

M&C

MARCELLO & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

FORT ORD REUSE AUTHORITY
Marina, California

Annual Financial Report
June 30, 2009

Board of Directors

<u>Voting Members</u>	<u>Representing</u>	<u>Title</u>
Mayor Rubio	City of Seaside	Chair
Supervisor Potter	County of Monterey	1 st Vice Chair
Council Member McCall	City of Marina	2 nd Vice Chair
Mayor Russell	City of Del Rey Oaks	Past Chair
Mayor McCloud	City of Carmel-by-the-Sea	Director
Supervisor Parker	County of Monterey	Director
Council Member Gray	City of Marina	Director
Council Member Selfridge	City of Monterey	Director
Supervisor Calcagno	County of Monterey	Director
Council Member Kampe	City of Pacific Grove	Director
Council Member Barnes	City of Salinas	Director
Mayor Pendergrass	City of Sand City	Director/Member at Large
Council Member Mancini	City of Seaside	Director

Appointed Official

Michael A. Houlemard, Jr.
Executive Officer

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS - REQUIRED SUPPLEMENTARY INFORMATION AS PREPARED BY FORA MANAGEMENT	3-7
FINANCIAL STATEMENTS	
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements	
Balance Sheet - Governmental Funds	10
Reconciliation of the Government Funds Balance Sheet to the Government-wide Statement of Net Assets	11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-wide Statement of Activities.....	13
Notes to the Financial Statements.....	14-27
REQUIRED SUPPLEMENTARY INFORMATION	28-29
SINGLE AUDIT REPORT	30-35

MARCELLO & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

2701 Cottage Way, Suite 30 / Sacramento, California 95825 / 916.979.9079

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 Fort Ord Reuse Authority, as of and for the year ended June 30, 2009, 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, 2009, and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2009, 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.

Board of Directors
Fort Ord Reuse Authority
Marina, California

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.

Marcello & Company

Certified Public Accountants
Sacramento, California
October 2, 2009



FORT ORD REUSE AUTHORITY

100 12TH STREET, BUILDING 2880, MARINA, CALIFORNIA 93933

PHONE: (831) 883-3672 - FAX: (831) 883-3675

WEBSITE: www.fora.org

FORT ORD REUSE AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2009

Beginning July 1, 2003, the Fort Ord Reuse Authority (FORA) implemented 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, 2009.

FINANCIAL HIGHLIGHTS

Due to continuing recessionary economic conditions (former Fort Ord project delays), FORA collected nominal redevelopment revenues from land sales and developer fees during FY 08-09. To continue essential projects and services, FORA sustained efficient and minimal staffing, reduced consultant spending where possible, and incurred debt to finance capital projects. Despite the unfavorable economic conditions, FORA restored the depleted contingency reserve account (used to fund the Environmental Services Cooperative Agreement (ESCA) change order #2). By the end of FY 08-09 the unreserved fund balance in the General Fund increased from \$66,000 to \$410,000. The fiscal year highlights include:

- ❖ FORA and the U.S. Army implemented ESCA terms to remediate munitions and explosives of concern (MEC) on certain remaining not transferred properties. By the end of FY 08-09, FORA collected all ESCA payments (totaling \$97.7 million) from the federal government toward this effort.
- ❖ FORA added \$2.5 million in debt to fund Capital Improvement Program (CIP) projects.
- ❖ FORA completed \$4.4 million in capital improvements.
- ❖ FORA collected \$16,200 in land sale proceeds.
- ❖ FORA collected \$4,600 in development fees.
- ❖ FORA and California State University (CSU) entered into an agreement for CSU to pay certain of their mitigation fee obligations. The first \$500,000 payment was received in May 2009.

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 governmental funds 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 FY 08-09 membership dues, tax increment receipts, a federal grant, land sale/lease proceeds, construction reimbursements and loan proceeds financed the following activities:

- 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
- Construction 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 negative \$3.1 million to negative \$7 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). In addition, the unspent balance in ESCA grant fund at June 30, 2009 of \$7.1 million is classified as revenue collected in advance of the earnings process and recorded as deferred revenue, a liability account, for financial statement purposes. It will be recognized as revenue when it is earned.

Revenues

Total FORA annual revenues decreased from \$34 million to \$28 million. This variance is mainly attributable to FY 08-09 grant revenue for MEC remediation services that was less than FY 07-08 grant revenue. Also, land sale proceeds decreased from the previous fiscal year.

FORA received additional revenue as compared to the budget from CSU for prior period mitigation impact fees, and from Marina Coast Water District (MCWD) for General Jim Moore Boulevard (GJMB) construction cost reimbursements.

Revenue sources were provided from the following:

- Federal funding - 76%
- Construction reimbursements - 10%
- Land sale/lease proceeds - 4%
- Property tax increment - 5%
- Other revenue sources - 5%

Expenditures

The cost for all governmental activities this fiscal year was \$32.1 million. The munitions/environmental cleanup program, which started in early 2007, and the CIP were the FY 08-09 major projects.

The government-wide financial statement showing the net cost of FORA's major projects 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 \$8.4 million; a decrease of \$3.4 million over the previous fiscal year.

\$8 million of the \$8.4 million ending fund balance is either restricted in use or designated for specific uses such as federal grant funds designated for munitions cleanup or developer impact fees and land sale proceeds dedicated for the capital improvement program. Approximately \$410,000 is undesignated and available for expenditure and designation.

Ending Fund Balances

Fiscal Year	General Fund	Land Sale/Leases	Developer Fees	Pollution Liability	ET/ESCA	TOTALS
2007-2008	1,291,055	214,944	4,371,831	4,084,946	1,850,427	11,813,203
2008-2009	1,162,680	200,075	3,519,312	3,537,928	-	8,419,995
Change + (-)	(128,375)	(14,869)	(852,519)	(547,018)	(1,850,427)	(3,393,208)

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 08-09 budget on June 13, 2008 and the mid-year budget update on February 13, 2009. Due to the economic recessionary conditions delaying development projects, the mid-year budget reported a decrease in anticipated revenues from \$33.1 million to \$25.6 million and a corresponding reduction in expenditures from \$40 million to \$35 million. The final/audited amounts confirm this decline trend.

Budget Variances (from mid-year budget projections to year-end actual)

Revenues: \$2.5 million increase

FORA realized slightly increased revenues in several funding categories such as franchise fees, property tax increment, planning reimbursements, and rental income, and slightly decreased revenues from investment earnings and developer fees. The most significant revenue variances were:

- \$836,913 early payment reductions in FY 08-09 ET/ESCA grant funds under contract terms with the U.S. Army (each Army payment is reduced if paid to FORA before the due date)
- \$2.6 million in MCWD construction reimbursements for GJMB improvements
- \$500,000 received from CSU for deficit period mitigation impact fees

Expenditures: \$3.1 million increase

FORA realized savings in several administrative categories such as salaries, office equipment, travel, and insurance primarily due to cost saving measures and deferred purchasing. The most significant expenditure variances were:

- \$2.3 million net increase in capital projects; in addition to earthwork improvements along GJMB, FORA installed a MCWD infrastructure utility system
- \$243,000 increase in contractual services per the Board's approval to bring long-term Kutak Rock accounts payable invoices current
- \$600,000 in amortization expense; FORA does not include amortization expenses (non-cash expenses) in the operating budget.

The comparative statements of budgeted and actual revenues and expenditures for the General Fund and Special Revenue Funds can be found on page 29 of this report.

LONG-TERM DEBT

FORA applies its real property assets (such as Preston Park Housing) to amortize or secure long-term indebtedness. Current asset valuation exceeds \$100 million. Please refer to pages 17-18, Note 1J for more information regarding capital assets. At June 30, 2009, FORA had \$15.4 million in long-term debt consisting of:

- \$2.8 million debt on the 2002 Series A and Series B Revenue Bonds
- \$2.6 million debt on the PLL Insurance loan
- \$9.5 million debt on the line of credit (LOC)
- \$0.5 million capital lease equipment purchase obligation

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 and participating jurisdictions/agencies reimburse FORA for their portions of the premium and financing costs. FORA advanced additional \$2.5 million during the fiscal year from LOC to process road design and construction invoices and reduced the principal by \$500,000. The LOC draw downs are repaid by any available revenues committed to CIP such land sale/lease proceeds, tax increment, 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 the East Garrison land sale. Delays in land transfers/sales influenced FORA's ability to significantly pay down the outstanding principal in LOC. The capital lease obligation was incurred in 2003 to purchase firefighting equipment and will be repaid by development fees by year 2014. A note payable to MCWD entered into in March 2008 to support the Veteran's Cemetery project was repaid in June 2009.

More detailed information about FORA's total long-term liabilities is presented on pages 22-24, 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 2009-2010 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 implementing ESCA terms, which include reimbursement of oversight and administrative costs to FORA. In concert with this agreement, the U.S. Army transferred the remaining 3,300 acres of Economic Development Conveyance (EDC) property to FORA, allowing FORA's capital needs and habitat costs to become more definitive. FORA is coordinating with MCWD modifications of the capital improvement program schedule for completing water resource augmentation infrastructure needs.

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, 2009

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 10,981,137
Cash with fiscal agent	979,036
Accounts receivable:	
Due within one year	2,128,546
Due in more than one year	106,818
Interest receivable	238,249
Prepaid expenses	16,619
Prepaid insurance	3,300,000
Bond issue cost, net	52,762
Capital assets	<u>20,582</u>
 Total Assets	 <u>17,823,748</u>
 LIABILITIES	
Accounts payable	2,137,044
Interest payable	34,612
Deferred revenue (see note 12, page 24)	7,211,516
Long-term debt and obligations:	
Due within one year	1,373,075
Due in more than one year	<u>14,077,256</u>
 Total Liabilities	 <u>24,833,503</u>
 NET ASSETS	
Investment in capital assets	20,582
Restricted	979,036
Unrestricted	<u>(8,009,373)</u>
 Total Net Assets	 <u>\$ (7,009,755)</u>

See accompanying notes to financial statements

FORT ORD REUSE AUTHORITY

Government-wide Financial Statements

Statement of Activities

June 30, 2009

Functions/Programs	Program Expenses	Program Revenues Grants and Fees	Net (Expense) Revenue Governmental Activities
General operations	\$ 1,880,633	\$ 1,630,960	\$ (249,673)
Capital improvements	5,344,634	2,698,698	(2,645,936)
Environmental cleanup	23,263,513	21,413,087	(1,850,426)
Reuse planning/EDC transfers & environmental	834,621	1,268,580	433,959
	29,442,768	25,380,365	(4,062,403)
Interest on long-term debt and short-term debt	771,771		(771,771)
Total governmental activities	32,095,172	27,011,325	(5,083,847)
General revenues			
Property tax revenues			1,135,336
Membership dues			259,000
Franchise fees			227,637
Investment earnings			(463,524)
Change in net assets			(3,925,398)
Net assets, beginning of year			(3,084,357)
Net assets, end of year			\$ (7,009,755)
			(7,009,755)

See accompanying notes to financial statements

FORT ORD REUSE AUTHORITY

Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2009

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	Army Grant ET/ESCA	Total Governmental Funds
ASSETS						
Cash and investments	\$ 136,007	\$ 9,696	\$ 3,412,828	\$ 51,494	\$ 7,371,112	\$ 10,981,137
Cash with fiscal agent	496,246	-	482,790	-	-	979,036
Accounts receivable - due within one year	1,905,369	-	12,154	211,023	-	2,128,546
Account receivable - due after one year	50,457	-	56,361	-	-	106,818
Interest receivable	-	238,249	-	-	-	238,249
Due from other funds	-	-	-	-	-	-
Prepaid expenses	16,619	-	-	-	-	16,619
Prepaid insurance, net	-	-	-	3,300,000	-	3,300,000
Bond issue cost, net	52,762	-	-	-	-	52,762
Total Assets	\$ 2,657,460	\$ 247,945	\$ 3,964,133	\$ 3,562,517	\$ 7,371,112	\$ 17,803,167
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 1,494,780	\$ 22,769	\$ 444,821	\$ 78	\$ 174,596	\$ 2,137,044
Interest payable	-	25,101	-	9,511	-	34,612
Due to other funds	-	-	-	-	-	-
Deferred revenue (see note 12, page 24)	-	-	-	15,000	7,196,516	7,211,516
Total Liabilities	1,494,780	47,870	444,821	24,589	7,371,112	9,383,172
Fund Balances (see note 13, page 25)						
Reserved	119,838	-	56,361	3,300,000	-	3,476,199
Unreserved:						
Designated	632,854	200,074	3,462,952	237,928	-	4,533,808
Undesignated	409,988	-	-	-	-	409,988
Total Fund Balances	1,162,680	200,074	3,519,313	3,537,928	-	8,419,995
Total Liabilities and Fund Balances	\$ 2,657,460	\$ 247,944	\$ 3,964,133	\$ 3,562,517	\$ 7,371,112	\$ 17,803,167

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, 2009

Fund Balances - Total Governmental Funds (page 10) \$ 8,419,995

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 20,582

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	\$ (504,448)	
Bonds payable, net	(2,825,000)	
PLL Loan payable	(2,571,429)	
LOC Payable	(9,492,068)	
Compensated absences	<u>(57,386)</u>	<u>(15,450,331)</u>

Net Assets - Government-wide Financial Statements (page 8) \$ (7,009,755)

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, 2009**

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	Army Grant ET/ESCA	Governmental Funds
REVENUES						
Membership dues	\$ 259,000	\$ -	-	\$ -	\$ -	\$ 259,000
Franchise fees	227,637	-	-	-	-	227,637
Property tax increment	1,135,336	-	-	-	-	1,135,336
Federal grants	-	-	-	-	21,413,087	21,413,087
Developer fees	-	-	4,632	-	-	4,632
Planning reimbursements	47,368	-	-	-	-	47,368
Construction reimbursements	2,672,288	-	-	-	-	2,672,288
Insurance reimbursements	-	-	-	983,657	-	983,657
Rental income	99,870	1,218,580	-	-	-	1,318,450
Real estate sales	-	16,248	-	-	-	16,248
CSU mitigation fees	-	-	500,000	-	-	500,000
Investment earnings	11,922	287,000	(769,845)	11,301	-	(459,622)
Other revenue	65	50,000	5,530	5,000	-	60,595
Total Revenues	4,453,486	1,571,828	(259,683)	999,958	21,413,087	28,178,676
EXPENDITURES						
Salaries and benefits	1,132,406	-	321,273	-	321,803	1,775,482
Supplies and services	93,946	194	49,524	185	22,491	166,340
Contractual services	650,346	235,706	569,553	3,750	22,919,220	24,378,575
Capital improvements	2,672,288	3,443	1,728,553	-	-	4,404,284
Amortization	-	-	-	600,000	-	600,000
Total Expenditures	4,548,986	239,343	2,668,903	603,935	23,263,514	31,324,681
Revenues Over (Under) Expenditures	(95,500)	1,332,484	(2,928,586)	396,023	(1,850,427)	(3,146,005)
Other Financing Sources (Uses)						
Debt service - Interest and fiscal charges	(14,875)	(592,354)	(28,643)	(135,898)	-	(771,771)
Debt service - Principal	(138,000)	(385,000)	(587,357)	(857,143)	-	(1,967,499)
Loan proceeds	2,492,068	-	-	-	-	2,492,068
Operating transfers in	120,000	(370,000)	2,692,068	50,000	-	2,862,068
Operating transfers (out)	(2,492,068)	(370,000)	-	-	-	(2,862,068)
Total Other Sources (Uses)	(32,875)	(1,347,354)	2,076,068	(943,041)	-	(247,203)
NET CHANGE IN FUND BALANCES	(128,375)	(14,870)	(852,518)	(547,018)	(1,850,427)	(3,393,208)
Beginning Fund Balances	1,291,055	214,944	4,371,831	4,084,946	1,850,427	11,813,203
Ending Fund Balances	\$ 1,162,680	\$ 200,074	\$ 3,519,313	\$ 3,537,928	\$ -	\$ 8,419,995

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, 2009

Net Change in Fund Balances
Total Governmental Funds (page 12) \$ (3,393,208)

Amounts reported in the Governmental Activities column
in the Statement of Activities 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	\$ 87,357	
Repayment of bonds	385,000	
Repayment of loans	<u>1,492,664</u>	1,965,021

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	(2,492,068)	
Increase in compensated absences liability	<u>(5,143)</u>	(2,497,211)

Change in Net Assets

Government-wide Financial Statements (page 9) \$ (3,925,398)

See accompanying notes to financial statements

FORT ORD REUSE AUTHORITY
Notes to Financial Statements
June 30, 2009

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
- Note 2 - Cash and Investments
- Note 3 - Property and Equipment
- Note 4 - Defined Benefit Pension Plan
- Note 5 - Deferred Compensation Plan
- Note 6 - Liability for Compensated Absences
- Note 7 - Long-Term Liabilities
- Note 8 - Capitalized Lease Obligations
- Note 9 - Bonds Payable
- Note 10 - Loans Payable
- Note 11 - Health Care Plan
- Note 12 - Commitments and Contingencies
- Note 13 - Fund Balance Designations
- Note 14 - Property Sales and Lease Income
- Note 15 - Contingent Note Receivable
- Note 16 - US Army Environmental Services Cooperative Agreement Grant
- Note 17 - New Pronouncements

FORT ORD REUSE AUTHORITY
Notes to Financial Statements
June 30, 2009

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The Fort Ord Reuse Authority (Authority) was created under Title 7.85 of the California Government Code, Chapters 1-7, signed into law on May 10, 1994. The Authority was incorporated in the State of California as an instrumentality and is considered a quasi-governmental regional agency. The Authority has specific powers in State Law 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.

The Authority is governed by a 13-voting member board, which consists of various Monterey County's Board of Supervisors, City Mayors and/or Council Members from surrounding jurisdictions, governs the Authority. The Authority Board also has 12 non-voting 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. 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.

Title 7.85 of California Government Code specifies that its terms and provisions 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 38 provides a comprehensive, entity-wide perspective of the Authority's assets, liabilities, and expands the fund-group perspective previously required. The Authority now follows

the "primary government's governmental activities" reporting requirements of GASB Statement 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

FORT ORD REUSE AUTHORITY
Notes to Financial Statements
June 30, 2009

spent and the means by which spending activities are controlled. They are as follows:

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 July 1.
- Once the budget is approved, it can be amended only by approval of a majority of the members

FORT ORD REUSE AUTHORITY
Notes to Financial Statements
June 30, 2009

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 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 3,340 acres on May 8, 2009 and transferred 60 acres to the City of Marina on May 9, 2009. Real property assets were transferred from the United States Government under an agreement dated June 23, 2000. These transfers included land, buildings, and infrastructure within the Cities of Marina, Del Rey Oaks, Monterey, Seaside and the County of Monterey. As of June 30, 2009, the Authority owned approximately 3,300 acres of former Fort Ord Army Base land which included the following parcels:

- Preston Park Housing area
- The Authority Complex
- 11th Street Parcels
- Environmental Services Cooperative Agreement (ESCA) Grant Parcels

FORT ORD REUSE AUTHORITY
Notes to Financial Statements
June 30, 2009

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 \$150 million, of which the Authority is entitled to a 50% share. The ESCA Grant properties are undergoing munitions and explosives of concern remediation with covenants restricting use of these properties ("CRUPS") and have limited value until the CRUPS are lifted at the completion of remediation. The Authority was 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, 2009 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 10,981,136
Cash with fiscal agent (Revenue Bonds)	<u>979,036</u>
Total cash and investments	<u>\$ 11,960,172</u>

FORT ORD REUSE AUTHORITY
Notes to Financial Statements
June 30, 2009

Cash and investments as of June 30, 2009 consist of the following:

Deposits with financial institutions in:	
• Money market accounts	\$ 7,512,174
• Checking accounts	847,171
• Investment in (12) mutual funds	<u>3,600,827</u>
Total cash and investments	<u>\$ 11,960,172</u>

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 revised Investment Policy adopted by the Authority's Board of Directors in February 2009. 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
- Bank Obligations registered with the Securities and Exchange Commission and that are consistent with FDIC insurance
- Savings and Money Market Accounts
- Money Market funds and other funds whose portfolios consist of any allowed instrument as specified in the policy
- State of California's Local Agency Investment Fund

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:

		<u>Maturity Date</u>
Money market accounts	\$ 7,512,174	N/A (due on demand)
Checking accounts	847,171	N/A (due on demand)
Investment in (12) mutual funds	<u>3,600,827</u>	N/A (due on demand)
Total	<u>\$ 11,960,172</u>	

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:

FORT ORD REUSE AUTHORITY
Notes to Financial Statements
June 30, 2009

\$3,600,827 (30%) of the cash and investments are invested in 12 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 <u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2009</u>
Equipment and furniture	\$ 314,475	\$ 8,044		\$ 322,519
Accumulated depreciation	<u>291,414</u>		\$ 10,524	<u>301,937</u>
Net capital assets	<u>\$ 23,061</u>			<u>\$ 20,582</u>

Depreciation expense was \$10,524 for the year ending June 30, 2009.

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 2008-2009 employer rate was 12.647% of

FORT ORD REUSE AUTHORITY
Notes to Financial Statements
June 30, 2009

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 \$252,930 for PERS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2006, 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

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/07	\$ 244,920	100%	-0-
6/30/08	\$ 240,499	100%	-0-
6/30/09	\$ 252,930	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 \$16,500. 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, 2009 was \$57,386. 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 leave time.

FORT ORD REUSE AUTHORITY
Notes to Financial Statements
June 30, 2009

Note 7 - Long-Term Liabilities

Long-term liabilities for the year ended June 30, 2009, are summarized as follows:

	<u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2009</u>
Capitalized lease obligations	\$ 591,805	\$ -	\$ 87,357	\$ 504,448
Bonds payable, net of premium and issuance costs	3,210,000	-	385,000	2,825,000
<u>Loans payable</u>				
Insurance loan	3,428,571	-	857,142	2,571,429
Line of Credit	7,500,000	2,492,068	500,000	9,492,068
Marina Coast Water District	138,000	-	138,000	-
<u>Other obligations</u>				
Compensated absences	<u>52,243</u>	<u>5,143</u>	<u>-</u>	<u>57,386</u>
Totals	<u>\$ 14,920,619</u>	<u>\$ 2,497,211</u>	<u>\$ 1,967,499</u>	<u>\$ 15,450,331</u>

For the year ending June 30, 2009, the Authority paid \$771,771 in interest expense.

Note 8 - Capitalized Lease Obligations

The Authority entered into a lease purchase agreement to acquire fire fighting equipment that was distributed to local jurisdictions for fire suppression of the former Fort Ord Army Base.

Scheduled Payments

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2010	\$ 116,000
2011	116,000
2012	116,000
2013	116,000
2014	<u>116,000</u>
Total gross lease payments	580,000
Less amount representing interest	<u>75,552</u>
Net minimum lease payments	504,448
Less current portion due within the next fiscal year	<u>91,584</u>
Long-term portion	<u>\$ 412,864</u>

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

FORT ORD REUSE AUTHORITY
Notes to Financial Statements
June 30, 2009

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 housing lease revenues.

Scheduled Payments

Future annual principal and interest requirements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	505,000	59,555	564,555
2015	<u>535,000</u>	<u>0</u>	<u>535,000</u>
Totals	<u>\$ 2,825,000</u>	<u>\$ 490,684</u>	<u>\$ 3,315,684</u>

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:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 857,143	\$ 115,957	\$ 973,100
2011	857,143	75,805	932,948
2012	<u>856,962</u>	<u>23,846</u>	<u>880,808</u>
Totals	<u>\$ 2,571,248</u>	<u>\$ 215,608</u>	<u>\$ 2,786,856</u>

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 5.93% per annum and is paid monthly. The outstanding principal balance at June 30, 2009 was \$9,492,068. The purpose of this credit line is to provide financing for approved Capital Improvement Program commitments.

FORT ORD REUSE AUTHORITY
Notes to Financial Statements
June 30, 2009

Marina Coast Water District (MCWD)

In March 2008, the Authority entered into a short-term financing agreement for \$138,000 with MCWD. The funds were appropriated for the Veterans Cemetery Master Development Plan on the former Fort Ord Army Base. The loan plus interest, accruing at 1% per annum, was due in the fiscal year 2009-2010. The Authority repaid this obligation on June 30, 2009.

Note 11 - Health Care Plan

During the year ended June 30, 2009, 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 not involved in litigation. No litigation has been threatened by or against Authority. Appropriate insurance policies protect the Authority from most potential litigation effects. In addition, the Authority requires indemnification and contract provisions with its vendors and contractors 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 collectability 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.

- US Army Environmental Remediation Grant Payment
The \$99.3 million federal grant was to the Authority in three phases: \$40 million in FY 06-07, \$30 million in FY 07-08, and \$27.7 million in FY 08-09. The Army made their payments ahead of schedule and secured a \$1.6 million credit for early payments. With the last payment received in December 2008, the grant paid for all contracted expenditures through the end of the remediation project (June 2014).
- Deferred Revenue
The unspent revenue at June 30, 2009 is classified as revenue collected in advance of the earnings process and recorded as deferred revenue, a liability account, for financial statement purposes. It will be recognized as revenue when earned.

FORT ORD REUSE AUTHORITY
Notes to Financial Statements
June 30, 2009

Note 13 - Fund Balance Designations

As required by the 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 and spent (such as non-current receivables) or that the resources are legally limited to being used for a particular purpose.

Reserved funds at June 30, 2009 consist of the following:

General Fund	\$119,838 reserved for non-current assets that cannot be used to meet current obligations.
Developers Fees Fund	\$56,361 reserved for non-current assets.
Pollution Legal Liability Fund	\$3,300,000 reserved for unamortized insurance policy.
<i>Total:</i>	\$3,476,199

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, 2009 consist of the following:

General Fund	\$632,854 designated for previously approved projects and contracts.
Lease and Sale Proceeds Fund	\$200,075 to fund the Habitat Management Program (HMP) and building removal obligations.
Developers Fees Fund	\$3,462,951 designated in accordance with the Base Reuse Plan to fund the HMP.
Pollution Legal Liability Fund	\$237,928 designated for debt service.
<i>Total</i>	\$4,533,808

Unreserved undesignated funds at June 30, 2009 consist of the following:

General Fund	\$409,988 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 was as follows:

Lease income

Cash distribution to the Authority from: Preston Park and Abrams Housing	\$1,218,580
---	-------------

Land Sale proceeds

Cash distribution to the Authority from: Young Nak Church	\$16,248
--	----------

FORT ORD REUSE AUTHORITY
Notes to Financial Statements
June 30, 2009

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 it 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 Services Cooperative Agreement Grant

Removal of munitions and explosives of concern (MEC) at the former Fort Ord Army 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 3,340 acres must still undergo specific MEC removal activities before they can be reused for key elements of the Fort Ord Base Reuse Plan. In the spring of 2005 the U.S. Army and Authority entered into negotiations to execute an Army funded Environmental Services Cooperative Agreement (ESCA) leading to the transfer of former Fort Ord 3,340 acres prior to regulatory environmental sign-off. In early 2007, the Army awarded the Authority \$99.3 million to perform munitions cleanup on the ESCA parcels. Authority also entered into an Administrative Order on Consent (AOC) with U.S. Environmental Protection Agency (EPA) and California Department of Toxic Substance Control (DTSC), defining conditions under which the Authority assumes responsibility for the Army remediation of the ESCA parcels. In order to complete the AOC defined work; the Authority entered into a Remediation Services Agreement (RSA) with LFR, Inc. to provide MEC remediation services and executed a Cost-Cap insurance policy for this remediation work through the American International Insurance Group (AIG).

The ESCA RP has been underway for approximately 2.5 years. In August 2008, Governor Arnold Schwarzenegger concurred in the transfer of the ESCA parcels under a Finding of Suitability for Early Transfer. The ESCA property was subsequently transferred to FORA ownership on May 8, 2009. The FY 2009 ESCA RP field work focused in the Parker Flats area of the former Fort Ord.

On December 17, 2008 FORA received the fourth and final ESCA Grant fund payment of approximately \$28.6 million. Per the AOC, the majority of these funds have been transferred to AIG for payment to LFR, Inc. under the terms of the insurance policies and related agreements. Authority administrative costs and oversight, including third-party quality assurance work are also funded by the ESCA grant.

Note 17 - New Pronouncements

The GASB issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," issued in March 2009, initially distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with long-term notes receivable or inventory, and other amounts that are classified as spendable based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Restricted - Amounts that can be spent only for the *specific purposes* stipulated by constitution, external resource providers, or through enabling legislation.
- Committed - Amounts that can be used only for the *specific purposes* determined by a formal action of the government's highest level of decision-making authority.
- Assigned - Amounts intended to be used by the government for *specific purposes* but do not meet the criteria to be classified as restricted or committed.

FORT ORD REUSE AUTHORITY
Notes to Financial Statements
June 30, 2009

- Unassigned - The residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The new standard also clarifies the definitions of individual governmental fund types. It also specifies how economic stabilization or "rainy day" amounts should be reported. Because of the specific nature of these accounts, the statement considers stabilization amount as *specific purposes*. Stabilization amounts should be reported in the general fund as restricted or committed if they meet the appropriate criteria. Only if the resources in the stabilization arrangement derive from a restricted or committed revenue source could a stabilization fund be reported as a special revenue fund.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by this statement. The capital projects fund type was clarified for better alignment with the needs of financial statement users and prepares. Definitions are as follows:

- General fund - Account for and report all financial resources and uses not accounted for and reported in another fund.
- Special revenue funds - Account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
- Capital projects funds - Account for and report financial resources that are restricted, committed, or assigned to the expenditure for capital outlays, including the acquisition of construction of capital facilities and other capital assets.
- Debt service funds - Account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

- Permanent funds - Account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government or its citizenry.

The requirements of this statement are effective for fiscal periods beginning after June 15, 2010 with earlier implementation encouraged.

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, 2009**

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.

<u>Miscellaneous Plan</u>	<u>Actuarial Valuation Date - Year Ended</u>		
	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>June 30, 2006</u>
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, 2009

	Budgeted Amounts		Actual Amounts	Variance (1)
	Original	Final		Favorable (Unfavorable)
REVENUES				
Membership dues	\$ 259,000	\$ 259,000	\$ 259,000	\$ -
Franchise fees	195,000	195,000	227,637	32,637
Property tax increment	1,387,034	1,109,627	1,135,336	25,709
Federal grants	22,250,000	22,250,000	21,413,087	(836,913)
Developer fees	5,000,000	120,000	4,632	(115,368)
Planning reimbursements	-	-	47,368	47,368
Construction reimbursements	-	-	2,672,288	2,672,288
Insurance reimbursements	983,657	822,634	983,657	161,023
Rental income	1,294,578	1,294,578	1,318,450	23,872
Real estate sales	1,288,000	16,248	16,248	-
CSU mitigation fees	-	-	500,000	500,000
Investment earnings	468,990	(436,249)	(459,622)	(23,373)
Other revenue	-	-	60,595	60,595
Total Revenues	<u>33,126,259</u>	<u>25,630,838</u>	<u>28,178,676</u>	<u>2,547,838</u>
EXPENDITURES				
Salaries and benefits	1,792,062	1,792,062	1,775,482	16,580
Supplies and services	190,440	190,440	166,340	24,100
Contractual services	24,284,624	24,134,624	24,378,575	(243,951)
Capital improvements	10,070,729	2,075,000	4,404,284	(2,329,284)
Amortization	-	-	600,000	(600,000)
Total Expenditures	<u>36,337,855</u>	<u>28,192,126</u>	<u>31,324,682</u>	<u>(3,132,556)</u>
Revenues Over (Under) Expenditures	<u>(3,211,596)</u>	<u>(2,561,288)</u>	<u>(3,146,005)</u>	<u>(584,717)</u>
Other Financing Sources (Uses)				
Debt service	(3,638,288)	(2,216,312)	(2,739,271)	(522,959)
Loan proceeds	5,500,000	4,060,000	2,492,068	(1,567,932)
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	-	-
Total Other Sources (Uses)	<u>1,861,712</u>	<u>1,843,688</u>	<u>(247,203)</u>	<u>(2,090,891)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (1,349,884)</u>	<u>\$ (717,600)</u>	<u>\$ (3,393,208)</u>	<u>\$ (2,675,608)</u>

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

SINGLE AUDIT REPORT

MARCELLO & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

2701 Cottage Way, Suite 30 / Sacramento, California 95825/ 916.979.9079

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, 2009, and have issued our report thereon dated October 2, 2009. 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.

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.

Marcello & Company

Certified Public Accountants
Sacramento, California
October 2, 2009

MARCELLO & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

2701 Cottage Way, Suite 30 / Sacramento, California 95825 / 916.979.9079

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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, 2009. 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, 2009.

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.

Board of Directors
Fort Ord Reuse Authority
Marina, California

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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Ord Reuse Authority as of and for the year ended June 30, 2009, and have issued our report thereon dated October 2, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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.

Maunello & Company

Certified Public Accountants
Sacramento, California
October 2, 2009

FORT ORD REUSE AUTHORITY

Schedule of Expenditures of Federal Awards Year Ended June 30, 2009

<u>Description and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
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	\$ 23,263,514
Total Expenditures of Federal Awards		<u>\$ 23,263,514</u>

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, 2009

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
June 30, 2009

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 No
- Reportable conditions identified not considered to be material weaknesses Yes None reported

Noncompliance material to financial statements noted Yes No

Federal Awards

Internal control over major programs:

- Material weaknesses identified Yes No
- Reportable conditions identified not considered to be material weaknesses Yes 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 No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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: 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