

**FORT CHAFFEE
REDEVELOPMENT AUTHORITY
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2016**



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, 2016, 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, 2016, 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 3-16 and 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2017, 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 8, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORT CHAFFEE REDEVELOPMENT AUTHORITY
Management's Discussion and Analysis
Year Ended December 31, 2016
(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, 2016. 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 reality, 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 1,783 acres of land, including 92 buildings totaling 495,227 square feet. Fourteen of the buildings that were sold have subsequently been demolished. An additional 867 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 \$950 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 1,560 employees, of which 858 are new jobs.

The Authority currently leases 42 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. The fire cleanup was completed over a three-year period, from 2009-2011, at a total cost of approximately \$630,000. 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 118 buildings and structures totaling 459,332 square feet have been demolished or removed from the year 2002 through the end of 2016. The cost to tear down or restore the remaining buildings will be relatively significant. Also, substantial road and utility infrastructure improvements are still needed 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 \$17,918,865 at the close of 2016. Net position decreased by \$281,707 during 2016.
- ❖ Of total net position at year-end, \$1,774,731 was invested in fixed assets and \$16,144,134 was unrestricted resources that may be used to meet the Authority's on-going obligations.
- ❖ Total revenues during 2016 were \$3,894,596, a decrease of \$469,130 below the previous year.
- ❖ Total expenses during 2016 were \$2,960,973, a decrease of \$791,927 from 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 29 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

- ◆ As of December 31, 2016, total assets of the Authority's governmental activities were \$17,983,257, which is a decrease of \$817,074 (4%) below the 2015 year-end balance. Total assets at the end of 2016 consisted of \$4,452,380 in current assets and \$13,530,877 in capital assets, net of accumulated depreciation.
- ◆ Current assets decreased by \$306,796 (6%), which was mainly the result of a decrease in cash and cash equivalents. Capital assets decreased by \$510,278 (4%) 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 2016 were \$64,392, a decrease of \$535,367 (89%) below the previous year. This was due to the elimination of an accounts payable for road and utility construction. The Authority had no long-term debt at year-end. Therefore, all liabilities are current.
- ◆ Total net position decreased by \$281,707 (2%) from the prior year, with a balance of \$17,918,865 at the close of the current fiscal year.
- ◆ The majority of total net position, \$16,144,134 (90%), is unrestricted. Of the unrestricted net position, \$11,756,146 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 \$4,387,988 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, \$1,774,731 (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 2016.

Statement of Activities

- ◆ During 2016, total revenues from governmental activities were \$3,894,596, a decrease of \$469,130 (11%) below the previous year. This decline was mainly the net result of a decrease in property sales and other miscellaneous income, and an increase in state grant revenue.
 - Gain on sale of capital assets decreased by \$103,329 (3%). 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. During 2016, the Authority sold 176 acres of land, which included 156 acres for residential development and 20 acres for commercial development.

- Other miscellaneous income declined by \$405,649 (62%), which was mostly the net result of a \$493,374 decrease in revenue from easements, a \$92,246 decrease in revenue from insurance proceeds, and a \$182,452 increase in revenue from lawsuit settlements. The Authority received \$529,300 in 2015 for easements it granted for a large fuel distribution pipeline. In 2016, the Authority received \$29,780 for a revision to the pipeline easement and \$6,146 for an electric utility easement. In 2015, the Authority realized \$93,553 of revenue from insurance proceeds for buildings damaged by a gustnado wind storm. In 2016, \$1,307 of insurance proceeds was received in relation to the gustnado storm. The Authority received \$17,548 in 2015 from the settlement of a class action insurance lawsuit. In 2016, the Authority received \$200,000 from the federal government for settlement of the claim it filed for fire damages to the 80-acre former hospital area.
- State grant revenue increased by \$36,350 (7,937%). In 2015, the Authority was awarded an Arkansas Historic Preservation Program (AHPP) grant for the first phase of restoration of a 1942 Army barracks. This building is where Elvis Presley slept during his three days of military processing after being inducted into the U.S. Army and will be used for the relocation of the Museum of Chaffee History. The Authority realized \$458 of state grant revenue in 2015 from this grant and received the remaining \$36,808 in 2016.
- ◆ Expenses from governmental activities during 2016 totaled \$2,960,973, a decrease of \$791,927 (21%) from the previous year. This was mainly the net result of a decrease in construction and development expense and an increase in insurance expense.

Construction and development expense decreased by \$828,641 (51%). In 2015, the Authority spent \$768,671 on water and sewer construction projects and \$841,527 on road construction projects. In 2016, the Authority spent \$337,832 on water and sewer construction and \$443,725 on road construction projects. Insurance expense went up by \$40,942 (15%) mainly due to an increase in property insurance premiums, which was likely a result of both the Authority's loss history and general industry rate increases.

- ◆ Governmental activities increased net position by \$933,623 during the current fiscal year. Reclassifications for the sales and transfers of contributed assets reduced net position by \$1,215,330, resulting in a total decrease in net position of \$281,707.

In addition to the 176 acres of land sold during 2016, the Authority transferred four tracts of land totaling 26 acres, at no cost, to not-for-profit organizations. Approximately 3 acres were transferred to The Learning Fields at Chaffee Crossing for expansion of its indoor/outdoor horticulture educational facilities; approximately 1.5 acres were transferred to the Steep Hill Cemetery Charitable Trust to provide a buffer between the cemetery and future development; 15 acres were conveyed to Flightmasters Model Airplane Club to provide a permanent home for its club activities; approximately 6.5 acres were transferred to Museum of the Hardwood

Tree for the future home of an indoor/outdoor hardwood tree museum, which will include the history of the furniture industry in the Fort Smith region.

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, 2016, the Authority's governmental funds reported total fund equity of \$19,620,073. Approximately two-thirds of this amount (66%) is comprised of contributed capital. The balance of total fund equity (34%) consists of \$2,364,619 invested in fixed assets, non-spendable fund balance of \$79,776, and spendable, unreserved fund balance of \$4,308,212.

During 2016, the Authority's governmental funds reported total revenues of \$3,720,696 and total expenditures of \$3,491,439, with a net result of \$229,257 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 December 17, 2015, the Authority's Board of Trustees adopted a special revenue fund budget for 2016, which reflected revenues of \$3,815,000 and expenditures of \$4,743,500.

- ◆ During 2016, actual revenues were below budgeted revenues by \$94,304 (2%) due to property sales being lower than expected. Property sales revenue was under budget by \$409,292 (13%). However, at year-end, there were \$561,920 in sales pending to close. The impact of the shortfall in property sales was largely reduced by the receipt of \$244,885 in other miscellaneous income that was not expected and \$36,808 in state grant revenue that was not budgeted for. About 82% of other miscellaneous income was from the lawsuit settlement on the fire damage claim in the former hospital area.

- ◆ Actual expenditures during 2016 were below budgeted expenditures by \$1,252,061 (26%). Approximately 97% of this amount was due to construction and development expense being under budget by \$1,218,443 (61%). In 2014, the Authority agreed to equally share the \$3.8 million estimated cost with the City of Fort Smith for the design and construction of R.A. Young, Jr. Drive and the McClure Drive extension. This project was completed in 2016 at a total cumulative cost of \$2,678,748. The Authority's share of this project was under budget by \$560,626. Construction and development expense also fell below budget because of delayed water and sewer projects.

Other significant variances between budgeted and actual expenditures are as follows:

- Capital expenditures & demolition were over budget by \$201,991 (40%). This was mostly the net result of a \$355,000 overage in budgeted property repurchases and a \$150,000 shortfall in building and site improvements. The Authority budgeted \$120,000 to buy back property that had been purchased to construct multi-family housing. However, due to the inability of three buyers to complete their development requirements, the Authority repurchased three unimproved tracts totaling 33.5 acres. The Authority spent approximately \$50,000 less than expected on building improvements and construction of a veterans' memorial in the historic district was delayed, for which approximately \$100,000 was budgeted in 2016.
- Advertising & marketing expense was under budget by \$46,065 (35%), mostly due to the delay of a fundraising campaign for the historic district, an event that was budgeted for that did not come to fruition, and there being less print advertising than was budgeted for.
- Maintenance and repairs expense was under budget by \$56,377 (40%). This was largely due to there being less building repairs than was anticipated, partly because several buildings were sold during 2016.
- Wages and employee benefits were below budget by \$46,290 (5%). The Authority had included an annual salary amount in the budget for the vacant Director of Museums and Historic District position, but this position has not yet been filled.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2016, the Authority's capital assets totaled \$13,530,877, net of accumulated depreciation. Total capital assets consisted of \$11,756,146 in donated assets (net), \$1,244,099 invested in fixed assets (net), and \$530,632 in land improvements. Donated assets include land and buildings; 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 \$510,278 (4%) during 2016. There was \$474,868 of land purchased, \$12,178 in land improvements due to demolition, \$116,096 of additions to fixed assets,

\$89,728 in fixed assets (net) written off or sold, and a reduction of \$952,179 in donated land and buildings (net) and land improvements resulting from property sales and no-cost conveyances. Depreciation expense during 2016 totaled \$181,525.

Additional information on the Authority’s capital assets can be found in Note 1 on pages 22 through 23 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:

Roadway Projects

Year Completed	Total Project Cost	Project Description
2003	\$2,974,000 <i>EDA Grant</i> <i>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
2016	\$2,678,748 <i>50% city funds</i>	R.A. Young, Jr. Drive and McClure Drive extension from McClure Amphitheater to Wells Lake Road

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	\$648,000	8, 10 & 12-inch sewer line extensions between Zero Street and McClure Drive, 10-inch sewer line extension at Roberts Blvd. and Veterans Avenue
2016	\$120,000	8-inch sewer line extension on Frontier Road from Chad Colley Blvd. to Veterans Avenue, two 10-inch water line extensions across Zero Street near Chad Colley Blvd. and Veterans Avenue
2016	\$168,000	8-inch sewer lines and 6 & 10-inch water lines to serve residential developments on Wells Lake Road near Roberts Blvd.
2016	\$126,000	8-inch sewer line extension across McClure Drive for Avalon residential development

Long-term Debt

As of December 31, 2016, the Authority had no long-term debt.

NEXT YEAR'S BUDGET AND EXPECTATIONS

In January 2017, the Board of Trustees adopted a special revenue fund budget for 2017, reflecting revenues of \$3,561,000 and expenditures of \$4,871,550.

Approximately 84% of budgeted revenues are expected to be from property sales, 8% from lease income, 5% from local government contributions, 2% from rail car storage income, and 1% from mowing and 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 2016, the Authority's cash reserves were approximately three times the \$1,310,550 loss budgeted for 2017.

Property sales revenue during 2017 is expected to be about the same as that in 2016. At the end of 2016, there were more than \$500,000 of sales pending. As of August 2017, ten sales had closed totaling \$847,861 and another \$972,000 in offers were pending. Approximately 93% of the 54 acres of land sold to date in 2017 is for residential development, which will include 32 duplexes and about 160 single-family homes. The other 7% is for commercial development mostly in the Chaffee Crossing historic area. Five warehouses were sold that will be renovated for a pool and concrete business, a retail furniture store, an organic gardening supply store, a wine bar and tasting room, loft-style apartments, and warehouse storage. A barracks building was also sold that will house a women's clothing boutique.

The Authority expects to close on several more sales in 2017, mostly for smaller tracts of land as has been the case during the past year. Pending sales include 8 additional buildings in the historic area for commercial use, 25 acres for single-family residential development, 15 acres for a private school, and 11 acres for a church campus. Although there are still a few large parcels available, the remaining tracts of land for sale continue to get smaller with more development challenges.

To date, development at Chaffee Crossing has mostly consisted of residential and industrial developments. There are currently five multi-family and seven single-family residential developments occupied and/or under construction that will ultimately comprise approximately 550 single-family homes, 120 duplexes, and 600 apartments, with more to come. There are eight industrial developments that presently employ 780 people. Chaffee Crossing is also home to many small businesses and several governmental entities, such as the Arkansas Highway and Transportation Department and Arkansas Game and Fish Commission, all of which currently employ an additional 800 employees.

The Authority expects continued housing growth and industrial expansions in 2017. As the number of people who live and work at Chaffee Crossing grows, development of many of the commercial tracts sold in the last five years is expected to flourish. Two significant projects

continue to be a driving force of increased construction activity, which are the new ArcBest corporate headquarters and the Arkansas Colleges of Health Education (ACHE).

ACHE recently completed construction of a \$32 million, 102,000 square-foot building that houses the Arkansas College of Osteopathic Medicine (ARCOM). This is the first college of many that will occupy the ACHE campus. ARCOM just opened with its inaugural class of 150 freshman students, which will ultimately grow to include four college levels totaling 600 students. ACHE also completed construction of an 84-unit apartment complex for students that is filled to capacity. Thanks to a \$15 million donation received in 2017, ACHE will soon begin construction of a second building that will house the next college to be part of the ACHE campus, and will start building the second phase of student apartments. 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.

ArcBest Corporation is close to completing its new \$40 million, 200,000 square-foot corporate headquarters building, which will bring 1,000 jobs to Chaffee Crossing. Glatfelter, a manufacturer of specialty papers and fiber-based materials, recently completed an \$80 million capital investment to modify the new \$100 million, 200,000 square-foot building it acquired from Mitsubishi and will create 83 high-skilled, well-paying jobs. At the end of 2016, Mars Petcare U.S. announced plans for a \$72 million internal expansion that will create 130 new jobs.

The Authority budgeted \$280,000 in lease income for 2017, which is almost equal to actual income in 2016. Although leasing has dropped in recent years due to the sale of leased buildings, it is expected to remain steady during 2017. 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 \$113,000 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 2017 will be close to that in 2016. Therefore, \$85,000 was budgeted in 2017 for railcar storage income.

The Authority anticipates that historic district income in 2017 will be close to that realized in 2016, with a budgeted amount of \$15,000. Approximately 60% of this is expected to be from event registrations and sponsorships, 27% from donations, and 13% 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. The Authority expects to complete this memorial by November 2017, in time to dedicate it at the 6th annual Veterans Day parade held at Chaffee Crossing. 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 Program (AHPP) grant. The Authority was unsuccessful in obtaining an AHPP grant for the second phase of renovation, which it completed in July 2017, but has submitted a third grant application in hopes of receiving funding for the third phase. The third phase will complete the renovation of the first-floor, which is expected to be finished in 2018 at a total cost of \$330,000. 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. As mentioned earlier, the Authority has sold and received offers on several former military buildings in the historic area for a variety of uses. A planned zoning district is being established and a master plan created to make this a unique area with distinctive characteristics. This 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 2017 for total operating expenses, which is about \$200,000 (10%) more than actual operating expenses in 2016. The majority (92%) of this difference is related to advertising and marketing, insurance expense, maintenance and repairs, outside contracting, and wages and employee benefits.

Outside contracting expense is expected to be about \$47,000 (51%) higher than that in 2016 because of two new agreements that were approved for 2017. The Authority decided to engage FTN Associates to perform an American Burying Beetle survey on all of its property, which is usually required of developers at Chaffee Crossing prior to construction. Being proactive in completing this study will make the property more marketable by eliminating this step for future buyers. In January 2017, the Authority agreed to pay 20% of a \$200,000 contract between the Western Arkansas Intermodal Authority and Vickerman & Associates for port consulting services. The cost of the contract is being equally shared by the Authority, Sebastian County, the City of Fort Smith, Crawford County, and the City of Van Buren. Vickerman will collect data, perform a target market assessment, create a conceptual development plan, and solicit investors and developers to build and operate an inland port and intermodal facility in Van Buren. This is a unique opportunity that would benefit the entire region, including industries at Chaffee Crossing.

The amount budgeted in 2107 for advertising and marketing is close to the amount budgeted in 2016, which is \$36,000 (43%) higher than actual expenditures in 2016. Actual expenditures fell short due to a delay in marketing and fundraising activities for the historic district, which have been carried forward and included again in the 2017 budget. Insurance expense has been

to be approximately \$37,000 (12%) higher than that in 2016 due to the Authority's loss history and general rate increases for health insurance and property insurance. Budgeted maintenance and repairs is expected to be about \$26,000 (30%) more than actual expenses in 2016. Budgeted wages and employee benefits were increased by \$38,000 to include an average of 4% in performance increases.

A total of \$1.47 million was budgeted for capital expenditures and demolition in 2017, which is double the amount of actual expenditures in 2016. Two-thirds of the budgeted amount is for the repurchase of property from buyers who have failed to complete, or even begin, construction of required property improvements. All sales contracts have a time limit on development and a repurchase right given to the Authority if development requirements are not met, in order to prevent speculation. Approximately 85% of the remaining one-third of budgeted capital expenditures and demolition is for building improvements, renovation of the Elvis barracks building, construction of the Veterans Memorial Plaza, and the relocation of the historic Lee Creek Bridge from Highway 59 in Natural Dam to the historic district at Chaffee Crossing. The Authority also anticipates expenditures for the demolition of two buildings and the replacement of a pickup truck, computer server, large printer, office furniture, and HVAC and other equipment.

The Authority budgeted \$1.2 million for construction and development in 2017 for water and sewer infrastructure improvements and trails, which is 54% higher than actual expenditures in 2016. About 57% of the 2016 expenditures were for the completion of two streets, R.A. Young, Jr. Drive and an extension of McClure Drive, for which the Authority agreed to equally share the cost with the City of Fort Smith. The other 43% of expenditures in 2016 were for the construction of water and sewer lines to serve areas on the west side of Chaffee Crossing. The 2017 budget includes \$1 million to continue making water and sewer improvements on the west side, and in the historic area. Also included is \$200,000 for the construction of trails.

In May 2016, the Authority entered into an agreement 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 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 is anticipated that Chaffee Crossing will experience considerable growth and job creation over the next few years. During 2017, the Authority expects to see significant growth in residential development, the onset of substantial commercial and retail development, the growth of commercial businesses in the historic area, increased traffic with industrial expansions and the opening of the new ArcBest headquarters, and the beginning of one of the highest economic impacts on the Fort Smith regional economy, the 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, 2016

	Governmental Fund		Adjustments	Statement of Net Position	(Memorandum Only) 2015 Statement of Net Position
Assets					
Cash and cash equivalents	\$	4,314,282	\$ -	\$ 4,314,282	\$ 4,594,144
Accounts receivable		51,656	-	51,656	89,291
Prepaid expenses		78,600	-	78,600	69,200
Inventory		1,176	-	1,176	1,369
Interest receivable		6,666	-	6,666	5,172
Capital assets					
Donated assets					
Donated land		11,558,977	-	11,558,977	11,955,239
Donated buildings (net of accumulated depreciation)		1,308,489	(1,111,320) ①	197,169	282,833
Other capital assets (net of accumulated depreciation)		1,833,987	(589,888) ①	1,244,099	1,231,076
Land improvements		530,632	-	530,632	572,007
Total Assets		19,684,465	(1,701,208)	17,983,257	18,800,331
Liabilities					
Accounts payable		-	-	-	540,812
Payroll and payroll taxes payable		393	-	393	8
Other accrued expenses		20,049	-	20,049	19,063
Lease deposits and prepayments		43,950	-	43,950	39,876
Total Liabilities		64,392	-	64,392	599,759
Fund equity:					
Contributed capital		12,867,466	(12,867,466)	-	-
Investment in fixed assets		2,364,619	(2,364,619)	-	-
Fund balances:					
Nonspendable		79,776	(79,776)	-	-
Spendable:					
Unassigned		4,308,212	(4,308,212)	-	-
Total Fund Balances		19,620,073	(19,620,073)	-	-
Total Liabilities and Fund Balances	\$	19,684,465			
Net Position:					
Net investment in capital assets			1,774,731	1,774,731	1,803,083
Unrestricted			16,144,134	16,144,134	16,397,489
Total Net Position			17,918,865	17,918,865	18,200,572
Total Liabilities and Net Position	\$		(1,701,208)	\$ 17,983,257	\$ 18,800,331

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, 2016

	(Memorandum Only)			
			2015	
	Governmental Fund	Adjustments	Statement of Activities	Statement of Activities
Revenues				
Grants	\$ 36,808	\$ -	\$ 36,808	\$ 458
Local government contributions	181,026	-	181,026	176,766
Historic district income	13,850	-	13,850	23,257
Lease income	292,509	-	292,509	299,596
Property sales	2,840,708	(2,840,708) ①	-	-
Rail car storage	93,944	-	93,944	79,186
Interest income	16,966	-	16,966	15,992
Gain on sale of capital assets	-	3,014,608 ①	3,014,608	3,117,937
Other income	244,885	-	244,885	650,534
Total Revenues	3,720,696	173,900	3,894,596	4,363,726
Cost of Goods Sold	583	-	583	1,274
Gross Profit	3,720,113	173,900	3,894,013	4,362,452
Expenditures				
Advertising and marketing	83,935	-	83,935	53,086
Automobile expenses	23,295	-	23,295	22,956
Bad debts	20	-	20	7,600
Commissions	243,963	-	243,963	235,483
Conferences	8,325	-	8,325	5,830
Construction and development	781,557	-	781,557	1,610,198
Depreciation	-	181,525 ①	181,525	218,399
Fuel	14,115	-	14,115	18,162
Grant expenditures	-	-	-	687
Insurance	318,120	-	318,120	277,178
Maintenance and repairs	85,623	-	85,623	118,840
Miscellaneous	33,839	-	33,839	31,612
Office expenses	27,759	-	27,759	28,803
Outside contracting	93,018	-	93,018	93,723
Payroll taxes	66,560	-	66,560	67,062
Professional fees	66,049	-	66,049	45,723
Security	7,288	-	7,288	5,824
Training and reference material	2,327	-	2,327	3,305
Travel	12,294	-	12,294	16,290
Utilities	48,268	-	48,268	57,337
Wages and employee benefits	862,510	-	862,510	833,528
Capital expenditures and demolition	711,991	(711,991) ①	-	-
Total Expenditures	3,490,856	(530,466)	2,960,390	3,751,626
Excess of Revenues Over Expenditures	229,257	704,366	933,623	610,826

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, 2016

	Governmental Fund	Adjustments	Statement of Activities	(Memorandum Only) 2015 Statement of Activities
Excess of Revenues Over Expenditures	229,257	704,366	933,623	610,826
Fund Balance/Net Position Beginning of Year	20,091,280	(1,890,708)	18,200,572	18,464,376
Reclassification:				
Capital expenditures and demolition	711,991	(711,991)	-	-
Cost of capital assets sold	(197,125)	197,125	-	-
Change due to sales/transfers of contributed assets	(1,215,330)	-	(1,215,330)	(874,630)
Fund Balance/Net Position End of Year	\$ 19,620,073	\$ (1,701,208)	\$ 17,918,865	\$ 18,200,572

- 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, 2016

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, 2016

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, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets and Donated Assets - Continued

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

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

Long-Term Obligations

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

Advertising and Promotions

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

Net Position

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

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

Use of Estimates

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

FORT CHAFFEE REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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. There were no events subsequent to year end that require recognition or disclosure in the 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 \$740,515 at December 31, 2016.

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, 2016, 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, 2016, in accordance with the agreement, the Authority utilized \$18,634 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, 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 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, 2016. 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, 2016

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:	
2017	\$ 59,708
2018	37,748
2019	15,222
2020	15,222
2021-2022	<u>16,122</u>
Total minimum lease payments receivable	<u>\$ 144,022</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, 2016. The sum of this future funding is \$62,000. The County agreement commenced in 2007 and \$31,000 was received during the year ended December 31, 2016. The sum of this future funding is \$93,000.

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, 2016, the Authority received \$119,025 from both the City and County.

FORT CHAFFEE REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 8: CHANGES IN CAPITAL ASSETS

During the year ended December 31, 2016, changes in capital assets were as follows:

	<u>Balance January 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2016</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 11,955,239	\$ 474,868	\$ (871,130)	\$ 11,558,977
Land improvements	572,007	12,178	(53,553)	530,632
Construction in progress	-	110,012	-	110,012
	<u>\$ 12,527,246</u>	<u>\$ 597,058</u>	<u>\$ (924,683)</u>	<u>\$ 12,199,621</u>
Other capital assets:				
Donated buildings	\$ 1,652,689	\$ -	\$ (344,200)	\$ 1,308,489
Buildings	10,238	-	-	10,238
Landscaping/site work	48,238	7,763	-	56,001
Office equipment	51,762	11,505	(1,403)	61,864
Furniture and fixtures	62,249	-	(4,777)	57,472
Remodeling and furnishings	766,081	27,933	(77,537)	716,477
Parking lots	87,173	-	(14,160)	73,013
Railroad improvements	187,071	-	-	187,071
Vehicles	72,679	-	-	72,679
Equipment	<u>466,437</u>	<u>68,895</u>	<u>(46,172)</u>	<u>489,160</u>
Total other capital assets at cost or FMV	<u>\$ 3,404,617</u>	<u>\$ 116,096</u>	<u>\$ (488,249)</u>	<u>\$ 3,032,464</u>
Less accumulated depreciation for:				
Donated buildings	\$ 1,369,856	\$ 58,168	\$ (316,704)	\$ 1,111,320
Buildings	1,771	512	-	2,283
Landscaping/site work	11,805	3,782	-	15,587
Office equipment	34,824	6,787	(1,402)	40,209
Furniture and fixtures	46,413	4,741	(4,765)	46,389
Remodeling and furnishings	162,869	43,008	(11,165)	194,712
Parking lots	8,607	3,651	(393)	11,865
Railroad improvements	27,541	6,236	-	33,777
Vehicles	29,637	8,771	-	38,408
Equipment	<u>197,385</u>	<u>45,869</u>	<u>(36,596)</u>	<u>206,658</u>
Total accumulated depreciation	<u>\$ 1,890,708</u>	<u>\$ 181,525</u>	<u>\$ (371,025)</u>	<u>\$ 1,701,208</u>
Capital assets being depreciated, net	<u>\$ 1,513,909</u>	<u>\$ (65,429)</u>	<u>\$ (117,224)</u>	<u>\$ 1,331,256</u>
Governmental activities capital assets, net	<u>\$ 14,041,155</u>	<u>\$ 531,629</u>	<u>\$ (1,041,907)</u>	<u>\$ 13,530,877</u>

FORT CHAFFEE REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 8: CHANGES IN CAPITAL ASSETS (continued)

Construction in progress of \$110,012 at December 31, 2016 is for a barracks renovation project. The Authority received state grant funds of \$37,266 to assist in this project. The total estimated cost of the renovation is \$330,000 and it is expected to be completed in June 2018.

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: RETIREMENT PLAN

The Authority established a 401(k) defined contribution plan effective January 1, 2016 for the benefit of regular full-time employees who are a minimum of eighteen years of age and have completed one year of service. Participating employees may elect to contribute, on a tax-deferred basis, a portion of their compensation in accordance with Section 401(k) of the Internal Revenue Code. The Authority will make matching contributions up to 4% of the employee's elective deferral. For the year ended December 31, 2016, the Authority contributed \$28,810 to the plan.

NOTE 11: CASUALTY LOSS

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

FORT CHAFFEE REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 12: 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. As of December 31, 2016, cumulative total expenses incurred on this agreement were \$1,339,374. The project was completed during the year ended December 31, 2016.

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. No costs have been incurred on this project yet.

REQUIRED SUPPLEMENTARY INFORMATION

FORT CHAFFEE REDEVELOPMENT AUTHORITY

BUDGETARY COMPARISON SCHEDULE SPECIAL REVENUE FUND

FOR THE YEAR ENDED DECEMBER 31, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Grants	\$ -	\$ -	\$ 36,808	\$ 36,808
Local government contributions	165,000	165,000	181,026	16,026
Historic district income	25,000	25,000	13,850	(11,150)
Lease income	300,000	300,000	292,509	(7,491)
Property sales	3,250,000	3,250,000	2,840,708	(409,292)
Rail car storage	75,000	75,000	93,944	18,944
Interest income	-	-	16,966	16,966
Other income	-	-	244,885	244,885
Total Revenues	3,815,000	3,815,000	3,720,696	(94,304)
Cost of Goods Sold	1,800	1,800	583	1,217
Gross Profit	3,813,200	3,813,200	3,720,113	(93,087)
Expenditures				
Advertising and marketing	130,000	130,000	83,935	46,065
Automobile expenses	23,500	23,500	23,295	205
Bad debts	-	-	20	(20)
Commissions	260,000	260,000	243,963	16,037
Conferences	7,000	7,000	8,325	(1,325)
Construction and development	2,000,000	2,000,000	781,557	1,218,443
Fuel	25,000	25,000	14,115	10,885
Insurance	330,000	330,000	318,120	11,880
Maintenance and repairs	142,000	142,000	85,623	56,377
Miscellaneous	37,100	37,100	33,839	3,261
Office expenses	33,300	33,300	27,759	5,541
Outside contracting	110,000	110,000	93,018	16,982
Payroll taxes	72,000	72,000	66,560	5,440
Professional fees	71,000	71,000	66,049	4,951
Security	6,000	6,000	7,288	(1,288)
Training and reference material	6,000	6,000	2,327	3,673
Travel	15,000	15,000	12,294	2,706
Utilities	55,000	55,000	48,268	6,732
Wages and employee benefits	908,800	908,800	862,510	46,290
Capital expenditures and demolition	510,000	510,000	711,991	(201,991)
Total Expenditures	4,741,700	4,741,700	3,490,856	1,250,844
Excess of Revenues Over Expenditures	\$ (928,500)	\$ (928,500)	229,257	\$ 1,157,757
Fund Balance Beginning of Year			20,091,280	
Reclassifications			(700,464)	
Fund Balance End of Year			\$ 19,620,073	

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, 2016, 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 8, 2017.

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 8, 2017