travel	17,000	17,000	11,706	5,294
Utilities	41,000	41,000	51,027	(10,027)
Wages and employee benefits	825,643	825,643	801,813	23,830
Capital expenditures and demolition	360,000	360,000	298,592	61,408
Total Expenditures	3,584,593	3,584,593	2,728,040	856,553
Excess of Revenues Over Expenditures	$ 102,707	$ 102,707	(52,609)	$ (155,316)
Fund Balance Beginning of Year			21,338,660	
Reclassifications			(1,099,686)	
Fund Balance End of Year			$ 20,186,365	

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, 2014

	FCRA	Golf Course	Total
Revenues			
Local government contributions	$ 186,020	$ -	$ 186,020
Golf course income:			
Golf fees	-	28,063	28,063
Sales - pro shop	-	2,015	2,015
Sales - snack bar	-	19,139	19,139
Cash over/short	-	83	83
Historic district income	19,769	-	19,769
Lease income	366,587	-	366,587
Mining income	5,469	-	5,469
Property sales	830,202	-	830,202
Rail car storage	1,053	-	1,053
Interest income	13,594	-	13,594
Other income	1,218,345	-	1,218,345
Total Revenues	2,641,039	49,300	2,690,339
Cost of Goods Sold	2,301	12,607	14,908
Gross Profit	2,638,738	36,693	2,675,431
Expenditures			
Advertising and marketing	141,703	19	141,722
Automobile expenses	22,838	379	23,217
Bad debts	10,035	-	10,035
Commissions	67,894	-	67,894
Conferences	6,115	-	6,115
Construction and development	634,260	-	634,260
Fuel	25,384	(824)	24,560
Insurance	248,643	13,680	262,323
Maintenance and repairs	117,015	7,974	124,989
Miscellaneous	21,721	6,676	28,397
Office expenses	32,057	873	32,930
Outside contracting	96,820	8,395	105,215
Payroll taxes	61,501	6,419	67,920
Professional fees	30,056	-	30,056
Security	1,515	99	1,614
Training and reference material	3,655	-	3,655
Travel	11,706	-	11,706
Utilities	43,694	7,333	51,027
Wages and employee benefits	752,140	49,673	801,813
Capital expenditures and demolition	298,592	-	298,592
Total Expenditures	2,627,344	100,696	2,728,040
Excess of Revenues Over Expenditures	11,394	(64,003)	(52,609)

See independent auditor's report.

FORT CHAFFEE REDEVELOPMENT AUTHORITY

GOLF COURSE SUPPLEMENTAL STATEMENT (UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2014

	FCRA	Golf Course	Total
Excess of Revenues Over Expenditures	11,394	(64,003)	(52,609)
Fund Balance Beginning of Year	21,646,768	(308,108)	21,338,660
Reclassification:			
Capital expenditures and demolition	298,592	-	298,592
Cost of capital assets sold	(277,608)	-	(277,608)
Change due to sales/transfers of contributed assets	(1,120,670)	-	(1,120,670)
Fund Balance End of Year	$ 20,558,476	$ (372,111)	$ 20,186,365

See independent auditor's report.

ADDITIONAL REQUIRED REPORT

PRZYBYSZ & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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, 2014, 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 October 7, 2015.

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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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
October 7, 2015