FORT ORD REUSE AUTHORITY
Marina, California

Annual Financial Report
June 30, 2008

Board of Directors

Voting Members	Representing	Title
Mayor Russell	City of Del Rey Oaks	Chair
Mayor Rubio	City of Seaside	1st Vice Chair
Supervisor Potter	County of Monterey	2nd Vice Chair
Mayor McCloud	City of Carmel-by-the-Sea	Director
Supervisor Mettee-McCutchon	County of Monterey	Director/Past Chair
Mayor Wilmot	City of Marina	Director
Mayor Della Sala	City of Monterey	Director
Supervisor Calcagno	County of Monterey	Director
Council Member Davis	City of Pacific Grove	Director
Council Member Barnes	City of Salinas	Director
Mayor Pendergrass	City of Sand City	Director
Council Member Mancini	City of Seaside	Director
Council Member McCall	City of Marina	Director

Appointed Official

Michael A. Houlemard, Jr.
Executive Officer

TABLE OF CONTENTS

MARCELLO & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

POST OFFICE BOX 60127 / SACRAMENTO, CALIFORNIA 95860-0127 / (916) 979-9079
AUDITOR@MARCELLO-CPA.COM / WWW.MARCELLO-CPA.COM

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fort Ord Reuse Authority
Marina, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ford Ord Reuse Authority, as of and for the year ended June 30, 2008, which collectively comprise the Fort Ord Reuse Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fort Ord Reuse Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Ord Reuse Authority, as of June 30, 2008, and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors
Fort Ord Reuse Authority
Marina, California

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2008, on our consideration of the Fort Ord Reuse Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information, and schedule of funding progress as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fort Ord Reuse Authority's basic financial statements. The supplementary information 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. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and non-Profit Organizations, and is also not a required part of the basic financial statements of the Fort Ord Reuse Authority. The supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Macias & Company

Certified Public Accountants
Sacramento, California
September 26, 2008

FORT ORD REUSE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Beginning July 1, 2004, for the fiscal year 2003-2004, the Fort Ord Reuse Authority (FORA) was required to implement Government Accounting Standards Board (GASB) Statement Number 34 "Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments". GASB developed these standards to require annual financial reports to be more comprehensive and to assist outside users, such as financial institutions and bondholders to assess the entire finances of the government entity. Unless otherwise specified, GASB statements apply to financial reports of all state and local governments.

This is management's discussion and analysis (MD&A) of the financial performance of the Fort Ord Reuse Authority for the fiscal year ended June 30, 2008.

FINANCIAL HIGHLIGHTS

Due to recessionary economic conditions (delaying development projects on the former Fort Ord), FORA did not collect anticipated and projected redevelopment revenues from land sales or developer fees during FY 07-08. To continue essential projects and services, FORA eliminated staff, reduced authorized positions, froze consultant spending where possible, incurred debt and exhausted its reserves. Despite these actions, by the end of FY 07-08 the unreserved fund balance in the General Fund decreased from $2.9 million to $66,000. The highlights for the fiscal year include:

- FORA and the U.S. Army executed an Environmental Services Cooperative Agreement (ESCA), granting FORA approximately $100 million to remediate munitions and explosives of concern (MEC) on certain remaining not transferred properties. By the end of FY 07-08 FORA received $69.1 million from the federal government toward this effort.
- FORA completed $8.7 million in capital improvements.
- FORA collected $.5 million in land sale proceeds.
- FORA collected $11,500 in development fees.
- FORA lost $250,000 from interest earnings on its investment pool.
- FORA added $3.7 million in debt to fund Capital Improvement Program (CIP) projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the FORA's basic financial statements. FORA's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

1) The *government-wide financial statements* provide both long-term and short-term information about FORA's overall financial status and inform how FORA's general government services were financed in the short term as well as what remains for future spending. 2) The *fund financial statements* focus on individual parts of FORA's government and report FORA's operations in more detail than the government-wide statements. 3) The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

Government-wide Financial Statements

The government-wide financial statements provide information about FORA activities as a whole and present a comprehensive overview of FORA's finances.

The *statement of net assets* presents information on all of the FORA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in FORA's net assets are one indicator of whether its financial health is improving or deteriorating.

The *statement of activities* presents information showing how the FORA's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, all the current year's revenues and expenses are reported in the statement of activities regardless of when cash is received or paid. The focus of the government-wide statement of activities is on the net cost of governmental activities provided by a governmental entity.

FORA was engaged in the following types of activities:

Governmental Activities: During the 2007-2008 fiscal year FORA's activities included: general administration and planning; property surveying and transfers; infrastructure development; habitat conservation planning; water augmentation planning; insurance policy and liability protection issues; real property planning and development, MEC remediation planning, analysis, and implementation; deconstruction; and construction activities. Membership dues, tax increment payments, federal grants, land sale/lease proceeds, and loan proceeds financed most of these activities.

The government-wide financial statements depicting financing of FORA's major programs can be found on ***pages 8-9*** of this report.

Fund Financial Statements

Fund financial statements provide a *short-term* look at FORA's fiscal accountability and compliance with restrictions on the use of certain financial resources. The fund financial statements provide detailed information about the most significant funds - not the Authority as a whole.

Governmental Funds: All of the FORA's services and activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. FORA maintains 5 individual governmental funds and for financial reporting purposes these funds have been combined into two groupings: the General Fund and Special Revenue Funds. The General Fund accounts for all of FORA's financial resources except for those resources that must be accounted for in Special Revenue Funds, which are restricted as to expenditures.

The fund financial statements can be found on ***pages 10-13*** of this report.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements provide long-term and short-term information about FORA's overall financial condition. In accordance with GASB Statement No. 34, FORA is not required to restate financial information from prior periods for the purpose of providing comparative information for this analysis.

Net assets of FORA's governmental activities decreased from $4 million to negative $3.1 million. The negative balance in net assets means that all liabilities (including long-term debt not due at the end of the fiscal year) exceed all assets FORA had at the fiscal year end (including long-term receivables and non-liquid assets).

Revenues

FORA's total revenues decreased from $59 million to $34 million. This variance is mainly attributable to the 1) reduced federal funding awarded to FORA in 2007 for MEC remediation services and 2) decreased collection of development fees and land sale proceeds compared to the previous fiscal year. The federal funding provided 85% of the total revenue; land sale/lease proceeds designated to financing building removal program provided 6% of the total revenue; property tax increment provided 4%; and other revenue sources such as membership dues, franchise fees and various reimbursements provided the remaining 5% of the total revenue.

Expenditures

The cost for all governmental activities this fiscal year was $41.5 million. The munitions/environmental cleanup program, which started in early 2007 was the major program in the 2007-2008 fiscal year.

The government-wide financial statement showing the net cost of each of FORA's major project can be found on ***page 9*** of this report.

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Reporting standards require that a major governmental fund be presented in a separate column in the fund financial statements. In accordance with GASB Stmt. No. 34, paragraph 76, FORA has elected to report all its special revenue funds as major funds because these funds are important to financial statement users. The General Fund is always considered a major fund and therefore presented in a separate column. The fund financial statements focus on individual parts of FORA's government.

The governmental funds provide information on near-term inflows, outflows and balances of expendable resources. As FORA completed the fiscal year, its governmental funds reported a combined fund balance of $11.8 million; a decrease of $4.6 million over the previous fiscal year.

$11.7 million of the $11.8 million ending balance is either restricted in use or designated for specific use such as federal grant funds designated for munitions cleanup, or developer impact fees and land sale proceeds dedicated for capital improvement program; about $66,000 is undesignated and available for expenditure and designation.

FY	General Fund	Land Sale/Leases	Developer Fees	Pollution Liability	ET/ESCA	TOTALS
2006-2007	4,102,907	1,643,787	5,133,825	4,695,985	860,164	16,436,668
2007-2008	1,291,055	214,944	4,371,831	4,084,946	1,850,427	11,813,203
Change + (-)	(2,811,852)	(1,428,843)	(761,994)	(611,039)	990,263	(4,623,465)

BUDGETARY HIGHLIGHTS

A budget is a plan of financial operations that provides a basis for the planning, controlling, and evaluating of governmental activities. Governmental funds generally use a fixed budget, which reflects a specific estimate for revenues and expenditures. Once expenditures and revenues are incorporated into the budget, the total estimated expenditure appropriation amount becomes a limit for current expenditures, and the estimated revenue amount becomes the basis for comparison to actual revenues. Even though FORA is not legally subject to any budgetary controls, the budget is included as a part of the general accounting record, and it is used as a guide to controlling expenses.

The FORA Board approved the FY 07-08 budget on June 8, 2007; and the mid-year budget update on February 8, 2008. The mid-year budget update reported a decrease in expenditures from $85 million to $42 million due to the economic downturn/recession conditions delaying development projects and diminishing investments. The final/audited amounts confirm this decline trend.

Budget Variances (from mid-year budget projections)

Revenues: $1 million decrease
FORA realized slightly increased revenues in several funding categories such as franchise fees, planning and legal reimbursements and rental income. The most significant variances resulting in overall decreased revenues were:

- $881,000 reduction in ET/ESCA grant funds received to account for early payments by the U.S. Army (each Army payments is reduced if paid to FORA before the due date);
- $160,000 anticipated developer fees from Shelter Outreach Plus were deferred; and
- $350,000 decrease in projected investment income.

Expenditures: $2.7 million decrease
FORA realized slight savings in several administrative categories (salaries, office equipment, travel, and insurance) mainly due to cost savings measures and deferred purchasing.

The budget savings (expenditure decrease) of $2.7 million in contractual expenditures were attributable to the timing and progression of ongoing programs and projects, such as habitat management, IOP building, and ET/ESCA program.

The budget savings (expenditure decrease) of $300,000 in capital improvements reflect the actual cost; all capital projects completed as budgeted.

The comparative statements of budgeted and actual revenues and expenditures for the General Fund and Special Revenue Funds can be found on ***page 31*** of this report.

LONG-TERM DEBT

At June 30, 2008, FORA had $14.9 million in long-term debt consisting of:

- $3.2 million debt on the 2002 Series A and Series B Revenue Bonds;
- $3.4 million debt on the PLL Insurance loan;
- $7.5 million debt on the line of credit (LOC);
- $590,000 capital lease equipment purchase obligation; and
- $138,000 note payable to Marina Coast Water District (MCWD) for the Veterans Cemetery Master Development Plan.

The bonds will be repaid from lease revenue proceeds, with final maturity August 2014. The premium for the PLL insurance policy is financed through a 7-year loan from a bank; participating jurisdictions/agencies reimburse FORA for their portions of the premium and financing costs. The LOC draw downs are repaid by land sale/lease proceeds, and by the East Garrison developer who pays interest on LOC advances of up to $4.1 million in lieu of deferred land sale proceeds from East Garrison land. Delays in land transfers/sales influenced FORA's ability to pay down the outstanding principal in LOC; FORA advanced additional $3.7 million in the FY to process building removal and road design invoices. The capital lease obligation was incurred in 2003 to purchase firefighting equipment and will be repaid by development fees by 2014. A note payable to MCWD acquired in March 2008 to support the Veteran's Cemetery project will be due in FY 2009-2010; the source of repayment will be designated in FY 09-10 budget.

More detailed information about FORA's total long-term liabilities is presented on ***pages 23-26, Notes 7-10*** to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

FORA anticipates accumulating a revenue surplus in the next three to five years. The surplus will come predominantly from property transaction proceeds. Even though FORA does not foresee rapid change in economic conditions, current projections forecast all capital programs and projects to have sufficient funds for administrative and implementation activities. There are a few areas where resources/expenses remain imprecise but will be better defined during the 2008-2009 fiscal year. Those are:

1. Uncertainty in the underlying market for all forms of real property development;
2. Still unknown cost figures for habitat conservation; and
3. Capital needs for augmenting current water supply.

FORA is now implementing the terms of the ESCA, which provides FORA funding for the remaining munitions cleanup to FORA. In concert with this agreement, the U.S. Army is processing the transfer of the remaining 3,300 acres of EDC property to FORA. Once this transfer and the related habitat planning are complete, FORA's capital needs and habitat costs will become more definite. FORA is expected to coordinate with MCWD modifications of the capital program schedule for completing water resource augmentation infrastructure needs in the coming year.

CONTACTING FORA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of FORA's finances, and to demonstrate FORA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Fort Ord Reuse Authority, Executive Officer, 100 12th Street, Building #2880, Marina, California, 93933.

Michael A. Houlemard, Jr.
Executive Officer

FINANCIAL STATEMENTS

FORT ORD REUSE AUTHORITY

Government-wide Financial Statements
Statement of Net Assets
June 30, 2008

		Governmental Activities
ASSETS		
Cash and investments	$	6,961,765
Cash with fiscal agent		970,761
Accounts receivable:		
Due within one year		420,476
Due in more than one year		116,718
Interest receivable		23,589
Prepaid expenses		17,040
Prepaid insurance, net		3,900,000
Bond issue cost, net		65,952
Capital assets, net		23,061
Total Assets		12,499,363
LIABILITIES		
Accounts payable		606,049
Interest payable		37,051
Deferred revenue		20,000
Long-term debt and obligations:		
Due within one year		1,342,561
Due in more than one year		13,578,059
Total Liabilities		15,583,720
NET ASSETS		
Investment in capital assets		23,061
Restricted		970,761
Unrestricted		(4,078,179)
Total Net Assets	$	(3,084,357)

See accompanying notes to financial statements

FORT ORD REUSE AUTHORITY

Government-wide Financial Statements
Statement of Activities
June 30, 2008

Functions/Programs	Program Expenses	Program Revenues Grants and Fees	Net (Expense) Revenue Governmental Activities
General operations	$ 1,987,338	$ 372,484	$ (1,614,854)
Capital improvements	4,711,559	11,556	(4,700,003)
Building removal	5,232,045	497,054	(4,734,992)
Environmental cleanup	28,121,919	29,119,006	997,087
Reuse planning/EDC transfers & environmental	654,413	2,291,804	1,637,390
	38,719,937	31,919,419	(6,800,518)
Interest on long-term debt and short-term debt	813,426	-	(813,426)
Total governmental activities	41,520,701	32,291,903	(9,228,798)
General revenues			
Property tax revenues			1,429,391
Membership dues			257,740
Franchise fees			231,031
Investment earnings			150,630
Change in net assets			(7,160,005)
Net assets, beginning of year			4,075,648
Net assets, end of year			$ (3,084,357)

See accompanying notes to financial statements

FORT ORD REUSE AUTHORITY

Fund Financial Statements
Balance Sheet
Governmental Funds
June 30, 2008

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	Army Grant ET/ESCA	Total Governmental Funds
ASSETS						
Cash and investments	$ 472,634	$ 422,153	$ 3,946,753	$ 217,627	$ 1,902,597	$ 6,961,765
Cash with fiscal agent	487,971	-	482,790	-	-	970,761
Accounts receivable - due within one year	406,968	1,354	12,154	-	-	420,476
Account receivable - due after one year	50,457	-	66,261	-	-	116,718
Interest receivable	-	23,589	-	-	-	23,589
Due from other funds	-	-	-	-	-	-
Prepaid expenses	17,040	-	-	-	-	17,040
Prepaid insurance, net	-	-	-	3,900,000	-	3,900,000
Bond issue cost, net	65,952	-	-	-	-	65,952
Total Assets	$ 1,501,023	$ 447,096	$ 4,507,958	$ 4,117,627	$ 1,902,597	$ 12,476,302
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	$ 209,968	$ 207,782	$ 136,128	$ -	$ 52,171	$ 606,049
Interest payable	-	24,370	-	12,681	-	37,051
Due to other funds	-	-	-	-	-	-
Deferred revenue	-	-	-	20,000	-	20,000
Total Liabilities	209,968	232,152	136,128	32,681	52,171	663,099
Fund Balances (see note 13, pages 27-28)						
Reserved	133,449	-	549,051	3,900,000	-	4,582,501
Unreserved:						
Designated	1,091,950	214,944	3,822,779	184,946	1,850,427	7,165,047
Undesignated	65,655	-	-	-	-	65,655
Total Fund Balances	1,291,055	214,944	4,371,831	4,084,946	1,850,427	11,813,203
Total Liabilities and Fund Balances	$ 1,501,023	$ 447,096	$ 4,507,958	$ 4,117,627	$ 1,902,597	$ 12,476,302

See accompanying notes to financial statements

FORT ORD REUSE AUTHORITY

Fund Financial Statements
Reconciliation of the Governmental Funds Balance Sheet
to the Government-wide Statement of Net Assets
June 30, 2008

Fund Balances - Total Governmental Funds (page 10)		$ 11,813,203
Amounts reported in the Governmental Activities column in the Statement of Net Assets are different because:		
Capital Assets		
Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. Capital assets were adjusted as follows:		
Depreciable capital assets, net of accumulated depreciation		23,061
Long-term Debt Obligations		
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.		
Capital lease obligations	$ (591,805)	
Bonds payable, net	(3,210,000)	
PLL Loan payable	(3,428,571)	
LOC Payable	(7,500,000)	
Note Payable	(138,000)	
Compensated absences	(52,243)	(14,920,620)
Net Assets - Government-wide Financial Statements (page 8)		$ (3,084,357)

See accompanying notes to financial statements

FORT ORD REUSE AUTHORITY

Fund Financial Statements

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2008

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	Army Grant ET/ESCA	Governmental Funds
REVENUES						
Membership dues	$ 257,740	$ -	$ -	$ -	$ -	$ 257,740
Franchise fees	231,031	-	-	-	-	231,031
Property tax increment	1,429,391	-	-	-	-	1,429,391
Federal grants	-	-	-	-	29,119,006	29,119,006
Developer fees	-	-	11,556	-	-	11,556
Planning reimbursements	202,911	-	-	-	-	202,911
Legal reimbursements	76,872	-	-	-	-	76,872
Annual Payments	-	-	-	983,657	-	983,657
Rental income	63,457	1,330,885	-	-	-	1,394,342
Real estate sales	-	497,054	-	-	-	497,054
Investment earnings	37,223	285,947	(200,000)	34,283	(6,824)	150,630
Other revenue	1,505	-	-	5,000	-	6,505
Total Revenues	2,300,131	2,113,886	(188,444)	1,022,940	29,112,182	34,360,695
EXPENDITURES						
Salaries and benefits	1,043,848	-	320,736	-	354,655	1,719,239
Supplies and services	88,255	51	48,887	10	12,352	149,555
Contractual services	853,925	33,757	783,934	1,300	27,754,912	29,427,828
Capital improvements	-	3,806,637	3,558,002	-	-	7,364,639
Amortization	-	-	-	600,000	-	600,000
Total Expenditures	1,986,028	3,840,445	4,711,559	601,310	28,121,919	39,261,261
Revenues Over (Under) Expenditures	314,103	(1,726,559)	(4,900,003)	421,630	990,263	(4,900,565)
Other Financing Sources (Uses)						
Debt service - Interest and fiscal charge:	(13,190)	(592,033)	(32,676)	(175,526)	-	(813,426)
Debt service - Principal	-	(2,206,165)	(83,324)	(857,143)	-	(3,146,631)
Loan proceeds	5,662,565	-	-	-	-	5,662,565
Building removal credit	-	(1,425,408)	-	-	-	(1,425,408)
Operating transfers in	764,426	5,285,748	4,254,010	-	-	10,304,184
Operating transfers (out)	(9,539,758)	(764,426)	-	-	-	(10,304,184)
Total Other Sources (Uses)	(3,125,956)	297,716	4,138,010	(1,032,669)	-	277,100
NET CHANGE IN FUND BALANCES	(2,811,853)	(1,428,843)	(761,994)	(611,039)	990,263	(4,623,465)
Beginning Fund Balances	4,102,908	1,643,787	5,133,824	4,695,985	860,164	16,436,668
Ending Fund Balances	$ 1,291,055	$ 214,944	$ 4,371,831	$ 4,084,946	$ 1,850,427	$ 11,813,203

See accompanying notes to financial statements

FORT ORD REUSE AUTHORITY

Fund Financial Statements
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-wide Statement of Activities
Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds (page 12)			$	(4,623,465)
Amounts reported in the Governmental Activities column in the Statement of Activites are different because:				
Long-term Debt Payments				
Repayment of long-term debt principal is an expenditure in the government funds financial statement, but the repayment reduces long-term liabilities in the Statement of Net Assets.				
Repayment of capital lease obligations	$	83,324		
Repayment of bonds		370,000		
Repayment of loans		2,693,307		3,146,631
Proceeds from Loan Borrowing				
Proceeds from long-term borrowing are reported as revenue in the governmental funds financial statement, but recorded as a liability in the Statement of Net Assets. Compensated absences reduce net assets but are not included in governmental funds liabilities.				
Loan proceeds to pay for CIP projects		(5,681,701)		
Increase in compensated absences liability		(1,470)		(5,683,171)
Change in Net Assets - Government-wide Financial Statements (page 9)			$	(7,160,005)

See accompanying notes to financial statements

The notes to the statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Fort Ord Reuse Authority, as follows:

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The Fort Ord Reuse Authority (Authority) was created December 1993 under Title 7.85 of the California Government Code, Chapters 1-7. After approval by the California State Assembly Ways and Means Committee in April of 1994, the governor signed SB 899 into law on May 10, 1994. The Authority was incorporated in the State of California as an instrumentality and is considered a quasi-governmental agency. The Authority was established to prepare, adopt, finance and implement a plan for the future use and development of the territory formerly operated by the U.S. Army as the Fort Ord Military Reservation in Monterey County.

A 13-member board, which consists of various Monterey County's Board of Supervisors, City Mayors and/or Council Members from the surrounding area, governs the Authority. The Authority Board also has 12 ex-officio members. There are no component units, as defined in the Governmental Accounting Standards Board Statement (GASB) No. 14, that are included in the Authority's reporting entity.

The Authority receives funding from local, state and federal governmental sources and must comply with the accompanying requirements of these funding source entities. However, the Board is not included in any other governmental reporting entity as defined by the Governmental Accounting Standards Board pronouncement since the Board has the authority to levy taxes, the power to designate management and the ability to significantly influence operations and primary accountability for fiscal matters.

Senate Bill No. 899 specifies that the "bill would become inoperative when the board determines that 80% of the territory of Fort Ord (that is designated for development or reuse in the plan prepared pursuant to the bill) has been developed or reused in a manner consistent with the plan, or June 30, 2014, whichever occurs first, and would be repealed on January 1, 2015."

B. Accounting Policies

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Authority are described below.

C. Basis of Presentation

The Financial Statement presentation, required by GASB statements no. 34, 37, and No. 38 provides a comprehensive, entity-wide perspective of the Authority's assets, liabilities, and replaces the fund-group perspective previously required. The Authority now follows the "primary government's governmental activities" reporting requirements of GASB No. 34 that provides a comprehensive one-line look at the Authority's financial activities.

D. Fund Accounting

The accounts of the Authority are organized on the basis of funds and account groups. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Separate statements are provided as supplementary information, which presents the various funds are grouped into two governmental fund types, and a second category of account groups. They are as follows:

1. Governmental Funds

   a. *General Fund* is the general operating fund of the Authority and accounts for all revenues and expenditures of the Authority not encompassed within other funds. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

   b. *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

E. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

All Governmental Funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available to finance the expenditures of the current period (susceptible to accrual). Major revenue sources susceptible to accrual include all governmental grants that are unrestricted as to use and interest. The Authority also receives grants that are considered earned to the extent of expenditures made under the provisions of the grant and are therefore recognized based upon expenditures incurred. Expenditures are recorded when the related fund liability is incurred.

All Governmental Funds are accounted for using a current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental Fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

F. Budgetary Data

The Authority is not required by state law to adopt annual budgets for the general and special revenue funds. An annual budget is however prepared, adopted by the Authority's Board, and included as a part of the general accounting record and used as a guide to controlling expenses. Each budget is prepared and controlled by the budget controller at the revenue and expenditure function/object level.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- A proposed draft budget is submitted to the Board for the fiscal year commencing the following July 1.
- Once the budget is approved, it can be amended only by approval of a majority of the members of the Board. Amendments are presented to the Board at their regular meetings.

G. Use of Estimates

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

H. Cash and Investments

Cash and cash equivalents held by the Authority are reported as cash and cash investments. Funds can spend cash at any time without prior notice or penalty. All investments with fiscal agents are also considered cash equivalents because they are highly liquid. Investments are stated at fair value.

I. Receivables and Payables

Grants, entitlements or shared revenues are recorded as receivables and revenues in the General and Special Revenue Funds when they are received or susceptible to accrual.

Management has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

J. Capital Assets

Furniture and equipment are stated on the actual cost basis. Capitalization level for capital assets is $500 per unit (including installation cost). Contributed capital assets are recorded at their estimated fair market value at the time received. There were no contributed capital assets during the year. Capital assets are depreciated over their estimated useful lives.

In accordance with the option provided by Government Accounting Principles Generally Accepted in the United States of America, Infrastructure assets such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting are not recorded on the Statement of Net Assets. Management has determined that the purpose of stewardship for capital expenses is satisfied without recording these assets. In addition, depreciation is not recorded on these capital expenses. In all cases, the infrastructure assets are owned by the Authority, as trustee, for a relatively short period of time.

During the reporting period the Authority received and/or owned real property assets transferred from the United States Government under an agreement dated June 23, 2000. These transfers included approximately 1,831 acres of land, buildings, and infrastructure within the cities of Marina and Seaside and the County of Monterey. As of June 30, 2008, the Authority owned 108 acres of the former Fort Ord land which included the following parcels:

- Preston Park Housing area
- The Authority Complex
- 11th Street Parcels

The Authority, as trustee, is a short-term property holding entity, transferring property to underlying jurisdictions for disposal/development, retaining 50% interest in any future sale or leasing proceeds from any of these properties transferred for private development or for public non-institutional purposes. The total current value of these assets is estimated to be approximately $100 million, of which the Authority is entitled to a 50% share. The Authority is responsible for reporting financial elements of such transactions to the United States government through August 2007.

K. Net Assets

The Authority's net assets are classified as follows:

- Invested in capital assets - This represents the Authority's total investment in capital assets.
- Restricted net assets - Restricted net assets include resources that the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties or regulatory agencies that direct usage, or other impositions by contract or adopted covenants.
- Unrestricted net assets - Unrestricted net assets represent resources derived from franchise fees and membership dues. These resources are used for transactions relating the general operations of the Authority, and may be used at the discretion of the governing board to meet current expenses for any purpose.

L. Long -Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt. In the fund financial statements, long-term debt is not reported.

M. Major Funds

In accordance with GASB Stmt. No. 34, paragraph 76, the Authority has elected to report all its special revenue funds as major funds because they believe these funds are particularly important to financial statement users.

Note 2 - Cash and Investments

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	$ 6,961,765
Cash and investments with fiscal agents (Revenue Bonds)	970,761
Total cash and investments	$ 7,932,526

Cash and investments as of June 30, 2008 consist of the following:

Deposits with financial institutions in:	
• Money market accounts	$ 2,265,224
• Certificates of deposit	225,405
• Checking accounts	1,078,319
• Investment in (13) mutual funds	4,363,578
Total cash and investments	$ 7,932,526

The California Government Code requires California banks and savings and loan associations to secure a government agency's deposits, in excess of federal depository insurance, by pledging government securities as collateral. The market value of pledge securities must equal 110 percent of a government agency's deposits.

Investments Authorized by the Authority's Board of Directors

Investments are managed in compliance with the Investment policy adopted by the Authority's Board of Directors in December 2006. Such investment policies authorized the Authority to invest in:

- Obligations of the U.S. Treasury
- Obligations guaranteed by the U.S. Government
- Obligations of U.S. Federal Agencies
- Obligations of Government Sponsored Enterprises
- Commercial Paper with rating restrictions
- Bank Obligations registered with the Securities and Exchange Commission and that are consistent with FDIC insurance
- Mortgage-Backed Securities
- Asset-Backed Securities with rating restrictions
- Corporate bonds, notes, and floating rate notes not to exceed 5 years with investment percentage restrictions
- Money Market funds
- Mutual funds
- State and County Investment Fund pools

Investments Authorized by Debt Agreements

Investment of debt proceeds held by a bond trustee is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee and also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk:

Authorized Investment Type	Maximum Maturity
U.S. Treasury Obligations	None
U.S. Agency Securities	None
Banker's Acceptances	180 days

Commercial Paper	270 days
Money Market Mutual Funds	N/A
Investment Contracts	30 years

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

		Maturity Date
Certificates of deposit	$ 225,405	6.25 months average maturity
Checking accounts	1,078,319	N/A
Mutual funds	4,363,578	N/A
Money Market	2,265,224	N/A
Total	$ 7,932,526	

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Statistical ratings are generally not available for certificates of deposit, and mutual fund ratings vary by company.

Concentration of Credit Risk

The investment policy of the Authority contains limitations on the amount that can be invested in any type of investment or industry group beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Authority investments except as shown below:

$4,363,578 (61%) of the cash and investments are invested in 13 different mutual funds.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Note 3 - Property and Equipment

A summary of changes in capital assets is as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
Equipment and furniture	$ 310,184	$ 4,291		$ 314,475
Accumulated depreciation	280,685		$ 10,729	291,414
Net capital assets	$ 29,499			$ 23,061

Depreciation expense was $10,729 for the year ending June 30, 2008.

Note 4 - Defined Benefit Pension Plan

Plan Description
The Authority contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and Authority ordinance. Copies of PERS annual financial report may be obtained from their Executive Office, 400 "P" Street, Sacramento, California 95814.

Funding Status and Progress
Active plan participants are required to contribute 7% of their annual covered salary. The Authority's Board of Directors approved an amendment to the contract with PERS, and agreed to pay the full 7% of the contributions required of Authority employees on their behalf and for their account. The Authority is required to contribute at an actuarially determined rate; the 2007-2008 employer rate was 12.943% of annual covered payroll. The contribution requirements of plan members and the Authority are established and may be amended by PERS.

Annual Pension Cost
The Authority's annual pension cost of $240,499 for PERS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) an 7.75% investment rate of return (net of administrative

expenses), (b) projected annual salary increases that vary by age, service and type of employment, (c) an inflation rate of 3%, and (d) a payroll growth rate of 3.25%.

Three-Year Trend Information for PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/06	$ 234,265	100%	-0-
6/30/07	$ 244,920	100%	-0-
6/30/08	$ 240,499	100%	-0-

Note 5 - Deferred Compensation Plan

The Authority offers its full-time employees a deferred compensation plan in accordance with Internal Revenue Code §457. The plan permits the employee to defer until future years up to 25% of annual gross earnings not to exceed $15,500. Assets are not available to participants for disbursement until termination, retirement, death, or an emergency.

The Authority does not fund the compensation deferred under the Plan except for $833 per month contributed on behalf of the Executive Officer per the employment agreement. The contributions are held in investments that are underwritten by ICMA Retirement Corporation. Periodic contributions are made through payroll deductions of the employees and all plan fees associated with the accounts are the responsibility of the individual employee.

The participants' accounts are not subject to claims of the Authority's creditors. The Authority has no liability for losses under the plan but does have the duty of due care that would be required of any ordinary prudent investor.

Note 6 - Liability for Compensated Absences

Authority employees are allowed to accrue up to 10 days of sick leave and up to 20 days of vacation per year, depending on length of employment. Employees are permitted to carry over an unlimited amount of sick leave hours each calendar year; the carryover for vacation leave is limited to 120 hours. In the event of separation of employment, an employee is reimbursed for any unused vacation leave, and a portion of their unused sick leave (limited to 174 hours). Reimbursement is based on the employee's regular salary rate at the date of termination or resignation. Vacation leave becomes vested immediately and sick leave becomes vested after 5 years of continuous service. The Authority's liability for accrued vacation pay and the underlying retirement benefits at June 30, 2008 was $52,243. Effective July 1, 2006, the Authority management employees are provided 5 days of management leave per year. There is no cash pay-off for unused management time.

Note 7 - Long-Term Liabilities

Long-term liabilities for the year ended June 30, 2008, are summarized as follows:

	July 1, 2007	Additions	Reductions	June 30, 2008
Leases and bonds				
Capital lease obligations	$ 675,129	$ -	$ 83,324	$ 591,805
Bonds payable, net of premium and issuance costs	3,580,000	-	370,000	3,210,000
Loan payable				
Insurance loan	4,285,714	-	857,143	3,428,571
Line of Credit	3,798,902	5,537,262	1,836,164	7,500,000
Marina Coast Water District	-	138,000	-	138,000
Other obligations				
Compensated absences	50,773	1,470	-	52,243
Totals	$ 12,390,518	$ 5,676,732	$ 3,146,631	$14,920,619

For the year ending June 30, 2008, the Authority paid $813,426 in interest expense.

Note 8 - Capitalized Lease Obligations

The Authority entered into a lease purchase agreement to purchase fire fighting equipment that was distributed to local jurisdictions.

Scheduled Payments
Future minimum lease payments are as follows:

Year Ending June 30,	
2009	$ 116,000
2010	116,000
2011	116,000
2012	116,000
2013	116,000
2014	116,000
Total gross lease payments	696,000
Less amount representing interest	104,195
Net minimum lease payments	591,805
Less current portion due within the next fiscal year	87,357
Long-term portion	$ 504,448

Note 9 - Bonds Payable

Outstanding Bonds Payable consists of the following:

Revenue Bonds
2004 Series A Revenue Bonds in the amount of $2,885,000 and 2004 Series B Subordinate Revenue Bonds in the amount of $2,055,000, total issue $4,940,000. Principal payments start at $325,000, increase to $540,000, and are payable annually on August 1st with final maturity

August 2014. Interest rates vary between 3.0% and 5.7% and provide for semi-annual payments on February 1st and August 1st. The Series A Bonds were issued to finance a habitat conservation program and priority infrastructure improvements endorsed by the Board of Directors of the Authority. The Series B Bonds were issued to finance priority infrastructure improvements endorsed by the Board of Directors of the Authority. The bonds will be repaid from the Authority's share of the Preston Park lease revenues.

Scheduled Payments
Future annual principal and interest requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	$ 385,000	$ 163,275	$ 548,275
2010	410,000	142,640	552,640
2011	435,000	120,389	555,389
2012	455,000	96,725	551,725
2013	485,000	71,375	556,375
2014-2015	1,040,000	59,555	1,099,555
Totals	$ 3,210,000	$ 653,959	$ 3,863,959

Note 10 - Loans Payable

Basewide Pollution Legal Liability Insurance Policy Loan
In 2005, the Authority entered into a long-term financing agreement to purchase a ten-year Basewide Pollution Legal Liability insurance policy. Financing was provided by a local bank through two separate credit line loans, and is secured by real estate (RE) and certificates of deposit (COD). Interest accrues at 4.5% on the RE secured loan, at 3.5% on the COD secured loan, and is paid monthly. Any remaining unpaid loan balances are due January 15, 2012. At June 30, 2008, the amount of outstanding principal was $3,428,571. Funding by the Authority to repay the loans is being provided by the surrounding municipalities that will benefit from the real estate that will eventually be given to them along with legal liability protection by the insurance policy that encompasses the entire former Fort Ord Army Base. It is the intention of the Authority to repay these loans ratably over seven years.

Scheduled Payments
Future annual principal and interest requirements are estimated as follows:

Year Ending June 30,	Principal	Interest	Total
2009	$ 853,831	$ 154,378	$ 1,008,209
2010	892,252	115,957	1,008,209
2011	932,404	75,805	1,008,209
2012	750,084	23,846	773,930
Totals	$ 3,428,571	$ 369,986	$ 3,798,557

The total costs of the insurance policy in the amount of $6,000,000 is being amortized over the term of the coverage, which is 10 years.

Line of Credit
In March 2006, the Authority entered into a short-term financing agreement for a revolving line of credit with a local bank in the amount of $10 million. In November 2007, the credit line was increased to $14 million and the maturity extended through November 2009; interest accrues at 5.930% per annum and is paid monthly. The outstanding principal balance at June 30, 2008 was $7,500,000. The purpose of this credit line is to provide financing for approved Capital Improvement Program obligations.

Marina Coast Water District (MCWD)
In March 2008, the Authority entered into a short-term financing agreement for $138,000 with MCWD. The loan plus interest, accruing at 1% per annum, is due in the fiscal year 2009-2010. The funds are appropriated for the Veterans Cemetery Master Development Plan on the former Fort Ord Army base.

Note 11 - Health Care Plan

During the year ended June 30, 2008, employees of the Authority were covered by a third party medical insurance plan, the California Public Employees Retirement System (CalPERS) Medical Benefits Program, and by the Principal Financial Group for dental, vision, and life insurance. The Authority contributes to the employee medical premium and to eligible dependents medical premiums up to $1,304 per month per family. In addition, employees receive monthly cash allowances of $145 per employee to be applied towards premiums of the optional dental, vision, and life insurance benefits under an Internal Revenue Code Section 125 Flexible Benefit Plan.

Note 12 - Commitments and Contingencies

A. Litigation

The Authority is involved in litigation arising principally in the normal course of operations. In the opinion of management, the outcome of these lawsuits will not have a material adverse affect on the accompanying combined financial statements and accordingly, no provision for losses has been recorded.

Appropriate insurance policies protect the Authority from most potential litigation effects. In addition, the Authority requires indemnification and contract provisions with its vendors that also guard against, and redirect, litigation costs and potential impact to the Authority's assets.

B. Grant Programs

The Authority participates in federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivables may be impaired.

In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

C. Other Commitments: EDC Consultants - Fee for Services

As previously approved by the Board, certain legal consulting services related to property transfers will be repaid from the Authority's revenue sources such as land sales, leasing residuals, or developer fees.

Note 13 - Fund Balance Designations

As required by GASB, fund balance is reported in two components—reserved and unreserved.

When fund balance is ***reserved,*** it either means that the resources are in a form that cannot be appropriated (such as non-current receivables) and spent or that the resources are legally limited to being used for a particular purpose.

Reserved funds at June 30, 2008 consist of the following:

General Fund:	$133,449 reserved for non-current assets that cannot be used to meet current obligations.
Developers Fees Fund:	$549,051 reserved for non-current assets.
Pollution Legal Liability Fund:	$3,900,000 reserved for unamortized insurance policy.

The portion of fund balance that is not reserved is called ***unreserved*** fund balance. Unreserved fund balance is available for expenditure and can be further **designated** by the Authority's management. A designation is not legally binding but does convey the Authority's intents for using its available resources. These designated funds include cash with fiscal agents, developer impact fees dedicated for capital improvement projects, land sale and lease revenues used for building demolition, and federal grant monies used for munitions cleanup.

Unreserved designated funds at June 30, 2008 consist of the following:

General Fund:	$1,091,950 designated for previously approved projects and contracts.
Lease and Sale Proceeds Fund:	$214,944 to fund the Habitat Management Program (HMP) and building removal obligations.
Developers Fees Fund:	$3,822,779 designated in accordance with the Base Reuse Plan to fund the HMP.
Pollution Legal Liability Fund:	$184,946 designated for debt service.
Army Grant ET/ESCA Fund:	$1,850,427 designated in accordance with the Cooperative Agreement Award for ESCA project administration and regulatory response costs.

Unreserved undesignated funds at June 30, 2008 consists of the following:

General Fund: $65,655 available for expenditure and designation.

Note 14 - Property Sales and Lease Income

California Law requires that all net lease or property sale proceeds generated on the former U.S. Army base are to be shared equally between the Authority and the governmental entity with jurisdiction over subject property. This state law is affirmed under contract implementation agreements between the Authority and its underlying jurisdictions. Activity for the year ended is as follows:

Lease income	
Cash distribution to the Authority from:	
Preston Park Housing	$1,308,147
Land Sale proceeds	
Cash distribution to the Authority from:	
Imjin Office Park	$480,806
Young Nak Church	$16,248

Note 15 - Contingent Note Receivable

The City of Marina owns a $265,000 promissory note receivable resulting from the sale of real estate on the former Fort Ord Army base. The terms of the note provide that the note will be forgiven if the buyer meets certain affordable housing criteria during the term of this note, which matures in 2012. The City is required by State law to distribute one-half of the proceeds received ($132,500) from the sale of former Fort Ord Army base real estate to the Authority. The City is not authorized to forgive the 50% portion of the note that is legally required to pay the Authority. The City must make provision to compensate the Authority if it chooses to forgive any portion of the repayment of the note.

Note 16 - US Army Environmental Remediation Grant

Removal of munitions and explosives of concern (MEC) at the former Fort Ord military base has been in progress by the U.S. Army since 1992. Several areas formerly used for military training at the former base have been cleared over the years, but approximately 3,400 acres must still undergo specific MEC removal activities before they can be reused for key elements of the Fort Ord Base Reuse Plan. Since March 2005, the Authority has been working through the terms of a grant funding contract with the Army to allow the Authority, on behalf of the Army, to conduct the specific MEC required environmental cleanup activities on these properties.

The grant contract mechanism is an Environmental Services Cooperative Agreement (ESCA).

A component of these discussions is the authorization for an Early Transfer (ET) of these Economic Development Conveyance (EDC) parcels (prior to completion of all remedial actions), providing there is Environmental Protection Agency (EPA) and California state gubernatorial concurrence. In August 2006, the Authority and the Army reached an agreement in principle on policy issues for the ET/ESCA. The Army identified funding for the project/remediation work, liability and risk management, and regulatory oversight and pursued congressional authority in late 2006.

In March 2007, the Army informed the Authority that the first $40 million in funding was made available to complete the munitions removal on EDC parcels. This formal notice closed two years of negotiating and processing as to how the Authority would implement this work on behalf of the Army and allows earlier removal of the dangerous hazards still suspected to exit on these parcels. As of June 30, 2008 the Authority had cumulatively received approximately $70 million of the estimated $100 million total grant agreement. The remaining grant payments are established under the ESCA which provides for approximately $30 million in fiscal year 2008-09. The Authority initiated the expected seven years of work under the ESCA in February 2008.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are not considered a part of the basic financial statements. Such information includes:

- Schedule of Funding Progress - Defined Benefit Pension Plan
- Budget and Actual - All Funds

FORT ORD REUSE AUTHORITY

Schedule of Funding Progress
Defined Benefit Pension Plan
Year Ended June 30, 2008

Pooled Report Format

Since the Authority has less than 100 active members, it is required by CalPERS to participate in a risk pool. The following valuation reports the activity of the risk pool as a whole, and not the specific activity of individual members such as the Authority.

	Actuarial Valuation Date - Year Ended		
Miscellaneous Plan	June 30, 2004	June 30, 2005	June 30, 2006
Accrued Liabilities	$ 2,746,095,668	$ 2,891,460,651	$ 2,754,396,608
Actuarial Value of Assets	$ 2,460,944,656	$ 2,588,713,000	$ 2,492,226,176
Unfunded Liabilities (UL)	$ 285,151,012	$ 302,747,651	$ 262,170,432
Funded Ratio	89.60%	89.50%	90.50%
Annual Covered Payroll	$ 743,691,970	$ 755,046,679	$ 699,897,835
UL as a Percentage of Payroll	38.30%	40.10%	37.50%

Note - Details of the defined benefit pension plan can be found in Note 4 of the financial statements. Information for the years ended June 30, 2007 and 2008 have not been released by the Plan Actuary.

FORT ORD REUSE AUTHORITY

Statement of Revenues and Expenditures
Budget and Actual - All Funds
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance (1) Favorable
	Original	Final	Amounts	(Unfavorable)
REVENUES				
Membership dues	$ 257,740	$ 257,740	$ 257,740	$ -
Franchise fees	193,700	193,700	231,031	37,331
Property tax increment	1,015,000	1,440,000	1,429,391	(10,609)
Federal grants	30,000,000	30,000,000	29,119,006	(880,994)
Developer fees	36,131,000	170,000	11,556	(158,444)
Planning reimbursements	-	-	202,911	202,911
Legal reimbursements	-	-	76,872	76,872
Annual Payments	983,657	983,657	983,657	-
Rental income	1,327,032	1,327,032	1,394,342	67,310
Real estate sales	11,332,000	497,054	497,054	-
Investment earnings	921,180	502,000	150,630	(351,370)
Other revenue	-	-	6,505	6,505
Total Revenues	82,161,309	35,371,183	34,360,695	(1,010,487)
EXPENDITURES				
Salaries and benefits	2,085,477	1,754,556	1,719,239	35,317
Supplies and services	298,500	263,500	149,555	113,945
Contractual services	33,005,000	32,287,938	29,427,828	2,860,110
Capital improvements	50,108,203	7,701,221	7,364,639	336,582
Amortization	-	-	600,000	(600,000)
Total Expenditures	85,497,180	42,007,215	39,261,261	2,745,954
Revenues Over (Under) Expenditures	(3,335,871)	(6,636,032)	(4,900,565)	1,735,467
Other Financing Sources (Uses)				
Debt service	(5,318,126)	(4,051,653)	(3,960,057)	91,596
Loan proceeds	6,514,753	7,160,699	5,662,565	(1,498,134)
Building removal credit	4,500,000	(1,425,408)	(1,425,408)	-
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	-	-
Total Other Sources (Uses)	5,696,627	1,683,638	277,100	(1,406,538)
NET CHANGE IN FUND BALANCE	$ 2,360,756	$ (4,952,395)	$ (4,623,465)	$ 328,929

(1) Refer to MD&A, Budgetary Highlights for budget variance explanations

U. S. ARMY REPORT

MARCELLO & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

POST OFFICE BOX 60127 / SACRAMENTO, CALIFORNIA 95860-0127 / (916) 979-9079
AUDITOR@MARCELLO-CPA.COM / WWW.MARCELLO-CPA.COM

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Fort Ord Reuse Authority
Marina, California

Our report on our audit of the accompanying financial statements of the Fort Ord Reuse Authority appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information on page 33 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Marcello & Company

Certified Public Accountants
Sacramento, California
September 26, 2008

FORT ORD REUSE AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balances
Sources and Uses of Sale/Lease Proceeds
Cummulative Statement Year Ended June 30, 2001 Through August 31, 2007

	June 30, 2001 to June 30, 2007	August 31, 2007	TOTALS June 30, 2001 to August 31, 2007
REVENUES			
Preston Park housing - Excess revenue	$ 1,250,000	$ -	$ 1,250,000
Rental income - Preston Park/Abrams B housing	9,428,281	200,000	9,628,281
Rental income - Short-term leases	117,339	4,090	121,429
Real Estate Sale	12,705,075	2,708	12,707,783
Investment earnings	134,152	-	134,152
Other income	2,500	-	2,500
Total revenues	23,637,347	206,798	23,844,144
EXPENDITURES			
Road construction, operations and maintenance	1,167,928	-	1,167,928
Storm and sanitary sewer construction	50,000	-	50,000
Building Rehabilitation	58,882	-	58,882
Disposal of hazardous materials	325,000	-	325,000
Demolition/Building removal	22,775,282	2,888,286	25,663,568
Landscaping and other site improvements	47,535	-	47,535
Redevelopment and reuse of the former Fort Ord:			
Capital project financing	7,088,772	-	7,088,772
Planning / marketing / environmental / financing	5,918,327	185,564	6,103,891
Total expenditures	37,431,725	3,073,850	40,505,575
EXCESS OF REVENUES OVER EXPENDITURES	(13,794,379)	(2,867,052)	(16,661,431)
Other Funding Sources			
Building removal credit	6,015,708	-	6,015,708
Operating transfers in (loan proceeds)	9,422,458	2,700,000	12,122,458
Total other sources	15,438,166	2,700,000	18,138,166
NET CHANGE IN FUND BALANCE	1,643,788	(167,052)	1,476,735
BEGINNING FUND BALANCE	-	1,643,788	-
ENDING FUND BALANCE	$ 1,643,788	$ 1,476,734	$ 1,476,735

See accompanying notes to financial statements

SINGLE AUDIT REPORT

MARCELLO & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

POST OFFICE BOX 60127 / SACRAMENTO, CALIFORNIA 95860-0127 / (916) 979-9079
AUDITOR@MARCELLO-CPA.COM / WWW.MARCELLO-CPA.COM

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Fort Ord Reuse Authority
Marina, California

We have audited the basic financial statements of the Fort Ord Reuse Authority as of and for the year ended June 30, 2008, and have issued our report thereon dated September 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance
As part of obtaining reasonable assurance about whether the Fort Ord Reuse Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting
In planning and performing our audit, we considered the Fort Ord Reuse Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
Fort Ord Reuse Authority

This report is intended for the information of management, federal awarding agencies, and the Office of the Controller of the State of California and is not intended to be and should not be used by anyone other than these specified parties.

Maciel & Company

Certified Public Accountants
Sacramento, California
September 26, 2008

MARCELLO & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

POST OFFICE BOX 60127 / SACRAMENTO, CALIFORNIA 95860-0127 / (916) 979-9079
AUDITOR@MARCELLO-CPA.COM / WWW.MARCELLO-CPA.COM

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Fort Ord Reuse Authority
Marina, California

Compliance

We have audited the compliance of the Fort Ord Reuse Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Fort Ord Reuse Authority's major program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Fort Ord Reuse Authority's management. Our responsibility is to express an opinion on the Fort Ord Reuse Authority's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Fort Ord Reuse Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Fort Ord Reuse Authority's compliance with those requirements.

In our opinion, the Fort Ord Reuse Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs, for the year ended June 30, 2008.

Board of Directors
Fort Ord Reuse Authority

Internal Control over Compliance
The management of the Fort Ord Reuse Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Fort Ord Reuse Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, federal awarding agencies, and the Office of the Controller of the State of California and is not intended to be and should not be used by anyone other than these specified parties.

Macello & Company

Certified Public Accountants
Sacramento, California
September 26, 2008

FORT ORD REUSE AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Description and Program Title	Federal CFDA Number		Federal Expenditures
U.S. DEPARTMENT OF DEFENSE			
DEPARTMENT OF THE ARMY			
U.S. Army Corp of Engineers, HTRW Center of Expertise, Environmental Services Cooperative Agreement	12.xxx	$	28,121,919
Total Expenditures of Federal Awards		$	28,121,919

The accompanying Note to Schedule of Expenditures of Federal Awards is an integral part of this schedule

FORT ORD REUSE AUTHORITY
Note to Schedule of Expenditures of Federal Awards
June 30, 2008

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Fort Ord Reuse Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

FORT ORD REUSE AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	*unqualified*
Internal control over financial reporting:	
• Material weaknesses identified	___ Yes _X_ No
• Reportable conditions identified not considered to be material weaknesses	___ Yes _X_ None reported
Noncompliance material to financial statements noted	___ Yes _X_ No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified	___ Yes _X_ No
• Reportable conditions identified not considered to be material weaknesses	___ Yes _X_ None reported
Type of auditor's report issued on compliance for major programs:	*unqualified*
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133	___ Yes _X_ No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
12.xxx	U.S. Department of Defense - Department of the Army, U.S. Army Corp of Engineers – HTRW Center of Expertise, Environmental Services Cooperative Agreement

Dollar threshold used to distinguish between Type A and Type B programs	$300,000
Auditee qualifies as low-risk auditee:	_X_ Yes ___ No

SECTION II - FINANCIAL STATEMENT FINDINGS

Current Year - None
Prior Year - None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Current Year - None
Prior Year - None