

**FORT CHAFFEE
REDEVELOPMENT AUTHORITY
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2015**



FORT CHAFFEE REDEVELOPMENT AUTHORITY
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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, 2015, 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 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, 2015, 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 3-14 and 27 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2016, 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, CPAs, P.C.
Fort Smith, Arkansas
November 2, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORT CHAFFEE REDEVELOPMENT AUTHORITY
Management's Discussion and Analysis
Year Ended December 31, 2015
(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, 2015. 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 state and local government entities by public benefit conveyance.

To date, the Authority has sold 1,641 acres of land, including 78 buildings totaling 407,096 square feet. Thirteen of the buildings that were sold have subsequently been demolished. An additional 841 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 \$750 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 1,255 employees, of which 707 are new jobs.

The Authority currently leases 46 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 115 buildings and structures totaling 452,855 square feet have been demolished or removed from the year 2002 through the end of 2015. 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 \$18,200,572 at the close of 2015. Net position decreased by \$263,804 during 2015.
- ❖ Of total net position at year-end, \$1,803,083 was invested in fixed assets and \$16,397,489 was unrestricted resources that may be used to meet the Authority's on-going obligations.
- ❖ Total revenues during 2015 were \$4,363,726, an increase of \$1,793,081 above the previous year.
- ❖ Total expenses during 2015 were \$3,752,900, an increase of \$1,085,833 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 15 through 17 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 15 through 17 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 27 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

- ◆ As of December 31, 2015, total assets of the Authority's governmental activities were \$18,800,331, which is an increase of \$20,395 (less than 1%) over the 2014 year-end balance. Total assets at the end of 2015 consisted of \$4,759,176 in current assets and \$14,041,155 in capital assets, net of accumulated depreciation.
- ◆ Current assets increased by \$941,760 (25%), which was due to an increase in cash. Capital assets decreased by \$962,155 (6%) 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 capital assets will continue until the Authority has completed its mission.
- ◆ Total liabilities at the end of 2015 were \$599,759, an increase of \$243,409 (68%) over the previous year. This was mainly the net result of a \$455,192 increase in payables for road and utility construction and a \$204,329 decrease in insurance proceeds, which were funds received in a previous year and expended during the current year 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 \$263,804 (1%) from the prior year, with a balance of \$18,200,572 at the close of the current fiscal year.
- ◆ The majority of total net position, \$16,397,489 (90%), is unrestricted. Of the unrestricted net position, \$12,238,072 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 \$4,159,417 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, \$1,803,083 (10%), is the amount invested in land improvements and 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 2015.

Statement of Activities

- ◆ During 2015, total revenues from governmental activities were \$4,363,726, an increase of \$1,793,081 (70%) above the previous year. This increase was mainly the net result of an increase in property sales and decrease in other miscellaneous income.

- Gain on sale of capital assets increased by \$2,407,429 (339%). 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. During 2015, the Authority sold 184 acres of land, which included 29 acres for residential development, 88 acres for commercial development, 39 acres for mixed-use residential and commercial development, and 28 acres for expansion of the future Arkansas Colleges of Health Education campus.
- Other miscellaneous income declined by \$567,811 (47%), which was largely the net result of a \$529,050 increase in revenue from easements and a \$1,061,480 decrease in revenue from insurance proceeds. The Authority received \$250 for a telephone utility easement in 2014. In 2015, the Authority received \$529,300 for easements it granted for a large fuel distribution pipeline. In 2014, the Authority received \$1,155,033 of insurance proceeds income for buildings lost or damaged by a gustnado wind storm and for equipment lost by fire. In 2015, \$93,553 of insurance proceeds income was realized in relation to the gustnado storm damage and for equipment lost by damage and theft.
- ◆ Expenses from governmental activities during 2015 totaled \$3,752,900, an increase of \$1,085,833 (41%) over the previous year. Approximately 97% of this increase was the net result of an increase in real estate commissions and construction and development expense, and a decrease in advertising and marketing expense. With significantly higher property sales during 2015, commission expense was up by \$167,589 from 2014. Also, more funds for road and utility projects were available, resulting in a \$975,938 increase in construction and development expense. Advertising & marketing expense decreased by \$88,636 from 2014. In 2015, the Authority scaled down its two annual marketing events, cut back on advertising, and reduced the use of services provided by its outside marketing firm.
- ◆ Governmental activities increased net position by \$610,826 during the current fiscal year. Reclassifications for the sales and transfers of contributed assets reduced net position by \$874,630, resulting in a total decrease in net position of \$263,804.

In addition to the 184 acres of land sold during 2015, the Authority transferred two tracts of land totaling 2.5 acres to The City of Fort Smith, at no cost, for the future construction of two sanitary sewer pump stations. Together, the two pump stations will provide relief to the sewer lagoons in Barling and serve most of the portion of Chaffee Crossing that lies in the Fort Smith city limits, including an area outside of Chaffee Crossing to the south.

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, 2015, the Authority's governmental funds reported total fund equity of \$20,091,280. Approximately two-thirds of this amount (68%) is comprised of contributed capital. The balance of total fund equity (32%) consists of \$2,323,935 invested in fixed assets, non-spendable fund balance of \$70,569, and spendable, unreserved fund balance of \$4,088,848.

During 2015, the Authority's governmental funds reported total revenues of \$4,400,148 and total expenditures of \$3,701,798, with a net result of \$698,350 in 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.

On January 22, 2015, the Authority's Board of Trustees adopted a special revenue fund budget for 2015, which reflected revenues of \$4,091,000 and expenditures of \$5,429,150.

- ◆ During 2015, actual revenues were higher than budgeted revenues by \$309,148 (8%) due to other miscellaneous income that was not budgeted for. The Authority received \$650,534 in other income, of which 81% was from the fuel distribution pipeline easements. The amount of the budget overage resulting from other income was reduced by a shortfall in property sales. Property sales revenue was under budget by \$345,641 (10%).
- ◆ Actual expenditures during 2015 were below budgeted expenditures by \$1,727,352 (32%). Most of this variance (98%) was due to the following:
 - Construction and development expense was under budget by \$1,389,802 (46%) due to a delay in road and utility projects.
 - Capital expenditures & demolition were below budget by \$142,703 (46%), mainly because the Authority delayed the restoration of a barracks building and construction of a veterans' memorial in the historic district.
 - Advertising & marketing expense was under budget by \$111,914 (68%), mostly due to a significant reduction in print advertising and the delay of a fundraising campaign for the historic district.
 - Commission expense was below budget by \$44,517 (16%) due to property sales being lower than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2015, the Authority's capital assets totaled \$14,041,155, net of accumulated depreciation. Total capital assets consisted of \$12,238,072 in donated assets (net), \$1,231,076 invested in fixed assets (net), and \$572,007 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 \$962,155 (6%) during 2015. There was \$35,228 in land improvements due to demolition, \$132,069 of additions to fixed assets, \$35,795 in fixed assets (net) written off or sold, and a reduction of \$875,258 in donated land and buildings (net) and land improvements resulting from property sales and no-cost conveyances. Depreciation expense during 2015 totaled \$218,399.

Additional information on the Authority's capital assets can be found in Note 1 on pages 19 through 20 and Note 8 on page 24 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:

Roadway Projects

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

Water and Wastewater Projects

Year Completed	Total Project Cost	Project Description
2005	\$358,000 <i>17% state funds</i>	12-inch water line along Wells Lake Road
2006	\$2,166,000 <i>EPA Grant 45% state funds</i>	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 <i>EPA Grant 60% state & city funds</i>	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 <i>EPA Grant 55% FCRA funds</i>	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 <i>67% city & developer funds</i>	8-inch water and sewer lines on Frontier Road for APAC-Central office building
2015	\$215,000 <i>67% city & developer funds</i>	8-inch water and sewer lines on Frontier Road from APAC to Chad Colley Blvd.
2015	\$536,000	8, 10 & 12-inch sewer line extensions between Zero Street and McClure Drive, 10-inch sewer line extension at Roberts Blvd. and Veterans Avenue

Long-term Debt

As of December 31, 2015, the Authority had no long-term debt.

NEXT YEAR'S BUDGET AND EXPECTATIONS

In December 2015, the Board of Trustees adopted a special revenue fund budget for 2016, reflecting revenues of \$3,815,000 and expenditures of \$4,743,500.

Approximately 85% of budgeted revenues are expected to be from property sales, 8% from lease income, 4% from local government contributions, 2% from rail car storage income, 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 2015, the Authority's cash reserves were approximately five times the \$928,500 loss budgeted for 2016.

Property sales revenue during 2016 is expected to be about the same as that in 2015. At the end of 2015, there were approximately \$1.2 million of sales pending. As of October 2016, ten sales had closed totaling \$2,160,300 and another \$1.2 million in offers were pending. Approximately 90% of the 120 acres of land sold to date in 2016 is for residential development, which will include 51 duplexes, 98 single-family homes, and a children's home comprising four cottages that will each house eight foster children and two house parents. The other 10% is for commercial development, which will include warehouse storage space, commercial office space, a veterinary clinic, a micro-brewery, and restaurants. Pending sales include 5 acres for commercial and retail development, 65 acres for single-family residential development, and 20 acres for educational institutions.

Three significant events have been a driving force of increased construction activity at Chaffee Crossing. The opening of the \$97 million, 6.5-mile stretch of Arkansas Highway 549 (future Interstate 49) through Chaffee Crossing, completion of the \$32 million, 102,000 square-foot building that will house the Arkansas College of Osteopathic Medicine, and continued construction of ArcBest Corporation's new \$40 million, 200,000 square-foot corporate headquarters building. During 2016, the Authority foresees a record-breaking number of groundbreaking and ribbon-cuttings at Chaffee Crossing.

The osteopathic medical school building is the first building of several that will comprise the Arkansas Colleges of Health Education (ACHE). The medical school will open in August 2017 with its first freshman class of 150 students. This is just the beginning of a 228-acre traditional neighborhood development that will include the ACHE campus and supporting facilities such as a medical clinic, commercial and retail establishments, housing, parks and trails. It has been estimated that this development will have a \$100 million annual economic impact on the western Arkansas and eastern Oklahoma region.

The new ArcBest corporate headquarters is expected to open in the spring of 2017 and will bring 1,000 jobs to Chaffee Crossing. In anticipation of this new development and the future ACHE campus, the Authority has realized a considerable increase in residential property sales and this trend is expected to continue. There are currently 18 residential developments planned, occupied, and/or under construction that will ultimately total approximately 680 single-family homes and

995 multi-family units. This in turn will spur more commercial and retail property sales and development.

The six industrial developments at Chaffee Crossing are doing well, with internal expansions planned at Mars Petcare U.S. and Umarex USA/Walther Arms, which will create additional jobs. A major announcement was made in March 2016 that Glatfelter, a manufacturer of specialty papers and fiber-based materials, will acquire the \$100 million, 200,000 square-foot Mitsubishi plant that was constructed four years ago, but was never occupied. Glatfelter will open in late 2017 after making an \$80 million capital investment in the building over the next two years, and will create 83 high-skilled, well-paying jobs.

The Authority budgeted \$300,000 in lease income for 2016, which is equal to actual income in 2015. Although leasing has dropped in recent years due to the sale of leased buildings, it is expected to remain steady during 2016. 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 \$103,000 expected to be received from two additional agreements for services related to the Mars Petcare and Umarex USA properties. The Authority owns 5.5 miles of railroad track at Chaffee Crossing and entered into a railcar storage agreement with Fort Smith Railroad Company in 2011. It is expected that the level of storage activity in 2016 will be at least equal to that in 2015. Therefore, \$75,000 was budgeted in 2016 for railcar storage income.

The Authority anticipates that historic district income in 2016 will be close to that realized in 2015, with a budgeted amount of \$25,000. Approximately 60% of this is expected to be from event registrations and sponsorships, 28% from donations, and 12% from merchandise sales. A long-term goal of the Authority is 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 (CCHPO). 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 2016, the Authority completed the first phase of renovations to the barracks building where Elvis Presley stayed while being processed to serve in the U.S. Army, which was partially funded by a \$55,900 Arkansas Historic Preservation grant. This building will house an expansion of the Museum of Chaffee History. The CCHPO expanded its board of directors in early 2016 from three to seven members, with the intent of creating a proactive board that will oversee fundraising activities. There are plans to kick off a capital campaign that will be vital to the survival of the historic district, as complete restoration of the district will require millions of dollars.

In the past year, the Authority has sold and received offers on several former military buildings in the historic area for a variety of uses. There are plans for renovating warehouse buildings into office space, retail space, restaurants, a micro-brewery, and loft-style apartments. A hair salon and spa will occupy a barracks building, and other commercial businesses have opened up in old administrative buildings. A planned zoning district is being established and a master plan created to make this a unique area with distinctive characteristics. This recent boon of interest has boosted the Authority's hope and expectation that the historic district and surrounding area will become a thriving mixed-use commercial, recreational, and educational center.

The Authority budgeted approximately \$2.2 million in 2016 for total operating expenses, which is about \$300,000 (16%) more than actual operating expenses in 2015. Slightly more than half of this difference is equally related to advertising and marketing and wages and employee benefits. The Authority plans to increase its marketing activities in 2016 with more ads, updates to its website and marketing video, and implementation of a marketing campaign for the historic district. Budgeted salaries were increased to include an average of 4% in performance increases, additional compensation for those employees who lost health insurance benefits for their spouses due to the new healthcare laws, and an additional salary amount to make the part-time museum assistant position a full-time position. There was a significant increase in budgeted retirement benefits as the Authority changed its employee retirement plan from a SIMPLE IRA to a 401(k) plan, which added administrative costs and increased the employer matching contribution from 3% to 4%.

The other half of the difference between 2016 budgeted operating expenses and actual expenses in 2015 is mostly related to property sales commission, insurance expense, legal expense, maintenance and repairs, and outside contracting. Although property sales revenue is expected to remain the same, property sales commissions are expected to be about \$25,000 (10%) higher in 2016, because there was a significant sale in 2015 that the Authority did not pay a commission on. Insurance expense has been estimated to be approximately \$55,000 (20%) higher than that in 2015 due to increased premiums for health insurance and property insurance. The Authority sustained substantial property damages from a gustnado wind storm in 2014, for which it received \$1.6 million in insurance proceeds. This claim is expected to have a negative impact on property insurance premiums for 2016. Legal expenses were budgeted about \$24,000 (94%) higher in 2016 due to three lawsuits that were pending at the end of 2015, all of which had favorable outcomes in 2016. Budgeted maintenance and repairs is about \$23,000 (19%) more than actual expenses in 2015 and outside contracting is expected to be about \$16,000 (17%) higher than that in 2015.

A total of \$510,000 was budgeted for capital expenditures and demolition in 2016, which is about three times the amount of actual expenditures in 2015. Almost two-thirds of the budgeted amount is for the second phase of renovations to the Elvis barracks building, construction of the Veterans Memorial Plaza, and a potential property repurchase due to the buyer not completing required improvements within the contracted amount of time. The remaining one-third is for expenditures the Authority anticipates for the replacement of two mowers, two computers and a computer server, a color copy machine, HVAC and other equipment, improvements needed for leased buildings, and the demolition of two buildings.

The Authority budgeted \$2 million for construction and development in 2016 for road and utility infrastructure improvements, which is 24% higher than actual expenditures in 2015. About 84%

of the 2015 expenditures were for the construction of sewer lines and two new streets on the west side of Chaffee Crossing to serve the new ArcBest headquarters, residential developments, and several businesses in the area. Construction of the two streets, R.A. Young, Jr. Drive and the McClure Drive extension, began in 2015 and will be completed in 2016. The Authority agreed to equally share the \$3.8 million estimated cost with the City of Fort Smith. The 2016 budget includes \$1.2 million for the Authority's share of completing the two roads. Also included is \$800,000 for various water and sewer projects, most of which are planned for areas west of Chad Colley Blvd.

In May 2016, the Authority entered into another partnership with the City of Fort Smith for the development and construction of approximately 6.5 miles of public trails at Chaffee Crossing. The trails will be constructed in three phases at a total estimated cost of \$3.25 million. The Authority has agreed to equally share the cost with the City up to \$1.5 million for its share. In September 2016, it was announced that the City of Fort Smith was awarded a \$500,000 Transportation Alternative Program grant from the Arkansas Highway and Transportation Department (AHTD) for construction of the first 1.6-mile segment, estimated to cost \$800,000. The grant funds will be applied equally to both the Authority's and City's share of the cost. It was also announced that Sebastian County will receive a \$143,000 Recreational Trails Program grant from AHTD for trail enhancements around Torians Lake at Chaffee Crossing.

It is anticipated that Chaffee Crossing will experience considerable growth and job creation over the next few years. During 2016, the Authority expects to see a significant rise in residential development, the onset of a surge in commercial and retail development, industrial expansions, and the beginning of one of the highest economic impacts on the Fort Smith regional economy, the future Arkansas Colleges of Health Education.

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, 2015

	Governmental		(Memorandum Only)	
	Fund	Adjustments	Statement of	2014 Statement of
			Net Position	Net Position
Assets				
Cash and cash equivalents	\$ 4,594,144	\$ -	\$ 4,594,144	\$ 3,534,129
Accounts receivable	89,291	-	89,291	221,643
Prepaid expenses	69,200	-	69,200	56,100
Inventory	1,369	-	1,369	1,901
Interest receivable	5,172	-	5,172	3,643
Capital assets				
Donated assets				
Donated land	11,955,239	-	11,955,239	12,772,469
Donated buildings (net of accumulated depreciation)	1,652,689	(1,369,856) ①	282,833	400,938
Other capital assets (net of accumulated depreciation)	1,751,928	(520,852) ①	1,231,076	1,257,171
Land improvements	572,007	-	572,007	572,732
Deposits	-	-	-	-
Total Assets	20,691,039	(1,890,708)	18,800,331	18,820,726
Liabilities				
Accounts payable	540,812	-	540,812	85,620
Payroll and payroll taxes payable	8	-	8	199
Other accrued expenses	19,063	-	19,063	226,209
Lease deposits and prepayments	39,876	-	39,876	44,322
Total Liabilities	599,759	-	599,759	356,350
Fund equity:				
Contributed capital	13,607,928	(13,607,928)	-	-
Investment in fixed assets	2,323,935	(2,323,935)	-	-
Fund balances:				
Nonspendable	70,569	(70,569)	-	-
Spendable:				
Unassigned	4,088,848	(4,088,848)	-	-
Total Fund Balances	20,091,280	(20,091,280)	-	-
Total Liabilities and Fund Balances \$	20,691,039			
Net Position:				
Net investment in capital assets		1,803,083	1,803,083	1,829,903
Unrestricted		16,397,489	16,397,489	16,634,473
Total Net Position		18,200,572	18,200,572	18,464,376
Total Liabilities and Net Position		\$ (1,890,708)	\$ 18,800,331	\$ 18,820,726

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, 2015

	(Memorandum Only)			
			2014	
	Governmental Fund	Adjustments	Statement of Activities	Statement of Activities
Revenues				
Grants	\$ 458	\$ -	\$ 458	\$ -
Local government contributions	176,766	-	176,766	186,020
Golf course income	-	-	-	49,300
Historic district income	23,257	-	23,257	19,769
Lease income	299,596	-	299,596	366,587
Mining income	-	-	-	5,469
Property sales	3,154,359	(3,154,359) ①	-	-
Rail car storage	79,186	-	79,186	1,053
Interest income	15,992	-	15,992	13,594
Gain on sale of capital assets	-	3,117,937 ①	3,117,937	710,508
Other income	650,534	-	650,534	1,218,345
Total Revenues	4,400,148	(36,422)	4,363,726	2,570,645
Cost of Goods Sold	1,274	-	1,274	14,908
Gross Profit	4,398,874	(36,422)	4,362,452	2,555,737
Expenditures				
Advertising and marketing	53,086	-	53,086	141,722
Automobile expenses	22,956	-	22,956	23,217
Bad debts	7,600	-	7,600	10,035
Commissions	235,483	-	235,483	67,894
Conferences	5,830	-	5,830	6,115
Construction and development	1,610,198	-	1,610,198	634,260
Depreciation	-	218,399 ①	218,399	222,711
Fuel	18,162	-	18,162	24,560
Grant expenditures	687	-	687	-
Insurance	277,178	-	277,178	262,323
Maintenance and repairs	118,840	-	118,840	124,989
Miscellaneous	31,612	-	31,612	28,397
Office expenses	28,803	-	28,803	32,930
Outside contracting	93,723	-	93,723	105,215
Payroll taxes	67,062	-	67,062	67,920
Professional fees	45,723	-	45,723	30,056
Security	5,824	-	5,824	1,614
Training and reference material	3,305	-	3,305	3,655
Travel	16,290	-	16,290	11,706
Utilities	57,337	-	57,337	51,027
Wages and employee benefits	833,528	-	833,528	801,813
Capital expenditures and demolition	167,297	(167,297) ①	-	-
Total Expenditures	3,700,524	51,102	3,751,626	2,652,159
Excess of Revenues Over Expenditures	698,350	(87,524)	610,826	(96,422)

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, 2015

	Governmental Fund	Adjustments	Statement of Activities	(Memorandum Only) 2014 Statement of Activities
Excess of Revenues Over Expenditures	698,350	(87,524)	610,826	(96,422)
Fund Balance/Net Position Beginning of Year	20,186,365	(1,721,989)	18,464,376	19,681,468
Reclassification:				
Capital expenditures and demolition	167,297	(167,297)	-	-
Cost of capital assets sold	(86,102)	86,102	-	-
Change due to sales/transfers of contributed assets	(874,630)	-	(874,630)	(1,120,670)
Fund Balance/Net Position End of Year	\$ 20,091,280	\$ (1,890,708)	\$ 18,200,572	\$ 18,464,376

- 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, 2015

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.

FORT CHAFFEE REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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.

FORT CHAFFEE REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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	20-30 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.

FORT CHAFFEE REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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.

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 \$1,438,873 at December 31, 2015.

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, 2015, 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.

On July 14, 2015, the Authority was awarded a grant from the Arkansas Historic Preservation Program (AHPP) for restoration of a barracks building in an amount not to exceed \$37,266. As of December 31, 2015, in accordance with the agreement, the Authority utilized \$229 of grant matching funds. The grant period is from July 1, 2015 through May 6, 2016.

FORT CHAFFEE REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 federal grants. 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, 2015. 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.

FORT CHAFFEE REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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:	
2016	\$ 56,858
2017	59,708
2018	37,748
2019	15,222
2020-2022	<u>31,344</u>
Total minimum lease payments receivable	<u>\$ 200,880</u>

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, 2015. The sum of this future funding is \$93,000. The County agreement commenced in 2007 and \$31,000 was received during the year ended December 31, 2015. The sum of this future funding is \$124,000.

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, 2015, the Authority received \$114,766 from both the City and County.

FORT CHAFFEE REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 8: CHANGES IN CAPITAL ASSETS

During the year ended December 31, 2015, changes in capital assets were as follows:

	<u>Balance January 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2015</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 12,772,469	\$ -	\$ (817,230)	\$ 11,955,239
Land improvements	572,732	35,228	(35,953)	572,007
	<u>\$ 13,345,201</u>	<u>\$ 35,228</u>	<u>\$ (853,183)</u>	<u>\$ 12,527,246</u>
Other capital assets:				
Donated buildings	\$ 1,710,089	\$ -	\$ (57,400)	\$ 1,652,689
Buildings	10,238	-	-	10,238
Landscaping/site work	25,758	22,480	-	48,238
Office equipment	46,614	7,598	(2,450)	51,762
Furniture and fixtures	67,293	-	(5,044)	62,249
Remodeling and furnishings	746,495	51,936	(32,350)	766,081
Parking lots	73,013	14,160	-	87,173
Railroad improvements	187,071	-	-	187,071
Vehicles	67,638	9,684	(4,643)	72,679
Equipment	445,888	26,211	(5,662)	466,437
Total other capital assets at cost or FMV	<u>\$ 3,380,097</u>	<u>\$ 132,069</u>	<u>\$ (107,549)</u>	<u>\$ 3,404,617</u>
Less accumulated depreciation for:				
Donated buildings	\$ 1,309,151	\$ 96,030	\$ (35,325)	\$ 1,369,856
Buildings	1,259	512	-	1,771
Landscaping/site work	9,074	2,731	-	11,805
Office equipment	31,450	5,824	(2,450)	34,824
Furniture and fixtures	44,195	6,355	(4,137)	46,413
Remodeling and furnishings	124,397	43,225	(4,753)	162,869
Parking lots	4,563	4,044	-	8,607
Railroad improvements	21,305	6,236	-	27,541
Vehicles	23,435	8,745	(2,543)	29,637
Equipment	153,159	44,697	(471)	197,385
Total accumulated depreciation	<u>\$ 1,721,988</u>	<u>\$ 218,399</u>	<u>\$ (49,679)</u>	<u>\$ 1,890,708</u>
Capital assets being depreciated, net	<u>\$ 1,658,109</u>	<u>\$ (86,330)</u>	<u>\$ (57,870)</u>	<u>\$ 1,513,909</u>
Governmental activities capital assets, net	<u>\$ 15,003,310</u>	<u>\$ (51,102)</u>	<u>\$ (911,053)</u>	<u>\$ 14,041,155</u>

FORT CHAFFEE REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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. 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. Upon learning the Authority's request for assistance from the Army for the cleanup efforts was denied twice, the Authority filed a lawsuit against the United States regarding these negligent acts that caused the fire damage on September 9, 2015. On June 29, 2016, the Authority signed a settlement agreement for the United States to pay \$200,000 towards the damages. This payment was received in full on July 21, 2016.

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, 2015, all insurance proceeds had been received and all repairs had been made.

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. As of December 31, 2015, all repairs had been made and a receivable of \$17,419 has been recorded.

NOTE 11: COMMITMENTS AND SUBSEQUENT EVENTS

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, 2015, total expenses incurred on this agreement were \$1,007,402 and \$514,807 of this amount is included in Accounts payable on the Statement of Net Position and Governmental Fund Balance Sheet.

FORT CHAFFEE REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 11: COMMITMENTS AND SUBSEQUENT EVENTS – CONTINUED

Subsequent to year end, the Authority entered into an agreement dated May 27, 2016 with the City of Fort Smith to jointly develop and construct public trails to serve the development of real property associated with and in the vicinity of Chaffee Crossing. The project will be divided into three segments. The Authority has agreed to equally share the responsibility of paying the trail expenses with the City of Fort Smith, up to \$500,000 for each segment for a total not to exceed \$1,500,000.

REQUIRED SUPPLEMENTARY INFORMATION

FORT CHAFFEE REDEVELOPMENT AUTHORITY

BUDGETARY COMPARISON SCHEDULE SPECIAL REVENUE FUND

FOR THE YEAR ENDED DECEMBER 31, 2015

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Grants	\$ -	\$ -	\$ 458	\$ 458
Local government contributions	186,000	186,000	176,766	(9,234)
Historic district income	45,000	45,000	23,257	(21,743)
Lease income	360,000	360,000	299,596	(60,404)
Property sales	3,500,000	3,500,000	3,154,359	(345,641)
Rail car storage	-	-	79,186	79,186
Interest income	-	-	15,992	15,992
Other income	-	-	650,534	650,534
Total Revenues	4,091,000	4,091,000	4,400,148	309,148
Cost of Goods Sold	3,900	3,900	1,274	2,626
Gross Profit	4,087,100	4,087,100	4,398,874	311,774
Expenditures				
Advertising and marketing	165,000	165,000	53,086	111,914
Automobile expenses	23,500	23,500	22,956	544
Bad debts	-	-	7,600	(7,600)
Commissions	280,000	280,000	235,483	44,517
Conferences	6,500	6,500	5,830	670
Construction and development	3,000,000	3,000,000	1,610,198	1,389,802
Fuel	30,000	30,000	18,162	11,838
Grant expenditures	-	-	687	(687)
Insurance	267,000	267,000	277,178	(10,178)
Maintenance and repairs	143,000	143,000	118,840	24,160
Miscellaneous	44,650	44,650	31,612	13,038
Office expenses	34,600	34,600	28,803	5,797
Outside contracting	120,000	120,000	93,723	26,277
Payroll taxes	67,000	67,000	67,062	(62)
Professional fees	40,000	40,000	45,723	(5,723)
Security	2,500	2,500	5,824	(3,324)
Training and reference material	3,500	3,500	3,305	195
Travel	15,000	15,000	16,290	(1,290)
Utilities	50,000	50,000	57,337	(7,337)
Wages and employee benefits	823,000	823,000	833,528	(10,528)
Capital expenditures and demolition	310,000	310,000	167,297	142,703
Total Expenditures	5,425,250	5,425,250	3,700,524	1,724,726
Excess of Revenues Over Expenditures	\$ (1,338,150)	\$ (1,338,150)	698,350	\$ 2,036,500
Fund Balance Beginning of Year			20,186,365	
Reclassifications			(793,435)	
Fund Balance End of Year			\$ 20,091,280	

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 REQUIRED REPORT



**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, 2015, 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 November 2, 2016.

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 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, CPAs, P.C.
Fort Smith, Arkansas
November 2, 2016