

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas

Annual Financial Report

December 31, 2016 and 2015



Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
December 31, 2016 and 2015

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6700 McKennon Blvd., Suite 200 • Fort Smith, AR 72903
479.452.7000 x50 • 479.452.7008 fax
www.fortsmithairport.com

February 17, 2017

To the Public:

Enclosed herein is the Annual Financial Report for the Fort Smith Regional Airport for the fiscal year ended December 31, 2016 with a comparison to fiscal year ended December 31, 2015. Responsibility for the accuracy of the data, completeness and fairness of the presentation, including all disclosures, rests with the management of the Airport. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and reported in a manner that presents fairly the financial position and results of operations of the Airport. All disclosures necessary to enable the reader to gain an understanding of the Airport's financial activities have been included.

Accounting principles generally accepted in the United States of America (GAAP) require management to provide a narrative overview and analysis to accompany the financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal should be read in conjunction with the MD&A, which can be found immediately following the report of the independent auditor.

The Organization

The Fort Smith Regional Airport is governed by the Fort Smith Airport Commission, which was established by the City of Fort Smith, Arkansas on February 15, 1977, pursuant to AR Code §14-359-104. Consisting of seven (7) members, the Commission meets at least once each month in open session. The Mayor, with confirmation from the City of Fort Smith Board of Directors, appoints members to the Commission with at least one appointment annually in June. Commission members serve without compensation for a term of five (5) years. The Airport Director serves at the pleasure of the Commission as the chief executive responsible for the operation of the Airport. The Airport Director oversees a staff of thirteen full-time employees and two part-time employees.

The Airport

The Fort Smith Regional Airport is a key element of the transportation system that serves the residents and businesses of Western Arkansas and Eastern Oklahoma. By offering access to safe, efficient and convenient air transportation, the Airport plays a significant role in economic development for the region.

Fort Smith Regional Airport is home to approximately 91 corporate and general aviation aircraft, as well as the 188th Wing of the Arkansas Air National Guard. The Airport's primary runway is 8,000 x 150-feet with dual instrument landing systems. The crosswind runway is 5,002 x 150-feet. Air Traffic services are provided by the Federal Aviation Administration from an Air Traffic Control (ATC) Tower and TRACON (Terminal Radar Approach Control). The Airport is located just off Interstate 540 within an eight mile radius of Interstate 40 and future Interstate 49, providing excellent access to ground transportation.

The Activities in 2016

Scheduled Airline Service – As of December 31, 2016, two regional airlines (American Airlines and Delta Air Lines) served the Airport. American operates non-stop flights to Dallas/Ft. Worth. Delta operates non-stop flights to Atlanta. Each airline offers connecting service to most destinations in the world.

The National Guard Bureau changed the 188th mission to MQ-9 Mission Control Element, a non-aeronautical mission, in 2014. At that time, the airport established an Aircraft Rescue and Fire Fighting Services (ARFF) department. Manpower is provided by a professional ARFF contractor and equipment is owned by the airport.

Enplaned passengers increased 0.9% in 2016 versus 2015.

Enplanements (revenue and non-revenue passenger boardings)

	American Airlines (to DFW)	Delta * (to ATL)	Atlantic Southeast (to ATL)	Charters	Total
2007	61,059	26,750	11,318	–	99,127
2008	45,752	23,833	17,445	–	87,030
2009	51,084	23,885	3,463	–	78,432
2010	53,673	32,456	–	–	86,129
2011	50,452	35,782	–	–	86,234
2012	50,552	36,101	–	–	86,653
2013	49,041	35,479	–	–	84,520
2014	54,663	38,206	–	–	92,869
2015	56,109	30,595	–	–	86,704
2016	55,978	31,510	–	–	87,488

* Delta Air Lines purchased Northwest Airlines in 2009.

Aircraft operations increased 31.5% in 2016 versus 2015.

Aircraft Operations

	Itinerant				Local*		Total
	Air Carrier airline/charter over 60 passengers	Air Taxi airline/charter 60 passengers or less	General Aviation	Military	General Aviation	Military	
2007	169	7,963	20,671	16,964	10,415	12,995	69,177
2008	283	7,997	18,538	13,046	9,914	8,076	57,854
2009	409	6,937	13,962	8,965	7,045	6,500	43,818
2010	1,465	5,692	14,683	8,623	7,982	6,281	44,726
2011	1,650	4,456	13,903	7,395	7,706	5,859	40,969
2012	318	6,262	13,710	6,944	6,915	4,816	38,965
2013	64	6,009	12,835	6,141	5,660	4,171	34,880
2014	53	5,624	12,948	5,487	5,421	4,400	33,933
2015	463	4,407	12,902	4,844	6,975	4,261	33,852
2016	2,053	2,776	14,533	7,160	11,816	6,189	44,527

* Local - those that occur only within the local airport traffic pattern or at practice areas within 20 miles of the airport.

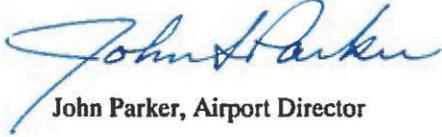
Other 2016 Highlights

Infrastructure projects completed in 2016 included: perimeter road south reconstruction and realignment, perimeter security fencing with erosion control and ARFF truck and equipment acquisition. ARFF station design and runway arresting barrier removal have begun and wildlife habitat mitigation with drainage improvements at Spivey Creek continues.

The preparation of this report and a successful 2016 could not have been accomplished without the dedicated service of the Airport's staff. Everyone involved has our sincere appreciation for the efforts made in preparation of this report. In closing, without the leadership and support of our governing body, the Fort Smith Airport Commission, preparation of this report would not have been possible.

Sincerely,

FORT SMITH REGIONAL AIRPORT

A handwritten signature in blue ink that reads "John Parker". The signature is fluid and cursive, with the first name "John" and last name "Parker" clearly legible.

John Parker, Airport Director

Fort Smith Airport Commission
Members as of December 31, 2016

	<i>Term Expires</i>
Robert Hawkins	June 30, 2020
Wayne Haver	June 30, 2019
James E. Kelly, III M.D.	June 30, 2017
Mac McGhee	June 30, 2018
Jan Nordin	June 30, 2017
Kevin Ridgley	June 30, 2021
Justin Voris, MD	June 30, 2021

Airport Officials
as of December 31, 2016

John Parker, Airport Director
Kathy Boze, Director of Administration
Michael Griffin, Director of Operations

Financial Section

Independent Auditor's Report

Members of the Fort Smith Airport Commission
Fort Smith Regional Airport
Fort Smith, Arkansas

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Fort Smith Regional Airport (the Airport), a component unit of the City of Fort Smith, Arkansas, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Airport'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 an opinion on these financial statements based on our audits. We conducted our audits 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 risks of 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fort Smith Regional Airport as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years 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 listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Airport's basic financial statements. The accompanying supplementary information, including the budgetary comparison schedule, the schedule of passenger facility charge revenues and expenditures as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and the schedule of expenditures of federal awards required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

The introductory and statistical sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2017, on our consideration of the Airport's internal control over financial reporting and 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 the Airport's internal control over financial reporting and compliance.

BKD, LLP

Fort Smith, Arkansas
February 17, 2017

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Management's Discussion and Analysis
December 31, 2016 and 2015

This narrative discussion and analysis is intended to serve as an introduction and overview to the Fort Smith Regional Airport's (the Airport's) basic financial statements for the fiscal years ended December 31, 2016 and 2015. The information presented here should be read in conjunction with the financial statements, footnotes, and supplementary information found in this report.

Overview of the Financial Statements

This audit report consists of three parts: 1) management's discussion and analysis (this section); 2) basic financial statements; and 3) supplementary information. The Airport's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The Airport is structured as a single enterprise fund with revenues recognized when earned and expenses recognized when incurred, regardless of when cash is received or paid. Capital assets are capitalized and, with the exception of land, are depreciated over their useful lives.

The basic financial statements include the statements of net position, the statements of revenues, expenses, and changes in net position, and the statements of cash flows. The statements of net position present information on all of the Airport's net position 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 the Airport's financial health. The statements of revenues, expenses and changes in net position present information showing how the Airport's net position changed during the most recent year, along with a comparison of operating performance with 2015. All changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future periods. The statements of cash flows relate to the receipts and disbursements of cash and cash equivalents. Consequently, only transactions that affect the Airport's cash accounts are recorded in these statements.

Financial Results

2016 Statement of Net Position Compared to 2015

Current assets were up 33.3% or \$920,962 and current liabilities were down by 1.0% or \$3,956. The change in current assets is primarily due to the Airport holding more cash and short term investments at year-end 2016 than year-end 2015. Total net position has decreased by 0.7% or \$273,387.

2015 Statement of Net Position Compared to 2014

Current assets were down 8.6% or \$260,193 and current liabilities were down by 31.8% or \$179,181. This is primarily due to year-end accounts receivable being lower due to change in timing of parking lot fee payments and less construction payables for capital projects being less than year-end 2014. Total net position has increased by 7.0% or \$2,574,118.

FORT SMITH REGIONAL AIRPORT
Statements of Net Position

	2016	2015	2014	2016-2015 % Change	2015-2014 % Change
Current Assets	\$ 3,687,007	\$ 2,766,045	\$ 3,026,238	33.3%	-8.6%
Capital Assets, net	36,930,743	38,085,913	35,285,954	-3.0%	7.9%
Other Assets	874,589	1,094,204	1,409,664	-20.1%	-22.4%
Total Assets	\$ 41,492,339	\$ 41,946,162	\$ 39,721,856	-1.1%	5.6%
Total Deferred Outflows of Resources	\$ 105,838	\$ 124,358	\$ 143,727	-14.9%	-13.5%
Current Liabilities	\$ 380,896	\$ 384,852	\$ 564,033	-1.0%	-31.8%
Noncurrent Liabilities	2,110,000	2,305,000	2,495,000	-8.5%	-7.6%
Total Liabilities	\$ 2,490,896	\$ 2,689,852	\$ 3,059,033	-7.4%	-12.1%
Net Position					
Net Investment in Capital Assets	\$ 34,627,375	\$ 35,562,188	\$ 32,685,327	-2.6%	8.8%
Restricted Net Position	441,302	439,518	441,945	0.4%	-0.5%
Unrestricted Net Position	4,038,604	3,378,962	3,679,278	19.5%	-8.2%
Total Net Position	\$ 39,107,281	\$ 39,380,668	\$ 36,806,550	-0.7%	7.0%

2016 Revenues and Expenses Compared to 2015

Operating revenues increased by \$157,428 (5.8%) primarily due to the increase in usage fees. Operating expenses increased \$145,484 (3%) due the increase in depreciation. Capital contributions, grants and charges were down by \$2,870,424 (59.9%) due to a discretionary grant for phase 3 of taxiway A west construction with \$3.8 million of that grant received in 2015. Projects funded in 2016 included: completing FAA funded perimeter road south reconstruction and realignment and ARFF truck and equipment purchase; commencing FAA funded design of a new ARFF station and guard funded runway arresting barrier removal; and state matching share of taxiway A west project. Net position decreased by \$273,387 (0.7%).

2015 Revenues and Expenses Compared to 2014

Operating revenues decreased by \$28,228 (1%) primarily due to the reduction in military use fees offset by increase in rents. Operating expenses increased \$72,350 (1.5%). Capital contributions, grants and charges were up by \$1,674,246 (53.8%) due to large projects during the year. Projects included: FAA funded Taxiway A West Phase 3 and ARFF truck purchase; and state funded West Corporate GA Pavement Rehab and Electrical Vault Modifications. Net position increased by \$2,574,118 (7%).

FORT SMITH REGIONAL AIRPORT
Summary of Revenues, Expenses and Changes in Net Position

	2016	2015	2014	% Change 2016-2015	% Change 2015-2014
Operating Revenues:					
Flowage Fees	\$ 148,941	\$ 148,983	\$ 158,508	0.0%	-6.0%
Landing Fees	152,894	127,457	136,846	20.0%	-6.9%
Military Use Fees and Rents	-	-	131,119	0.0%	-100.0%
Rented Buildings and Other	1,828,912	1,702,872	1,640,953	7.4%	3.8%
Parking Lot Fees	435,772	410,936	383,639	6.0%	7.1%
Fuel	46,781	26,279	22,397	78.0%	17.3%
Other	254,368	293,713	265,006	-13.4%	10.8%
	<u>2,867,668</u>	<u>2,710,240</u>	<u>2,738,468</u>	5.8%	-1.0%
Operating Expenses:					
Personal Services	755,634	743,586	767,816	1.6%	-3.2%
Contractual Services	1,168,383	1,152,443	1,012,142	1.4%	13.9%
Commodities	196,677	220,612	233,263	-10.8%	-5.4%
Other Charges	88,809	86,432	95,296	2.8%	-9.3%
Depreciation and Amortization	2,733,630	2,594,576	2,616,782	5.4%	-0.8%
	<u>4,943,133</u>	<u>4,797,649</u>	<u>4,725,299</u>	3.0%	1.5%
Operating Loss	(2,075,465)	(2,087,409)	(1,986,831)	0.6%	-5.1%
Nonoperating Expenses, net	(116,132)	(127,107)	(137,346)	8.6%	7.5%
Decrease in Net Position before Capital Contributions, Grants and Charges	(2,191,597)	(2,214,516)	(2,124,177)	1.0%	-4.3%
Capital Contributions, Grants and Charges	1,918,210	4,788,634	3,114,388	-59.9%	53.8%
Increase (Decrease) in Net Position after Capital Contributions, Grants and Charges	(273,387)	2,574,118	990,211	-110.6%	160.0%
Total Net Position, Beginning of Year	<u>39,380,668</u>	<u>36,806,550</u>	<u>35,816,339</u>	7.0%	2.8%
Total Net Position, End of Year	<u>\$ 39,107,281</u>	<u>\$ 39,380,668</u>	<u>\$ 36,806,550</u>	-0.7%	7.0%

Capital Assets

2016 Capital Projects

The following major projects and additions were completed during 2016:

- Perimeter road south realignment began in 2015 with expenditures in 2016 of \$660,759. The project was completed in 2016 at a total cost of \$671,778. The FAA provided total funding of \$604,600. The state provided funding of \$67,178 to be received in 2017.
- Perimeter security fencing continued from 2014 and 2015 with expenses of \$68,781 incurred in 2016. The collective total through 2016 was \$227,191. Funding for this project was PFC collections under the airport's PFC Program.

- ARFF truck and ancillary equipment acquisition began in 2015 with delivery in 2016. Expenses incurred in 2016 were \$568,407 with total project cost of \$655,925. The FAA provided total funding of \$590,332. The state provided funding of \$65,593.
- Bollard lights at the terminal building were replaced (\$33,484); the administrative office computer system was replaced (\$28,930); and a mower was replaced (\$15,200); all with airport funds.

The following projects were started and underway at December 31, 2016:

- Wildlife habitat mitigation/Spivey Creek drainage continued from 2014 and 2015, with expenses of \$39,740 incurred in 2016. The collective total through 2016 was \$96,870. Conclusion of this project is expected for late 2017 with the total cost expected to be \$829,200. Funding for this project is PFC collections under the airport's PFC Program.
- ARFF station design began during 2016 with \$75,084 incurred. Conclusion of this project is planned for summer 2017 at the total cost of \$330,900. FAA will provide 90% funding for this project. Construction of the ARFF station will begin in 2017.
- Runway arresting barrier removal began during 2016 with \$86,283 incurred. Conclusion of this project is planned for spring 2017, with a total cost expected to be \$746,000. The guard will provide 100% funding for this project. The guard has agreed to remove the arresting barrier equipment under the runway within 5 years during the next runway overlay.

2015 Capital Projects

The following major projects and additions were completed during 2015:

- The third and final phase of Taxiway A West realignment and widening began in 2014 with expenditures in 2015 of \$4,007,979. The project was completed in 2015 at a total cost of \$5,010,150. The FAA provided total funding of \$4,756,317. The state provided funding of \$250,333 to be received in 2016.
- West Corporate GA Pavement Rehabilitation was completed at a cost of \$465,463. The state provided funding of \$406,331.
- Airfield Electrical Vault Modification with replacement emergency generator was completed at a cost of \$196,966. The state provided funding of \$157,345.
- The terminal building chiller was replaced with 2 units at a cost of \$260,442. A temporary rental chiller was necessary at an additional cost of \$54,082 (reflected in operating expenses).
- Equipment purchases included a portable preconditioned air unit (\$77,375) funded with PFC collections under the airport's PFC Program.
- Additional equipment included a wheel loader (\$127,980), 2 ATVs, and a used pickup truck funded with airport funds.

The following projects were started and underway at December 31, 2015:

- The perimeter security fencing continued from 2014 and incurred expenses of \$41,081 in 2015, with a collective total through 2015 of \$168,794. Funding for this project was PFC collections under the airport’s PFC Program.
- Wildlife habitat mitigation/Spivey Creek drainage continued from 2014 and incurred expenses of \$18,098 in 2015, with a collective total through 2015 of \$57,130. Funding for this project was PFC collections under the airport’s PFC Program.
- Perimeter road south realignment began during the year and incurred expenses of \$11,019. The FAA will provide 90% funding for this project.
- Purchase of ARFF truck and ancillary equipment began during the year with delivery in 2016. Expenses incurred in 2015 were \$87,518 with total cost expected to be \$657,539. FAA will provide 90% funding for this project.

Debt Administration

2016 Compared to 2015

Long-term debt was reduced by 7.6% as a result of the scheduled principal payments established by terms of the bonds.

2015 Compared to 2014

Long-term debt was reduced by 6.7% as a result of the scheduled principal payments established by terms of the bonds.

**FORT SMITH REGIONAL AIRPORT
Outstanding Long-Term Debt**

	2016	2015	2014	% Change 2016-2015	% Change 2015-2014
Revenue Bonds Payable, Net	<u>\$ 2,305,000</u>	<u>\$ 2,495,000</u>	<u>\$ 2,675,000</u>	-7.6%	-6.7%
Total Outstanding Debt	<u><u>\$ 2,305,000</u></u>	<u><u>\$ 2,495,000</u></u>	<u><u>\$ 2,675,000</u></u>		

Additional information on the Airport’s long-term debt can be found on pages 22 and 23 of this report.

Economic Factors and Next Year's Rates and Charges

The Airport experienced 1% increase in enplaned passengers during 2016, for a total of 87,488 enplanements as compared to 86,704 in 2015 and 92,869 in 2014. Total aviation operations increased 31.5% during 2016 for a total of 44,527 as compared to 33,852 in 2015 and 33,933 in 2014.

The majority of the Airport's revenues are derived from leases that are based on usage and percentages of gross receipts. The condition of the local economy is the most significant factor affecting these revenue streams. The loss of the income associated with the Airport Joint Use Agreement (AJUA) and the added expense of the airport funding Aircraft Rescue and Fire Fighting Services that were previously funded by the Arkansas Air National Guard continues to net a loss for the airport. Currently, the Airport is exploring an AJUA to fund a small portion of the loss.

Request for Information

This financial report is designed to provide a general overview of the Airport's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Administration, Fort Smith Regional Airport, 6700 McKennon Blvd. Suite 200, Fort Smith, AR 72903.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Statements of Net Position
December 31, 2016 and 2015

	2016	2015
Current Assets		
Cash	\$ 1,897,471	\$ 706,580
Restricted cash equivalents	78,481	76,658
Certificates of deposit	1,434,104	982,833
Accounts receivable, net of allowance; 2016-\$4,300; 2015-\$4,300	88,481	71,810
Passenger facility charges receivable	57,163	57,202
Intergovernmental receivable	9,230	753,724
Inventories	50,026	47,906
Prepaid expenses	64,772	64,031
Interest receivable	7,279	5,301
	3,687,007	2,766,045
Noncurrent Assets		
Restricted cash	321,620	197,546
Certificates of deposit	247,311	491,000
Restricted certificates of deposit	305,658	405,658
Capital assets, not being depreciated	6,592,990	6,504,129
Capital assets, being depreciated, net	30,337,753	31,581,784
	37,805,332	39,180,117
Total noncurrent assets	37,805,332	39,180,117
Total assets	41,492,339	41,946,162
Deferred Outflows of Resources		
Deferred amounts on refunded bonds	105,838	124,358
Total deferred outflows of resources	105,838	124,358

	2016	2015
Current Liabilities		
Payable From Unrestricted Assets		
Accounts payable	\$ 23,539	\$ 32,601
Accrued expenses and other	86,642	86,262
Accounts payable – related party	8,818	18,300
Current maturity of revenue bonds payable	195,000	190,000
Unearned revenue	66,897	57,689
	<u>380,896</u>	<u>384,852</u>
Total current liabilities payable		
Noncurrent Liabilities		
Revenue bonds payable	2,110,000	2,305,000
	<u>2,490,896</u>	<u>2,689,852</u>
Total liabilities		
Net Position		
Net investment in capital assets	34,627,375	35,562,188
Restricted for:		
Bond reserves	384,139	382,316
Capital expenditures	57,163	57,202
	<u>441,302</u>	<u>439,518</u>
Total restricted net position		
Unrestricted	4,038,604	3,378,962
	<u>4,038,604</u>	<u>3,378,962</u>
Total net position	<u>\$ 39,107,281</u>	<u>\$ 39,380,668</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Flowage fees	\$ 148,941	\$ 148,983
Landing fees	152,894	127,457
Rented buildings and other	1,828,912	1,702,872
Parking lot fees	435,772	410,936
Fuel	46,781	26,279
Other	<u>254,368</u>	<u>293,713</u>
Total operating revenues	<u>2,867,668</u>	<u>2,710,240</u>
Operating Expenses		
Personal services	755,634	743,586
Contractual services	1,168,383	1,152,443
Commodities	196,677	220,612
Other charges	88,809	86,432
Depreciation and amortization	<u>2,733,630</u>	<u>2,594,576</u>
Total operating expenses	<u>4,943,133</u>	<u>4,797,649</u>
Operating Loss	<u>(2,075,465)</u>	<u>(2,087,409)</u>
Nonoperating Revenues (Expenses)		
Investment income	16,478	11,903
Interest expense	<u>(132,610)</u>	<u>(139,010)</u>
Net nonoperating expenses	<u>(116,132)</u>	<u>(127,107)</u>
Decrease in Net Position Before Capital Contributions and Grants	<u>(2,191,597)</u>	<u>(2,214,516)</u>
Capital Contributions and Grants		
Passenger facility charges	342,942	338,613
Federal, state and local grants	<u>1,575,268</u>	<u>4,450,021</u>
Total capital contributions and grants	<u>1,918,210</u>	<u>4,788,634</u>
Increase (Decrease) in Net Position	(273,387)	2,574,118
Net Position, Beginning of Year	<u>39,380,668</u>	<u>36,806,550</u>
Net Position, End of Year	<u>\$ 39,107,281</u>	<u>\$ 39,380,668</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Cash receipts from customers and users	\$ 2,850,997	\$ 2,927,728
Cash payments to vendors for goods and services	(1,439,206)	(1,468,466)
Cash payments for employee services	(751,687)	(747,326)
Net cash provided by operating activities	660,104	711,936
Capital and Related Financing Activities		
Principal payments on bonds payable	(190,000)	(180,000)
Interest paid	(115,657)	(120,968)
Acquisition and construction of capital assets	(1,607,320)	(5,561,808)
Passenger facility charges received	342,981	343,215
Capital grants received	2,319,762	3,864,975
Net cash used in (provided by) capital and related financing activities	749,766	(1,654,586)
Investing Activities		
Purchase of investments	(1,986,073)	(1,879,491)
Proceeds from sales and maturities of investments	1,885,391	983,170
Income received on investments and cash equivalents	7,600	6,827
Net cash used in investing activities	(93,082)	(889,494)
Net Increase (Decrease) in Cash and Cash Equivalents	1,316,788	(1,832,144)
Cash and Cash Equivalents, Beginning of Year	980,784	2,812,928
Cash and Cash Equivalents, End of Year	\$ 2,297,572	\$ 980,784
Presented on the Statements of Net Position		
Current assets - cash	\$ 1,897,471	\$ 706,580
Current assets - restricted cash equivalents	78,481	76,658
Noncurrent assets - restricted cash	321,620	197,546
	\$ 2,297,572	\$ 980,784

See Notes to Financial Statements

	2016	2015
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (2,075,465)	\$ (2,087,409)
Items not requiring cash		
Depreciation and amortization	2,733,630	2,594,576
Changes in		
Accounts receivable	(16,671)	217,488
Inventories	(2,120)	9,725
Prepaid expenses	(741)	(5,918)
Accounts payable and accrued liabilities	21,471	(16,526)
	<u>660,104</u>	<u>711,936</u>
Net cash provided by operating activities	<u>\$ 660,104</u>	<u>\$ 711,936</u>
Noncash Capital and Related Financing Activities:		
Capital assets acquired through payables	<u>5,646</u>	<u>20,521</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2016 and 2015

Note 1: Nature of Organization and Summary of Significant Accounting Policies

The Fort Smith Airport Commission (Airport Commission) was established by a City of Fort Smith (City) ordinance, pursuant to Arkansas Code Section 14-359-104, to manage the Fort Smith Regional Airport (Airport) and consists of seven members appointed by the Mayor and confirmed by the governing body of the City. Each member of the Airport Commission is appointed for a term of five years. The City can impose its will on the Airport through its statutory authority to remove members of the Airport Commission. Also, the City board of directors retains approval authority over the issuance of bonds for Airport purposes. Therefore, the City is financially accountable for the Airport, which is presented as a discretely presented component unit in the City's basic financial statements. The Airport is organized as an enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business; where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered, primarily through user charges.

Basis of Accounting and Financial Reporting

The financial statements consist of a single-purpose business-type activity which is reported on the accrual basis of accounting using the economic resources measurement focus.

The Airport prepares its financial statements in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Cash and Cash Equivalents

The Airport considers all liquid investments with original maturity of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consist of money market mutual funds held by brokers and certificates of deposit.

Accounts Receivable

The Airport accrues revenue for fees and charges earned but not yet billed as of year-end.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2016 and 2015

Inventory Pricing

Inventories of de-icing material are valued at cost using the first in, first out (FIFO) method. Inventories of fuel are stated at the lower of cost or market determined using the FIFO method.

Investment Income

Investment income includes dividend and interest income and gas royalties.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Airport:

Buildings and leasehold improvements	10 – 40 years
Machinery and equipment	3 – 15 years
Improvements other than buildings	5 – 20 years
Equipment, furniture and fixtures and other	3 – 10 years
Ramps, runways, taxiways and improvements	10 – 50 years

Lessee-Financed Improvements

Certain leases include provisions whereby lessee-financed improvements become the property of the Airport. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Airport recognizes lessee-financed improvements as capital assets and as capital contributions at cost, or estimated cost, upon completion of construction, or upon the asset being placed in service, whichever occurs first.

Compensated Absences

Airport policies permit most employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are included in accrued expenses and are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2016 and 2015

Deferred Outflows of Resources and Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net position by the airport that is applicable to a future reporting period and a deferred outflow of resources is a consumption of net position by the Airport that is applicable to a future period. Both deferred inflows and outflows are reported in the statement of net position but are not recognized in the financial statements as revenues and expenses until the period(s) to which they relate. Deferred outflows of resources of the airport consist of the deferred charge on bond refunding.

Deferred amounts on refunded bonds are being amortized into interest expense using the interest method over the shorter of the life of the refunded or refunding bonds.

Restricted Assets

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

Revenue and Expense

The Airport has two classes of revenue, operating and nonoperating. Operating revenues consist of revenues that are generally received during the regular course of airport operations such as office and space rentals, landing fees, flowage fees and parking lot concessions. Nonoperating revenues generally consist of items that are not classified as operating revenues such as interest income and gas royalties.

Net Position

Net position of the Airport is classified in three components. Net position invested in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Airport, including amounts deposited with trustees as required by bond indentures. Unrestricted net position is remaining assets plus deferred outflows of resources less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

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

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2016 and 2015

Rental Income

All leases wherein the Airport is the lessor are accounted for as operating leases. Rental income is generally recognized as it becomes receivable over the respective lease terms.

Federal and State Grants

Outlays for certain airport capital improvements are subject to reimbursement from federal grant programs. Funds are also received for airport development from the State of Arkansas. Funding provided from government grants is considered earned as the related approved capital outlays or expenses are incurred. Costs claimed for reimbursement are subject to audit and acceptance by the granting agency.

From time to time, the Airport disposes of land or other assets which were originally purchased with federal assistance. In accordance with the Airport Improvement Program (AIP), the Airport must reinvest the federal government's proportionate share of the proceeds realized from the sale or exchange of such assets in approved AIP projects or return such amounts to the federal government. Proceeds intended to be reinvested in future AIP projects are recorded as unearned revenue until expended.

Passenger Facility Charges

Under a Record of Decision, the Federal Aviation Administration (FAA) grants the Airport approval to impose a passenger facility charge (PFC) on flights originating from Fort Smith. As of February 2008, the charge increased from \$3.00 to \$4.50 per enplaned passenger. PFC's are restricted for use in the construction of certain airport improvements and other costs, as approved by the FAA. PFC's are recognized as they are earned, are included in capital contributions, grants and charges and amounted to \$342,942 and \$338,613 for 2016 and 2015, respectively.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2016 and 2015

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Airport's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

At December 31, 2016, \$225,074 of the Airport's bank balances of \$4,318,190 were exposed to custodial credit risk. At December 31, 2015, none of the Airport's bank balances of \$2,878,983 were exposed to custodial credit risk.

Investments

State statutes authorize the Airport to invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and in bank repurchase agreements. At December 31, 2016 and 2015, the Airport had the following investments and maturities:

December 31, 2016					
Type	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Money market funds	\$ 78,481	\$ 78,481	\$ -	\$ -	\$ -
	<u>\$ 78,481</u>	<u>\$ 78,481</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2015					
Type	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Money market funds	\$ 76,658	\$ 76,658	\$ -	\$ -	\$ -
	<u>\$ 76,658</u>	<u>\$ 76,658</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2016 and 2015

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

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Airport’s investments at December 31, 2016 and 2015 are securities issued or backed by the U.S. Government. At December 31, 2016, the Airport’s investments not directly guaranteed by the U.S. government were rated as follows:

Investment Type	Rating Agency	Rating
Money Market Mutual Funds	S&P/Moody’s	AAA/Aaa

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Airport will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At December 31, 2016, all of the Airport’s investments were held by counterparties in the Airport’s name.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2016	2015
Carrying value		
Deposits	\$ 4,206,164	\$ 2,783,617
Investments	78,481	76,658
	<u>\$ 4,284,645</u>	<u>\$ 2,860,275</u>
Included in the following statement of net position captions		
Current cash	\$ 1,897,471	\$ 706,580
Current restricted cash equivalents	78,481	76,658
Current certificates of deposit	1,434,104	982,833
Noncurrent restricted cash	321,620	197,546
Noncurrent certificates of deposit	247,311	491,000
Noncurrent restricted certificates of deposit	305,658	405,658
	<u>\$ 4,284,645</u>	<u>\$ 2,860,275</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2016 and 2015

Restricted Cash, Cash Equivalents and Investment Securities

Cash, cash equivalents and investment securities are restricted as follows:

	<u>2016</u>	<u>2015</u>
Revenue bond interest and principal funds	\$ 78,481	\$ 76,658
Revenue bond reserve funds	305,658	305,658
Passenger facility charge fund	<u>321,620</u>	<u>297,546</u>
	<u>\$ 705,759</u>	<u>\$ 679,862</u>

Investment Income

Investment income for the years ended December 31, 2016 and 2015, consisted of:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 14,376	\$ 9,624
Gas royalties	<u>2,102</u>	<u>2,279</u>
	<u>\$ 16,478</u>	<u>\$ 11,903</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2016 and 2015

Note 3: Capital Assets

A summary of changes in capital assets for the years ended December 31, 2016 and 2015, is as follows:

	2016			Ending Balance
	Beginning Balance	Transfers In and Additions	Transfers Out and Disposals	
Capital assets, not being depreciated:				
Land	\$ 6,324,706	\$ -	\$ -	\$ 6,324,706
Construction in progress	179,423	268,284	(179,423)	268,284
Total capital assets, not being depreciated	6,504,129	268,284	(179,423)	6,592,990
Capital assets, being depreciated:				
Buildings and building improvements	22,029,538	-	-	22,029,538
Runways and other airport infrastructure	54,026,951	671,777	-	54,698,728
Equipment, furniture and fixtures and other	11,462,173	817,974	(40,822)	12,239,325
Total capital assets, being depreciated	87,518,662	1,489,751	(40,822)	88,967,591
Less accumulated depreciation for:				
Buildings and building improvements	(12,312,828)	(598,675)	-	(12,911,503)
Runways and other airport infrastructure	(34,691,233)	(1,544,003)	-	(36,235,236)
Equipment, furniture and fixtures and other	(8,932,817)	(590,952)	40,670	(9,483,099)
Total accumulated depreciation	(55,936,878)	(2,733,630)	40,670	(58,629,838)
Total capital assets, being depreciated, net	31,581,784	(1,243,879)	(152)	30,337,753
Capital assets, net	\$ 38,085,913	\$ (975,595)	\$ (179,575)	\$ 36,930,743

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2016 and 2015

	2015			Ending Balance
	Beginning Balance	Transfers In and Additions	Transfers Out and Disposals	
Capital assets, not being depreciated:				
Land	\$ 6,195,295	\$ 129,411	\$ -	\$ 6,324,706
Construction in progress	1,289,461	140,391	(1,250,429)	179,423
Total capital assets, not being depreciated	7,484,756	269,802	(1,250,429)	6,504,129
Capital assets, being depreciated:				
Buildings and building improvements	21,623,816	405,722	-	22,029,538
Runways and other airport infrastructure	48,551,338	5,475,613	-	54,026,951
Equipment, furniture and fixtures and other	11,093,210	496,241	(127,278)	11,462,173
Total capital assets, being depreciated	81,268,364	6,377,576	(127,278)	87,518,662
Less accumulated depreciation for:				
Buildings and building improvements	(11,721,949)	(590,879)	-	(12,312,828)
Runways and other airport infrastructure	(33,231,940)	(1,459,293)	-	(34,691,233)
Equipment, furniture and fixtures and other	(8,513,277)	(544,404)	124,864	(8,932,817)
Total accumulated depreciation	(53,467,166)	(2,594,576)	124,864	(55,936,878)
Total capital assets, being depreciated, net	27,801,198	3,783,000	(2,414)	31,581,784
Capital assets, net	<u>\$ 35,285,954</u>	<u>\$ 4,052,802</u>	<u>\$ (1,252,843)</u>	<u>\$ 38,085,913</u>

Construction Commitments

As of December 31, 2016, the Airport has construction commitments which include the completion of the ARFF – station design and runway barrier removal projects and various other outstanding projects. As of December 31, 2016 and 2015, outstanding construction commitments totaled \$938,488 and \$750,048, respectively.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2016 and 2015

Note 4: Long-term Liabilities

The following is a summary of long-term liabilities for the years ended December 31, 2016 and 2015:

	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Revenue bonds payable	\$ 2,495,000	\$ -	\$ (190,000)	\$ 2,305,000	\$ 195,000
	2015				
	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Revenue bonds payable	\$ 2,675,000	\$ -	\$ (180,000)	\$ 2,495,000	\$ 190,000

Revenue Bonds Payable

On August 2, 2011, the City issued \$3,205,000 of Airport Refunding Revenue Bonds, Series 2011, on behalf of the Commission to refund on a current basis the remaining outstanding Airport Refunding and Improvement Revenue Bonds, Series 1999, and to pay expenses and fund the reserves of the issuance of the Series 2011 bonds.

The Series 2011 bonds (the Bonds) bear interest at 1.5% to 5.35%. The Bonds are payable in annual installments through October 1, 2026. All of the Bonds still outstanding may be redeemed at the Airport's option on or after October 1, 2020. The redemption price is equal to the principal amount being redeemed plus accrued interest to the redemption date. The Bonds are secured by all revenues from the operation of the Airport.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2016 and 2015

The debt service requirements as of December 31, 2016, are as follows:

Year Ending December 31,	Principal	Interest	Total
2017	\$ 195,000	\$ 109,387	\$ 304,387
2018	200,000	102,368	302,368
2019	210,000	94,567	304,567
2020	215,000	85,328	300,328
2021	225,000	75,330	300,330
2022-2026	<u>1,260,000</u>	<u>197,152</u>	<u>1,457,152</u>
	<u>\$ 2,305,000</u>	<u>\$ 664,132</u>	<u>\$ 2,969,132</u>

Note 5: Rental Income From Operating Leases

The Airport leases land, buildings and space in the terminal on a fixed fee and a contingent rental fee basis. Many of the leases provide for periodic review and adjustment of the rental amounts. Substantially all capital assets are held by the Airport for the purpose of rental or related use. Rental income, including parking lot fees, for the years ended December 31, 2016 and 2015, was \$2,264,684 and \$2,113,808, respectively.

Minimum future rentals on noncancellable operating leases in each of the next five years and thereafter as of December 31, 2016 are as follows:

2017	\$ 1,341,664
2018	816,204
2019	725,099
2020	425,932
2021	266,647
Thereafter	<u>4,029,217</u>
	<u>\$ 7,604,763</u>

Contingent rentals and fees aggregated approximately \$538,250 in 2016 and \$463,500 in 2015, and are accrued in arrears.

American Airlines and Delta Air Lines lease space for their operations for approximately \$319,300 per year. If the airlines choose to discontinue service, the financial impact on the Airport would be significant.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2016 and 2015

Note 6: Public Employees' Retirement Plan

Plan Description

The Airport participates in the City of Fort Smith's Public Employees' Retirement Plan (PERS), a defined contribution plan, that is qualified under Section 401(a) of the Internal Revenue Code (the "401(a) Plan"). The International City Management Association Retirement Corporation (ICMARC) serves as administrator of the 401(a) Plan. All full-time, nonuniformed employees are covered by the 401(a) Plan. Each participant has a plan account to which the contributions are made and each participant manages their account by selecting from various investment options offered by ICMARC. Plan benefits are based upon the total amount of money in an individual's account at retirement. Plan provisions and contribution rates are established by the 401(a) Plan agreement between the Board of Directors and ICMARC. Approval from both the Board of Directors and ICMARC is required for 401(a) Plan amendments. Employees make no contributions to the 401(a) Plan; however, the Airport makes contributions equal to 10% of each covered employee's earnings.

Employer contributions to PERS totaled approximately \$59,100 and \$56,800 each year for 2016 and 2015, respectively.

The Airport also participates in the other postemployment benefit plan (plan) administered by the City. The plan is a cost sharing multiple employer plan. All benefit obligations of the plan are pooled and recorded on the books of the City. As of December 31, 2016, there were no material required contributions. The complete disclosures required by GASB 45 are included in the City of Fort Smith's Comprehensive Annual Financial Report (CAFR).

Note 7: Related Party Transactions

The City is responsible for processing and disbursing the Airport's payroll on a bi-monthly basis. The Airport reimburses the City for the cost of the payroll plus a monthly administration fee of \$264. During 2016 and 2015, the Airport paid the City \$3,163 in payroll administration fees each year. In addition, the Airport also participates in the City's health insurance and retirement plans. The City bills the Airport monthly for the insurance premiums and bi-weekly for the retirement plan contributions. While the City retains the risk of financing the health insurance plan's obligations that exceed the Airport's and its employees' premiums paid, the monthly health insurance premiums are determined by the City at the beginning of each year and are adjusted as necessary. As of December 31, 2016 and 2015, \$9,000 and \$8,800 respectively, was payable to the City for payroll disbursements, insurance premiums, and retirement contributions.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Notes to Financial Statements
December 31, 2016 and 2015

Note 8: Risk Management

The Airport is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in the current or any of the three preceding years.

Note 9: Termination of the Airport Joint Use Agreement

In 2014, the National Guard Bureau (NGB) terminated the Airport Joint Use Agreement (AJUA) due to Air National Guard (ANG) mission changes. This agreement details the ANG's responsibility for the maintenance of runways used by ANG and for the Aircraft Rescue and Fire Fighting (ARFF) services previously provided to the Airport by the 188th FW ARFF. Because the Airport has commercial service traffic, the Airport is required to provide ARFF services. The net impact of the ANG mission changes, withdrawal of the ARFF services and cancellation of the AJUA agreement is expected to have a material impact on the Airport's financial performance in the future.

The Airport purchased with Federal Aviation Administration (FAA) funding an ARFF truck and equipment in 2016 for \$656,000 and plans to build an ARFF fire station in 2017 costing approximately \$2,500,000.

As a result of the cancellation of the AJUA, the Airport was placed in "conditional compliance" with the FAA's policy on the use of airport revenues and maintenance of a self-sustaining rate structure. On October 7, 2016 legislation was passed (H.R. 5944, US. Rep. Fred Upton and U.S. Senator Gary Peters) which changed the requirement for National Guard units located on civilian airports to pay fair market value. This new law nullified the Airport's attempt to renegotiate the lease with the National Guard. Due to the legislation, the FAA sent a letter to the Airport on October 17, 2016 removing the conditional compliance. The removal of conditional compliance ensures that the Airport will be fully eligible for future grants.

During 2016, the Airport applied for a new AJUA with the National Guard due to significant use of the airport by Air Force C-130 aircraft. The National Guard has accepted the significant use as a qualifying factor for an AJUA and the Airport is currently negotiating this process. A new AJUA will offset a portion of the Airport's deficit.

Supplementary Information

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)
Year Ended December 31, 2016

	Final Budget	Actual	Variance
Operating Revenues			
Flowage Fees			
FBO	\$ 125,000	\$ 126,291	\$ 1,291
Corporate	28,000	22,650	(5,350)
	<u>153,000</u>	<u>148,941</u>	<u>(4,059)</u>
Landing Fees			
Airlines	154,000	152,396	(1,604)
FBO	2,000	498	(1,502)
	<u>156,000</u>	<u>152,894</u>	<u>(3,106)</u>
Rented Buildings and Other			
Airlines	157,000	157,224	224
Car rental	514,000	556,016	42,016
Restaurant	1,000	-	(1,000)
Other terminal and office	2,000	2,115	115
Displays	48,000	50,413	2,413
TSA	45,300	46,311	1,011
FBO	278,000	278,058	58
SASO	67,000	72,185	5,185
T - Hangars	72,000	73,895	1,895
Corporate	131,400	136,375	4,975
Commercial leases	456,000	456,320	320
	<u>1,771,700</u>	<u>1,828,912</u>	<u>57,212</u>
Parking Lot Fees	<u>405,000</u>	<u>435,772</u>	<u>30,772</u>
Fuel	<u>43,000</u>	<u>46,781</u>	<u>3,781</u>
Other			
Auto gas – rental car and airlines	48,600	45,700	(2,900)
Miscellaneous	85,000	99,770	14,770
LEO cost reimbursement	109,500	108,898	(602)
	<u>243,100</u>	<u>254,368</u>	<u>11,268</u>
Total operating revenues	<u>2,771,800</u>	<u>2,867,668</u>	<u>95,868</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) (Continued)
Year Ended December 31, 2016

	Final Budget	Actual	Variance
Operating Expenses			
Personal services			
Salaries regular	\$ 577,900	\$ 569,889	\$ 8,011
Salaries overtime	5,500	2,566	2,934
Salaries other	1,100	-	1,100
FICA airport contribution	44,700	41,649	3,051
Health coverage and wellness	72,600	63,239	9,361
Dental	8,700	7,972	728
Disability	2,350	2,246	104
Life	7,500	7,464	36
Vision	1,750	1,540	210
Retirement	59,100	59,069	31
	<u>781,200</u>	<u>755,634</u>	<u>25,566</u>
Contractual services			
Electricity	164,000	137,225	26,775
Gas	82,000	55,407	26,593
Water and sewer	43,000	32,954	10,046
Telephone	10,500	9,900	600
Printing and advertisement	3,500	2,315	1,185
Postage and shipping	2,600	1,784	816
Travel and training	26,000	5,848	20,152
Airport marketing/development	20,000	7,866	12,134
Airport business	15,000	10,090	4,910
Professional services	25,000	22,061	2,939
Technical services	25,000	14,741	10,259
Legal services	15,000	6,209	8,791
Maintenance/repair – buildings	95,000	98,968	(3,968)
Maintenance/repair – fences	4,000	784	3,216
Maintenance/repair – pavement	100,000	102,404	(2,404)
Maintenance/repair – equipment	83,500	70,399	13,101
Maintenance/repair – displays	-	11	(11)
Other contractual services	355,000	357,608	(2,608)
LEO cost reimbursement	109,500	108,898	602
Audit and financial services	42,000	40,420	1,580
Commercial leases	82,500	82,491	9
	<u>1,303,100</u>	<u>1,168,383</u>	<u>134,717</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) (Continued)
Year Ended December 31, 2016

	Final Budget	Actual	Variance
Commodities			
Office and duplicating supplies	\$ 3,000	\$ 1,920	\$ 1,080
Motor fuels and lubricants	34,600	18,140	16,460
Chemicals	41,000	10,805	30,195
Janitorial supplies	20,000	19,900	100
Materials	16,000	15,101	899
Other commodities	18,000	20,880	(2,880)
Clothing and supplies	4,000	5,123	(1,123)
Tools	3,700	4,437	(737)
Trees and plants	1,000	11	989
Gas for resale	46,000	42,928	3,072
Aviation fuel for resale	41,300	43,292	(1,992)
Field lighting	10,000	14,140	(4,140)
	<u>238,600</u>	<u>196,677</u>	<u>41,923</u>
Other charges			
Commercial property insurance	41,000	40,516	484
Airport liability insurance	8,100	7,993	107
Officers and directors insurance	8,400	8,299	101
Vehicle insurance	11,900	11,741	159
Workers compensation insurance	9,000	8,725	275
Dues and subscriptions	6,100	2,284	3,816
Miscellaneous charges	6,900	184	6,716
Payroll processing fees	3,600	3,163	437
Property and use taxes	10,500	5,904	4,596
	<u>105,500</u>	<u>88,809</u>	<u>16,691</u>
Total operating expenses	<u>2,428,400</u>	<u>2,209,503</u>	<u>218,897</u>
Operating Income	<u>343,400</u>	<u>658,165</u>	<u>314,765</u>
Nonoperating Revenues (Expenses)			
Investment income			
Interest – operating fund	6,000	7,476	1,476
Interest – bond reserve	-	2,354	2,354
Interest – PFC funds reserved	300	1,049	749
Interest – projects fund	2,900	3,497	597
Gas royalties	3,000	2,102	(898)
	<u>12,200</u>	<u>16,478</u>	<u>4,278</u>
Interest expense	<u>(137,700)</u>	<u>(132,610)</u>	<u>5,090</u>
Total Nonoperating Expenses	<u>(125,500)</u>	<u>(116,132)</u>	<u>9,368</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) (Continued)
Year Ended December 31, 2016

	Final Budget	Actual	Variance
Increase in Net Position Before Capital Contributions and Grants	<u>\$ 217,900</u>	<u>\$ 542,033</u>	<u>\$ 324,133</u>
Capital Contributions and Grants			
Passenger facility charges	347,000	342,942	(4,058)
Guard receipts	600,000	75,600	(524,400)
Federal, state and local grants			
Federal grants	1,249,566	1,183,742	(65,824)
State grants	<u>-</u>	<u>315,926</u>	<u>315,926</u>
	<u>1,249,566</u>	<u>1,499,668</u>	<u>250,102</u>
	<u>2,196,566</u>	<u>1,918,210</u>	<u>(278,356)</u>
Increase in Net Position Before Bond Principal Payments and Capital Outlay Expenditures	<u>2,414,466</u>	<u>2,460,243</u>	<u>45,777</u>
Bond principal payments	190,000	190,000	-
Capital outlay expenditures	<u>2,457,304</u>	<u>1,558,641</u>	<u>898,663</u>
	<u>2,647,304</u>	<u>1,748,641</u>	<u>898,663</u>
Decrease in Net Position, Budgetary Basis	<u>\$ (232,838)</u>	<u>\$ 711,602</u>	<u>\$ 944,440</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) (Continued)
Year Ended December 31, 2016

Notes to Budgetary Comparison Schedule

Budget Reconciliation – Items required to adjust actual expenses reported on the budgetary basis to those reported within the financial statements as of and for the year ended December 31, 2016, are as follows:

Operating expenses – Budgetary Basis, December 31, 2016	\$ 2,209,503
Depreciation and amortization expense	<u>2,733,630</u>
Operating expenses – Statements of Revenues, Expenses and Changes in Net Position, December 31, 2016	<u>\$ 4,943,133</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Schedule of Passenger Facility Charge Revenues and Expenditures
Year Ended December 31, 2016

Revenues	Date Approved	Amount Approved	Cumulative Total - December 31, 2015
Passenger facility charge revenues received			\$ 6,191,181
Interest earned			163,131
Total passenger facility charge revenue received			\$ 6,354,312
Expenditures			
PFC projects completed prior to 2007	7/24/1997	\$ 3,279,122	\$ 3,279,122
Application 06-03			
Perimeter road construction reimbursements	8/1/2006	128,515	128,515
Terminal Apron	8/1/2006	280,734	280,734
Conditioned Air at Gates	7/5/2006	200,000	200,000
Terminal Security Equipment	7/5/2006	123,270	123,270
Total Application 06-03		732,519	732,519
Application 07-04			
Boarding Bridge Installation	11/20/2007	877,533	877,533
Flight Information Display System	11/20/2007	85,261	85,262
Security System Improvements	11/20/2007	279,268	279,268
PFC Administration Costs	11/20/2007	68,046	68,045
Total Application 07-04		1,310,108	1,310,107
Application 12-05			
Airport Entry Signs to Passenger Terminal	10/22/2012	65,273	65,273
Passenger Terminal Sterile Lobby Expansion	10/22/2012	40,000	40,000
Portable Pre-conditioned Air and Ground Power Unit	10/22/2012	130,000	130,000
Runway 1/19 Pavement Rehabilitation and Marking	10/22/2012	12,500	12,500
Perimeter Security Fence and Erosion Control	10/22/2012	250,000	155,663
Runway Closure Signs	10/22/2012	40,000	37,186
Wildlife Habitat Mitigation and Drainage Improvements	10/22/2012	1,200,000	52,440
Wildlife Management Plan	10/22/2012	10,000	4,625
Security System Upgrade	10/22/2012	75,000	30,307
Braking Action Testing Equipment	10/22/2012	10,000	7,250
Replace Security Vehicles	10/22/2012	75,000	47,482
Public Information Systems	10/22/2012	50,000	11,027
Snow Removal Equipment	10/22/2012	110,000	87,359
Reconstruction of Taxiway A West Phase 2	10/22/2012	137,509	-
Reconstruction of Taxiway A West Phase 3	10/22/2012	146,255	-
PFC Administration	10/22/2012	61,000	53,904
Total Application 12-05		2,412,537	735,016
Total passenger facility charge revenue expended		\$ 7,734,286	\$ 6,056,764

Quarters Ended				Year Ended December 31, 2016	Cumulative Total - December 31, 2016
March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016		
\$ 67,344 25	\$ 89,694 426	\$ 91,622 26	\$ 94,321 36	\$ 342,981 513	\$ 6,534,162 163,644
<u>\$ 67,369</u>	<u>\$ 90,120</u>	<u>\$ 91,648</u>	<u>\$ 94,357</u>	<u>\$ 343,494</u>	<u>\$ 6,697,806</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,279,122</u>
-	-	-	-	-	128,515
-	-	-	-	-	280,734
-	-	-	-	-	200,000
-	-	-	-	-	123,270
-	-	-	-	-	732,519
-	-	-	-	-	877,533
-	-	-	-	-	85,262
-	-	-	-	-	279,268
-	-	-	-	-	68,045
-	-	-	-	-	1,310,107
-	-	-	-	-	65,273
-	-	-	-	-	40,000
-	-	-	-	-	130,000
-	-	-	-	-	12,500
71,528	-	-	-	71,528	227,191
-	-	-	-	-	37,186
15,114	17,802	9,097	-	42,014	94,454
-	-	-	-	-	4,625
-	-	1,843	-	1,843	32,150
-	-	-	-	-	7,250
-	-	-	-	-	47,482
-	1,214	-	-	1,214	12,241
-	-	-	-	-	87,359
-	-	-	-	-	-
-	-	-	-	-	-
4,260	-	-	2,836	7,096	61,000
<u>90,902</u>	<u>19,016</u>	<u>10,940</u>	<u>2,836</u>	<u>123,695</u>	<u>858,711</u>
<u>\$ 90,902</u>	<u>\$ 19,016</u>	<u>\$ 10,940</u>	<u>\$ 2,836</u>	<u>\$ 123,695</u>	<u>\$ 6,180,459</u>

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Schedule of Passenger Facility Charge Revenues and Expenditures (Continued)
Year Ended December 31, 2016

Notes to Schedule:

1. This schedule includes the Passenger Facility Charge (PFC) Program activity of the Airport and is presented on the cash basis of accounting. Under the cash basis of accounting, PFC revenues are recognized when they are received rather than when earned and eligible expenditures are recognized when payment for the related goods or services is made. The information in this schedule is presented in accordance with the requirements of the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration (FAA). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

PFC expenditures may consist of direct project costs, administrative costs, debt service and bond financing costs, as applicable to active applications. The Schedule of Passenger Facility Charges Revenues and Expenditures includes eligible expenditures that have been applied against PFC's collected as of December 31, 2016.
2. Collections and expenditures on approved projects in the schedule above agree to the Passenger Facility Charge Quarterly Status Reports (PFC Reports) submitted by the Airport to the FAA.
3. Effective July 24, 1997 and amended on August 1, 2006, a total of \$3,279,122 has been approved to be imposed and collected on behalf of the Airport and used by the Airport.
4. Effective August 1, 2006, a total of \$732,519 has been approved to be imposed and collected on behalf of the Airport and used by the Airport.
5. Effective November 20, 2007 and amended on October 4, 2012, a total of \$1,310,108 has been approved to be imposed and collected on behalf of the Airport and used by the Airport.
6. Effective October 22, 2012, a total of \$2,412,537 has been approved to be imposed and collected on behalf of the Airport and used by the Airport.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Grant or Other Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Transportation/Federal Aviation Administration/ Airport Improvement Program	20.106	None	None	\$ -	\$ 1,183,742
U. S. Department of Homeland Security/ Law Enforcement Officer Reimbursement Agreement Program	97.090	None	HSTS0216HSLR850	-	108,898
				<u>\$ -</u>	<u>\$ 1,292,640</u>

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Airport under programs of the federal government for the year ended December 31, 2016. The accompanying notes are an integral part of this Schedule. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Airport, it is not intended to and does not present the financial position, changes in net position or cash flows of the Airport.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The airport has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

Statistical Section

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Selected Airport Operations Information
Year Ended December 31, 2016

Airport Operations

The Airport serves the west-central Arkansas and east-central Oklahoma region. The following shows enplanement information at the Airport from 1997 to 2016:

Total Year	U. S. Domestic Enplanements	Airport % of Enplanements	U. S. Primary Airports
2016	87,488	Not available	Not available
2015	86,704	0.01%	798,390,000
2014	92,869	0.01%	760,650,507
2013	84,520	0.01%	738,415,316
2012	86,653	0.01%	731,187,279
2011	86,234	0.01%	726,007,934
2010	86,129	0.01%	713,580,637
2009	78,432	0.01%	696,769,131
2008	87,030	0.01%	734,700,902
2007	99,127	0.01%	762,397,236
2006	94,717	0.01%	737,647,279
2005	102,607	0.01%	735,547,793
2004	90,613	0.01%	704,793,726
2003	89,510	0.01%	650,045,348
2002	85,137	0.01%	644,579,286
2001	90,311	0.01%	659,422,828
2000	99,493	0.01%	708,638,875
1999	102,583	0.02%	682,614,094
1998	104,629	0.02%	655,175,790
1997	99,833	0.02%	641,563,706

Airlines	2016 Passenger Enplanements	2016 Market Share
American Airlines	55,978	59%
Express Jet (Delta Air lines)	31,510	41%
	87,488	100%

Current year data is provided to the airport by local airlines. Prior years' data has been adjusted to data from the FAA DOT/TSC ACAIS Database.

Rental Car and Airline Agreements

The Airport has lease/operating agreements with the following car rental agencies: Avis/Budget, Hertz and National/Enterprise. The Airport receives the greater of ten percent (10%) of gross revenue or a minimum annual guarantee from each agency.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Selected Airport Operations Information (Continued)
Year Ended December 31, 2016

Fort Smith based airlines include American Airlines and Delta Air Lines. The airlines lease agreements are equivalent in material respects, and include a covenant not to grant more favorable terms to other signatory airlines. The current landing fee is \$1.25 per thousand pounds of the maximum allowable certificated landing weight of aircraft used.

Terminal space is leased to the airlines on an exclusive and non-exclusive use basis. Exclusive use areas include ticket counters, office space and operations areas. The non-exclusive use areas include baggage claim space and security screening space. The 2016 rental rate of space for the exclusive use areas was \$19.00 per square foot per year and non-exclusive use areas was \$14.00 per square foot per year. The total rent for the non-exclusive use areas is prorated among the airlines using the industry standard “20/80%” rule – 20% of the total rent is equally divided among the airlines and 80% is divided according to each airline’s percentage of passenger enplanements. The agreements also establish fees for the airlines use of the public address system in the terminal.

Other Lease Agreements

Set forth below is a list of tenants or lessees of the Airport that are not airlines or rental car agencies.

Name of Tenant	Type
Federal Express	Freight company
Truman Arnold Companies	Fixed base operator
ArcBest Corporation	Corporate aviation department
Baldor Electric Company	Corporate aviation department
Dude, Inc.	Corporate aviation department
Peterson Chemical	Corporate aviation department
Smith Auto Group	Corporate aviation department
USAF (188 th Wing)	MQ-9 MCE, governmental agency
Republic Parking Systems	Parking lot operator
Transportation Security Administration	Governmental agency
Federal Aviation Administration	Air Traffic Control Tower, governmental agency
Fort Smith Aviation Services	Specialty aviation service organization
Franklin County Aviation	Specialty aviation service organization
Northeast Arkansas Avionics	Specialty aviation service organization
Southern Eagle Aviation	Specialty aviation service organization
Numerous aviators	T-hangar & small hangar leases
Airport Advertising	Advertising in passenger terminal
Home Depot	Commercial land lease
Driscoll Properties Hotel Group	Commercial land lease
Marion Driscoll	Commercial land lease
Young & Young Development	Commercial land lease
Trane HVAC Parts & Supply	Commercial building lease
W.E.Y. dba Art's BBQ	Restaurant

Other Required Reports

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Fort Smith Airport Commission
Fort Smith Regional Airport
Fort Smith, Arkansas

We have audited, 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, the basic financial statements of the Fort Smith Regional Airport, a component unit of the City of Fort Smith, Arkansas (the Airport), which comprise the statement of net position as of December 31, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated February 17, 2017.

Internal Control Over Financial Reporting

Management of the Airport is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Airport's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we do not express an opinion on the effectiveness of the Airport'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Airport'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 as defined above. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether the Airport's financial statements are free of 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 Airport'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 Airport's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Fort Smith, Arkansas
February 17, 2017

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Members of the Fort Smith Airport Commission
Fort Smith Regional Airport
Fort Smith, Arkansas

Report on Compliance for Each Major Federal Program

We have audited the compliance of the Fort Smith Regional Airport, a component unit of the City of Fort Smith, Arkansas (the Airport) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2016. The Airport's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Airport's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Airport's compliance.

Opinion on Each Major Federal Program

In our opinion, the Fort Smith Regional Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Fort Smith, Arkansas
February 17, 2017

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs
Year Ended December 31, 2016

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:
 Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:
 Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? Yes No

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2016

7. The Airport's major program was:

Cluster/Program	CFDA Number
Airport Improvement Program	20.106

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Airport qualified as a low-risk auditee? Yes No

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2016

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
	No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
	No matters are reportable.

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2016

Reference Number	Summary of Finding	Status
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No matters are reportable.

**Report on Compliance for the Passenger Facility Charge Program and
Report on Internal Control Over Compliance
Independent Auditor's Report**

Members of the Fort Smith Airport Commission
Fort Smith Regional Airport
Fort Smith, Arkansas

Report on Compliance

We have audited the compliance of the Fort Smith Regional Airport (the Airport), a component unit of the City of Fort Smith, Arkansas (the City), with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, that could have a direct and material effect on the passenger facility charge program for the year ended December 31, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance of the Airport based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the passenger facility charge program. However, our audit does not provide a legal determination of the Airport's compliance.

Opinion on Passenger Facility Charge Program

In our opinion, the Fort Smith Regional Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with types of requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the passenger facility charge program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the passenger facility charge program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Fort Smith, Arkansas
February 17, 2017

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Passenger Facility Charges Audit Summary
Year Ended December 31, 2016

- | | | | |
|-----|---|---------------------|---------------|
| 1. | Type of report issued on PFC financial statements. | <u>X</u> Unmodified | ___ Qualified |
| 2. | Type of report on PFC compliance. | <u>X</u> Unmodified | ___ Qualified |
| 3. | Quarterly revenue and expenditures reconcile with submitted quarterly reports and reported un-liquidated revenue matches actual amounts. | ___ <u>X</u> Yes | ___ No |
| 4. | PFC revenue and interest is accurately reported on FAA Form 5100-127. | ___ <u>X</u> Yes | ___ No |
| 5. | The Public Agency maintains a separate financial accounting record for each application. | ___ <u>X</u> Yes | ___ No |
| 6. | Funds disbursed were for PFC eligible items as identified in the FAA decision to pay only for the allowable costs of the projects. | ___ <u>X</u> Yes | ___ No |
| 7. | Monthly carrier receipts were reconciled with quarterly carrier reports. | ___ <u>X</u> Yes | ___ No |
| 8. | PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds. | ___ <u>X</u> Yes | ___ No |
| 9. | Serving carriers were notified of PFC program actions/changes approved by the FAA. | ___ <u>X</u> Yes | ___ No |
| 10. | Quarterly reports were transmitted (or available via website) to remitting carriers. | ___ <u>X</u> Yes | ___ No |
| 11. | The Public Agency is in compliance with Assurance 8 of the Guide. | ___ <u>X</u> Yes | ___ No |
| 12. | Project design and implementation is carried out in accordance with Assurance 9 of the Guide. | ___ <u>X</u> Yes | ___ No |
| 13. | Project administration is carried out in accordance with Assurance 10 of the Guide. | ___ <u>X</u> Yes | ___ No |
| 14. | For those public agencies with excess revenue, a plan for the use of this revenue has been submitted to the FAA for review and concurrence. | ___ Yes | ___ No |
| | | <u>X</u> N/A | ___ No |

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Schedule of Passenger Facility Charges Program
Findings and Questioned Costs
Year Ended December 31, 2016

Findings Required to be Reported by the Guide

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

Fort Smith Regional Airport
A Component Unit of the City of Fort Smith, Arkansas
Passenger Facility Charges
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2016

Reference Number	Summary of Finding	Status
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No matters are reportable.