FORT ORD REUSE AUTHORITY
MARINA, CALIFORNIA

Annual Financial Report

June 30, 2013

Board of Directors

Voting Members	Representing	Title
Mayor Jerry Edelen	City of Del Rey Oaks	Chair
Mayor Pro Tem Frank O'Connell	City of Marina	1st Vice Chair
Mayor Ralph Rubio	City of Seaside	2nd Vice Chair
Mayor Jason Burnett	City of Carmel-by-the-Sea	Director
Council Member Gail Morton	City of Marina	Director
Supervisor Dave Potter	County of Monterey	Director
Supervisor Jane Parker	County of Monterey	Director
Supervisor Simon Salinas	County of Monterey	Director
Council Member Nancy Selfridge	City of Monterey	Director
Mayor David Pendergrass	City of Sand City	Director
Mayor Joe Gunter	City of Salinas	Director
Mayor Pro Tem Ian Oglesby	City of Seaside	Director
Mayor Bill Kampe	City of Pacific Grove	Director

Appointed Official

Michael A. Houlemard, Jr.
Executive Officer

FORT ORD REUSE AUTHORITY
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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fort Ord Reuse Authority
Marina, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Fort Ord Reuse Authority (Authority), California, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion on Proprietary Fund

The Authority has not recorded the value of land and buildings within its business-type activities (Preston Park), and accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the business-type activities (Preston Park). These amounts are not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Proprietary Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Proprietary Fund of the Authority, as of June 30, 2013, and the changes in financial position and, where applicable, cash flow thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Fort Ord Reuse Authority, California, as of June 30, 2013, and the respective changes in financial position, for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 of the notes to the basic financial statements, effective July 1, 2012, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, the budgetary comparison schedule on page 37, the schedule of funding progress for defined benefit pension plan on page 38, and the schedule of funding progress for post-employment benefits other than pensions on page 39, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The 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 Authority.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 2, 2014 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and do not provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California
January 2, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

This section of the Fort Ord Reuse Authority's (FORA) financial statements presents an analysis of the FORA's financial performance during the fiscal year ended June 30, 2013. This information is presented in conjunction with the basic financial statements and related notes, which follow this section.

This is management's discussion and analysis (MD&A) of FORA financial performance for the fiscal year ended June 30, 2013.

FINANCIAL HIGHLIGHTS

The national and state economic downturn/recession from the 2006-20012 fiscal years has significantly slowed Fort Ord reuse and economic recovery. Consequently, FORA developer fee and land sale revenues have been deferred and/or reduced during those several years. However, the past two fiscal years showed evidence of change as building permit issuances and new projects began to return. During the FY 12-13, FORA:

- Accomplished significant munitions and explosives cleanup as 100% of known MEC field work has been completed under the U.S. Army ESCA contract. Additional property transfers now in progress as a result.

- Completed $540,000 ($350K in FY 12-13) in Base Reuse Plan Reassessment. On May 17, 2013, the Northern California Chapter of the American Planning Association recognized the Reassessment Report with an Award of Merit for Best Planning Practices.

- Completed $130,000 in the Habitat Conservation Plan (HCP) preliminary draft, which currently awaits wildlife agency review prior to distribution of a public draft.

- Finalized a Capital Improvement Program Developer Fee review process, resulting in a 24% Fee reduction/adjustment for most future projects.

- Collected $5.7 million in redevelopment revenues, including $4.5 million in development fees and $1.2 million in property tax payments.

- The County of Monterey, City of Seaside, and FORA dedicated and agreed to transfer approximately 78 acres of former Ford Ord land to the State of California to establish the California Central Coast Veterans Cemetery (CCCVC). FORA assisted in the completion of local documentation needed to transfer ownership of the dedicated parcels to the State of California for submission to the U.S. Department of Veteran Affairs in order to apply for grants to construct and operate the CCCVC.

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 government-wide financial statements include information on Preston Park Housing project, reported in business-type of activities.

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

The *statement of activities* presents information showing how the FORA's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, all the current year's revenue 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 12-13 FORA employed federal grants, property tax receipts, lease proceeds, development fees, franchise fees and membership dues to finance:

- Munitions and explosives of concern remediation investigation, processing, and removals;
- Infrastructure construction/planning and development;
- General administration and planning;
- Property surveys and transfers;
- Habitat conservation planning;
- Water augmentation planning;
- Insurance policy and liability protection issues;

- Real property development, consistency determination, and planning review; and
- Preston Park Housing management.

The government-wide financial statements can be found on *pages 10-11* 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*:* 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 fiscal year-end that are available for appropriation. FORA maintains 5 individual governmental funds the General Fund and Special Revenue Funds.

The General Fund: The general operating fund accounts for all of FORA's financial resources except for those resources that are required to be accounted for in Special Revenue Funds, which are restricted as to expenditures.

Special Revenue Funds: In FY 12-13 FORA maintained 4 Special Revenue Funds: 1) Lease/Land Sale Proceeds Fund - land sale proceeds are are designated to finance the FORA CIP (building removal), lease proceeds to debt financing (Preston Park Loan); 2) Developer Fees Fund – CFD/developer fees are designated to finance the FORA CIP (CEQA mitigations); 3) Pollution Legal Liability (PLL) Fund – revenue is designated to finance the PLL coverage; and 4) Army Grant ET/ESCA – grant funds are designated to finance the munitions and explosives cleanup activities.

Proprietary Fund: Revenues and expenses of Preston Park Housing complex are reported in this fund.

The fund financial statements can be found on *pages 12-19* 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.

Net position in the Statement of Activities on *page 10* of this report show FORA governmental activities improved from negative $6.4 million to negative $3.8 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 the ESCA grant fund at June 30, 2013 of $4.4 million is classified as revenue collected in advance of the earnings process and recorded as unearned revenue, a liability account, for financial statement purposes. It will be recognized as revenue when it is earned. The business-type activities (Preston Park) also show an increase in net assets from $5.5 million to $5.9 million.

Revenue

FORA annual revenue decreased from $15.1 million to $14.5 million, this variance is attributable to the conclusion of the EDA grant revenue for the General Jim Moore Boulevard/Eucalyptus Road construction in FY 11-12. There were increased development fees (as compared to the previous fiscal year) but other revenue sources did not vary significantly.

Revenue sources in FY 12-13 were provided from the following:

- Federal funding - 9%
- Lease proceeds (Preston Park) - 18%
- Property tax - 13%
- Development fees – 47%
- Membership dues and franchise fees - 5%
- Other revenue sources (land sales, interest) - 8%

Expenditures

The FY 12-13 cost of FORA programs was $11.2 million. The cost of governmental programs was about $6.2 million and business-type activities (Preston Park) about $5 million. The major governmental programs were the Environmental cleanup and Fort Ord Base Reuse Plan reassessment.

The government-wide financial statement showing the net cost of FORA's major projects can be found on *pages 10-11* of this report.

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

A fund is a group of related accounts used to maintain resource control and is 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 as 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 FORA's individual parts.

The segregated governmental funds provide information on near-term inflows, outflows and balances of expendable resource balance. As FORA completed the fiscal year, its governmental funds reported a combined fund balance of $14.9 million; an increase of $2.6 million from FY 11-12.

$10 million of the $14.9 million ending fund balance is assigned for specific use, such as federal grant funds assigned for environmental cleanup or developer impact fees and land sale proceeds assigned for the CIP projects, it also includes non-spendable funds such pre-paid insurance. Approximately $4.9 million is available for administration and operations.

Ending Fund Balances

Fiscal Year	General Fund	Land Sale/Leases	Developer Fees	Pollution Liability	Federal Grants	TOTALS
2011-2012	3,232,455	2,865,493	4,670,842	1,533,815	-	12,302,605
2012-2013	2,556,202	4,091,215	7,305,343	964,070	-	14,916,830
Change + (-)	(676,253)	1,225,722	2,634,501	(569,745)	-	2,614,225

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 revenue and expenditures. Once expenditures and revenue 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 revenue. 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 12-13 budget on July 13, 2012 and the mid-year budget update on February 15, 2013. Despite continuous recessionary economic conditions slowing the former Fort Ord redevelopment activities, FORA Board policies have sustained financial stability.

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

<u>Revenue: $78,500 increase</u>

Land sale and property tax revenue decreased and other funding slightly increased, as follows:

- $471.7K decrease in land sale revenue;
- $88.6K decrease in property tax revenue, direct payments from Monterey County;
- $301.6K increase in development fee revenue;
- $281.7K increase in lease income from Preston Park;
- $50K revenue increase from other funding sources (such as insurance reimbursements and investments).

<u>Expenditures: $991,600 decrease</u>

FORA realized savings in all expenditure categories including salaries and benefits. The most significant expenditure variances were:

- $120K decrease in salaries and benefits; mid-year budget assumed $60K for temporary help and vacation cash out set aside. The temp help was not hired and only $18K of the vacation cash out was spent. One lost permanent position not replaced until FY 13-14;

- $48K decrease in administrative categories due cost saving measures and expense policies reinforcement;
- 107.6K decrease in consulting services mainly attributable to savings in Legal fees ($500K projected, $400K spent);
- $1.3 million capital project decrease due to capital projects timing;
- $600,000 adjustment in amortization; FORA does not include amortization expenses (non-cash expenses) in the operating budget.

The budgetary comparison information schedule can be found on *page 37* of this report.

LONG-TERM DEBT

FORA employs real property assets and lease revenue (such as Preston Park Housing) to amortize or collateralize long-term indebtedness. Current asset valuation is in the range of $100 - $150 million, of which FORA is entitled to a 50% share. Please refer to *page 24, Note 1-I* for more information regarding capital assets. As of June 30, 2013, FORA had about $18.8 million in long-term debt consisting of:

a. $18.2 million - Preston Park loan;
b. $0.1 million - capital lease equipment purchase obligation; and
c. $0.5 million – compensated absences and retirement funding obligations.

a) In March 2010, FORA borrowed $19 million (Preston Park Loan) from Rabobank. The FORA Board authorized the loan to 1) provide stimulus grant local matching funds and 2) retire certain existing debts (Revenue Bonds and Line of Credit). The loan must be paid off in June 2014.

b) The capital lease obligation was incurred in 2003 to purchase firefighting equipment and will be repaid in July 2013.

c) This amount represents FORA's liability for compensated absences (vacation and sick leave), postemployment benefit cost and the Public Employees Retirement System (PERS) side fund at June 30, 2013.

More detailed information about FORA's total long-term debts is presented on *pages 31-33, Notes 7-12* to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In FY 12-13 major economic revitalization projects were approved or moved toward construction, including the VA Monterey Health Care Center Project, California Central Coast Veterans Cemetery, South County Housing University Villages Apartments, and Mid-Peninsula Housing Coalition Manzanita Place project. These major projects are supported by FORA's completion of the General Jim Moore Boulevard/Eucalyptus Road project and the conclusion of much of the remaining field work under the U.S. Army ESCA contarct.

Despite these successes, the past fiscal year has reinforced the need to emphasize blight removal and to complete the Regional Urban Design Guidelines – two significant remaining goals to the reuse effort.

As a consequence of two unanticipated referenda/itiniatives targeted at certain Fort Ord developments, FORA is obligated to pay for its share of the County of Monterey 2013 fall elections cost. It will be reflected in the FY 13-14 budget, but is noted here as an impending expense/debt.

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, 920 2nd Avenue, Suite A, Marina, California, 93933.

Michael A. Houlemard, Jr.
Executive Officer

FORT ORD REUSE AUTHORITY
Statement of Net Position
June 30, 2013

ASSETS	**Governmental Activities**	**Business-type Activities**	**Total**
Cash and investments	$ 18,742,041	$ 794,101	$ 19,536,142
Cash restricted for equipment purchases		4,341,403	4,341,403
Accounts receivable	867,455		867,455
Interest receivable	20,848		20,848
Tenant receivables		2,748	2,748
Prepaid expenses		97,224	97,224
Prepaid insurance	910,323		910,323
Capital assets, net of accumulated depreciation	80,991	1,263,822	1,344,813
Total Assets	20,621,658	6,499,298	27,120,956
LIABILITIES			
Accounts payable and accrued expenses	365,020	57,580	422,600
Unearned revenue	5,258,817	30,062	5,288,879
Long-term debt and obligations:			
Due within one year	18,385,266		18,385,266
Due in more than one year	436,676	474,335	911,011
Total Liabilities	24,445,779	561,977	25,007,756
NET POSITION			
Net investment in capital assets	80,991	1,263,822	1,344,813
Restricted for:			
Capital purchases and projects		4,341,403	4,341,403
Unrestricted	(3,905,112)	332,096	(3,573,016)
Total Net Position (Deficit)	$ (3,824,121)	$ 5,937,321	$ 2,113,200

See accompanying notes to basic financial statements

Government-wide Financial Statements

FORT ORD REUSE AUTHORITY
Statement of Activities
For the Fiscal Year Ended June 30, 2013

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
Functions/Programs	**Program Expenses**	**Charges for Services**	**Operating Grants and Fees**	**Governmental Activities**	**Business-type Activities**	**Total**
Governmental Activities						
General government	$ 2,675,571	$ -	$ 81,719	$ (2,593,852)	$ -	$ (2,593,852)
Capital improvements	505,014		4,559,337	4,054,323		4,054,323
Environmental cleanup	827,746		827,746			
Reuse planning/EDC transfers & environmental	1,043,247		1,689,204	645,957		645,957
subtotal - capital improvement program	2,376,007		7,076,287	4,700,280		4,700,280
Interest on long-term debt and short-term debt	1,106,998			(1,106,998)		(1,106,998)
Total governmental activities	6,158,576		7,158,006	999,430		999,430
Business-type Activities						
Preston Park	5,076,271	5,444,979			368,708	368,708
Total business-type activities	5,076,271	5,444,979			368,708	368,708
Total primary government	$ 11,234,847	$ 5,444,979	$ 7,158,006	999,430	368,708	1,368,138

	Governmental Activities	Business-type Activities	Total
General revenues:			
Property tax revenue	1,211,423		1,211,423
Membership dues	261,000		261,000
Franchise fees	244,506		244,506
Investment earnings	142,130	9,004	151,134
Miscellaneous	10,817	39,142	49,959
Total general revenues	1,869,876	48,146	1,918,022
Change in net position	2,869,306	416,854	3,286,160
Net position at beginning of fiscal year	(6,404,048)	5,520,467	(883,581)
Prior period adjustments	(289,379)		(289,379)
Net position at beginning of fiscal year, restated	(6,693,427)	5,520,467	(1,172,960)
Net position (deficit) at end of fiscal year	$ (3,824,121)	$ 5,937,321	$ 2,113,200

Fund Financial Statements

FORT ORD REUSE AUTHORITY
Balance Sheet
Governmental Funds
June 30, 2013

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	Army Grant ET/ESCA	Total Governmental Funds
ASSETS						
Cash and investments	$ 2,545,202	$ 4,093,008	$ 7,380,078	$ 64,069	$ 4,659,684	$ 18,742,041
Accounts receivable	126,561	21,224	24,750	694,920		867,455
Interest receivable				20,848		20,848
Prepaid insurance	10,323			900,000		910,323
Total Assets	$ 2,682,086	$ 4,114,232	$ 7,404,828	$ 1,679,837	$ 4,659,684	$ 20,540,667
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	$ 75,427	$ 1,793	$ 74,735	$ -	$ 213,065	$ 365,020
Unearned revenue	50,457	21,224	24,750	715,767	4,446,619	5,258,817
Total Liabilities	125,884	23,017	99,485	715,767	4,659,684	5,623,837
Fund Balances (Note L, page 25)						
Non-spendable	10,323			900,000		910,323
Committed				64,070		64,070
Assigned		1,653,590	7,305,343			8,958,933
Unassigned	2,545,879	2,437,625				4,983,504
Total Fund Balances	2,556,202	4,091,215	7,305,343	964,070		14,916,830
Total Liabilities and Fund Balances	$ 2,682,086	$ 4,114,232	$ 7,404,828	$ 1,679,837	$ 4,659,684	$ 20,540,667

See accompanying notes to basic financial statements

FORT ORD REUSE AUTHORITY

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2013

Total fund balances - governmental funds			$	14,916,830
In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.				
Capital assets at historical cost	$	159,584		
Accumulated depreciation		(78,593)		
Net				80,991
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:				
Capital lease obligations	$	(110,645)		
PERS Side fund		(266,098)		
OPEB		(113,926)		
Preston Park Loan Payable		(18,188,205)		
Compensated absences		(143,068)		
Total				(18,821,942)
Total net position, governmental activities			$	(3,824,121)

See accompanying notes to basic financial statements

Fund Financial Statements

FORT ORD REUSE AUTHORITY
Statement of Revenue, Expenditures, and Change in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	Army Grant ET/ESCA	Governmental Funds
REVENUE						
Membership dues	$ 261,000	$ -	$ -	$ -	$ -	$ 261,000
Franchise fees	244,506					244,506
Property taxes	1,211,423					1,211,423
Federal grants					827,746	827,746
Developer fees			4,232,542			4,232,542
Lease/Rental income	81,719	1,660,908				1,742,627
Real estate sales		28,296				28,296
CSU mitigation fees			326,795			326,795
Investment/Interest earnings	110,859			31,271		142,130
Other revenue	3,529		7,288			10,817
Total Revenue	1,913,036	1,689,204	4,566,625	31,271	827,746	9,027,882
EXPENDITURES						
Salaries and benefits	1,434,591		249,719		320,285	2,004,595
Supplies and services	113,170		11,501		12,124	136,795
Contractual services	1,041,528	9,234	171,777	1,016	495,337	1,718,892
Capital improvements			472,457			472,457
Insurance amortization				600,000		600,000
Debt service		1,364,918	116,000			1,480,918
Total Expenditures	2,589,289	1,374,152	1,021,454	601,016	827,746	6,413,657
Excess of revenues over (under) Expenditures	(676,253)	315,052	3,545,171	(569,745)		2,614,225
OTHER FINANCING SOURCES (USES)						
Transfers in		910,670				910,670
Transfers out			(910,670)			(910,670)
Total other financing sources (uses)		910,670	(910,670)			
Net change in fund balances	(676,253)	1,225,722	2,634,501	(569,745)		2,614,225
Fund Balances - July 1, 2012	3,232,455	2,865,493	4,670,842	1,533,815		12,302,605
Fund Balances - June 30, 2013	$ 2,556,202	$ 4,091,215	$ 7,305,343	$ 964,070	$ -	$ 14,916,830

See accompanying notes to basic financial statements

FORT ORD REUSE AUTHORITY

Reconciliation of the Statement of Revenue, Expenditures, and Change in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2013

Total net change in fund balances - governmental funds	$	2,614,225
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of $3,272 is less than depreciation expense $(35,829) in the period.		(32,557)
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities.		373,920
To record as an expense the net change in post employment benefit liability in the Statement of Activities.		(113,926)
To record as an expense the net change in PERS side fund liability in the Statement of Activities.		23,281
In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:		4,363
Change in net position of governmental activities	$	2,869,306

See accompanying notes to basic financial statements

FORT ORD REUSE AUTHORITY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2013

	Business-type Activities - Enterprise Fund
	Preston Park
ASSETS	
Current Assets:	
Cash and investments	$ 794,101
Cash restricted for capital purchases and projects	4,341,403
Tenant receivables	2,748
Prepaid expenses	97,224
Total current assets	5,235,476
Noncurrent Assets:	
Property and equipment, net of accumulated depreciation	1,263,822
Total noncurrent assets	1,263,822
Total assets	6,499,298
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued expenses	57,580
Unearned revenue	30,062
Total current liabilities	87,642
Noncurrent liabilities:	
Tenant security deposits	474,335
Total noncurrent liabilities	474,335
Total liabilities	561,977
NET POSITION	
Net investment in capital assets	1,263,822
Restricted for:	
Captial purchases and projects	4,341,403
Unrestricted	332,096
Total net position	$ 5,937,321

FORT ORD REUSE AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2013

	Business-type Activities - Enterprise Fund
	Preston Park
Operating Revenues:	
Rental income, net	$ 5,444,979
Total operating revenues	5,444,979
Operating Expenses:	
Administrative	551,313
Utilities	92,911
Operating and maintenance	453,932
Taxes and insurance	296,412
Depreciation	359,887
Total operating expenses	1,754,455
Operating income (loss)	3,690,524
Non-Operating Revenues (Expenses):	
Interest income	9,004
Miscellaneous revenue	39,142
Total non-operating revenues (expenses)	48,146
Income Before Distribution to Owners	3,738,670
Distribution to owners	3,321,816
Change in net position	416,854
Total net position - July 1, 2012	5,520,467
Total net position - June 30, 2013	$ 5,937,321

FORT ORD REUSE AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2013

	Business-type Activities - Enterprise Fund
	Preston Park
Cash Flows from Operating Activities:	
Cash received from tenants	$ 5,461,793
Cash paid to suppliers for goods and services	(817,722)
Cash paid to employees for services	(551,313)
Net cash provided (used) by operating activities	4,092,758
Cash Flows from Non-Capital and Related Financing Activities:	
Miscellaneous income	39,142
Distribution to owners	(3,321,816)
Net cash provided (used) by non-capital financing activities	(3,282,674)
Cash Flows from Capital and Related Financing Activities:	
Purchases of property and equipment	(276,432)
Net cash provided (used) by capital and related financing activities	(276,432)
Cash Flows from Investing Activities:	
Interest revenue	9,004
Net cash provided by investing activities	9,004
Net increase (decrease) in cash and cash equivalents	542,656
Cash and Cash Equivalents at Beginning of Fiscal Year	4,592,848
Cash and Cash Equivalents at End of Fiscal Year	$ 5,135,504
Reconciliation to Statement of Net Position:	
Cash and investments	$ 794,101
Cash restricted for capital purchases and projects	4,341,403
	$ 5,135,504

(Continued)

Fund Financial Statements

FORT ORD REUSE AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2013
(Continued)

	Business-type Activities - Enterprise Fund
	Preston Park
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	$ 3,690,524
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	359,887
(Increase) decrease in tenant receivables	(1,328)
(Increase) decrease in prepaid expenses	(4,362)
Increase (decrease) in accounts payable and accrued expenses	29,895
Increase (decrease) in tenant security deposits	19,512
Increase (decrease) in unearned revenue	(1,370)
Total adjustments	402,234
Net cash provided (used) by operating activities	$ 4,092,758

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2013

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 - Interfund Activity

Note 4 - Capital Assets

Note 5 - Defined Benefit Pension Plan

Note 6 - Deferred Compensation Plan

Note 7 - Long-Term Debt Obligations

Note 8 - Capitalized Lease Obligation

Note 9 - Loans Payable

Note 10 – Public Employees Retirement System Side Fund

Note 11 - Compensated Absences

Note 12 - Post Employment Benefits Other than Pensions

Note 13 - Health Care Plan

Note 14 - Commitments and Contingencies

Note 15 - Property Sales and Lease Income

Note 16 - Contingent Receivables

Note 17 - US Army Environmental Services Cooperative Agreement Grant

Note 18 - Office Lease

Note 19 – Prior Period Adjustments

Note 20 - Subsequent Events

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, California.

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. The Authority Board 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 and liabilities and expands the fund-group perspective previously required.

Government-wide Financial Statements
The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Authority.

The government-wide statements are prepared using the economic resources measurement focus. Government-wide statements differ from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Authority's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The Authority does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Authority, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Authority.

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Fund Financial Statements
Fund financial statements report detailed information about the Authority. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus and the full accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position for proprietary funds present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The statement of cash flows provides information about how the Authority meets the cash flow needs of proprietary activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the internal service fund is charges to other funds for self-insurance costs. Operating expenses for the internal service fund include the costs of insurance premiums and claims related to self-insurance.

D. Fund Accounting

The accounts of the Authority are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or net position, revenues, and expenditures or expenses, as appropriate. Authority resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Authority's accounts are organized into major funds and a proprietary fund as follows:

Major Governmental Funds

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

In accordance with GASB Statement 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, as follows:

Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund. The Authority maintains four major special revenue funds:

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

1. Lease and Sale Proceeds Fund is used to account for revenue from the sale/lease of real estate on the former Fort Ord.

2. Developer Fees Fund is used to account for moneys received from fees levied on developers or other agencies as a condition of approving development on the former Fort Ord.

3. Pollution Legal Liability Fund is used to account for resources and payments made for principal and interest on long-term debt associated with the purchase of Pollution Legal liability insurance.

4. Army Grant ET/ESCA Fund is used to account for revenue and projects funded by the U.S. Department of the Army for cleanup of munitions and explosives of concern.

Proprietary Fund

Preston Park Fund is used to account for the revenues and expenses of the 354 apartment units that are located at 682 Wahl Court, Marina, California.

E. 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 of the Board. Amendments are presented to the Board at their regular meetings.

F. 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 revenue and expenditures during the reporting period. Actual results could differ from those estimates.

G. 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. Investments are stated at fair value. Fair Value is the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquation sale

H. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables (i.e., the current portion of interfund loans) or advances to/from other funds (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as interfund receivables or interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances.

Note 1 - Summary of Significant Accounting Policies (Continued)

I. Capital Assets

The land and buildings that have been rehabilitated by the Fort Ord Reuse Authority (Preston Park) are owned by the Authority and are not included as part of the building improvements. The building improvements included herein are those associated with the rehabilitation. Repairs occurring during the rehabilitation period were expensed unless they added additional life to the building improvements. As of June 30, 2010 (the last appraisal report before the fiscal year ended), the appraisal value of the land and buildings was $57,320,000. For the latest available appraisal value of the land and buildings, see Note 20 – Subsequent Events.

Equipment and furniture 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 fiscal 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 Position. 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 assets. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Leasehold improvements	5-20 years
Furniture and fixtures	2-7 years
Automobiles	5 years

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 did not receive or transfer any real property. Real property assets have been 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, 2013, the Authority owned approximately 3,450 acres of former Fort Ord Army Base land which included the following parcels:

- Preston Park Housing area
- EDC properties transferred in connection with the ESCA Grant

Real property assets are not recorded on the Authority's books since the Authority, as trustee, is a short-term real property holding entity. The Authority transfers 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 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.

Management has determined the estimated fiscal year-end value of all Authority owned properties to be in the range of $100-$150 million, of which the Authority is entitled to a 50% share of leasing or land sales proceeds.

J. Net Position

GASB Statement No. 63 adds the concept of Net Position, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

Net Position is divided into three captions under GASB Statement No. 63. These captions apply only to Net Position as determined at the government-wide level, and are described below:

- Net investment in capital assets - This represents the Authority's total investment in capital assets.

Note 1 - Summary of Significant Accounting Policies (Continued)

J. Net Position (Continued)

- Restricted net position - Restricted net position 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 position - Unrestricted net position 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.

K. Long -Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements, long-term debt is not reported.

L. Fund Balance

As of June 30, 2013, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact (Prepaid insurance).

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the governing board is the highest level of decision-making authority for the Authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the governing board (ET/ESCA grant and PLL insurance funds).

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Authority's adopted policy, only the governing board or director may assign amounts for specific purposes (CFD/Developer fees and land sale proceeds – assigned to the Authority CIP program).

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balance are available, the Authority considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

M. Statement of Cash Flows

For the purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Note 1 - Summary of Significant Accounting Policies (Continued)

N. New Accounting Pronouncements

GASB Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements

For the fiscal year ended June 30, 2013, the Authority implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements". The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 61 – The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34

For the fiscal year ended June 30, 2013, the Authority implemented GASB Statement No. 61, "The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34". The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

For the fiscal year ended June 30, 2013, the Authority implemented GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions, and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

For the fiscal year ended June 30, 2013, the Authority implemented GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to establish guidance for reporting deferred outflows or resources, deferred inflows of resources, and net position in a statement of financial position. This Statement sets forth framework that specifies where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities should be displayed. This Statement also specifies how net position, no longer referred to as net assets, should be displayed. Implementation of the Statement and the impact of the Authority's financial statements are explained in Note 1 – J.

Note 2 - Cash and Investments

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

Statement of Net Position	
Cash and investments	$ 19,536,142
Cash restricted for capital purchases and projects	4,341,403
Total cash and investments	$ 23,877,545

Cash and investments as of June 30, 2013 consist of the following:

Cash on hand	$ 200
Deposits with financial institutions	550,617
Investments	23,326,728
Total cash and investments	$ 23,877,545

Investments Authorized by the California Government Code and the Authority's Investment Policy

The table below identifies the investment types that are authorized for the Authority by the California Government Code (or the Authority's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Authority, rather than the general provisions of the California Government Code or the Authority's investment policy.

Authorized Investments Type	Maximum Percentages	Maximum Maturity
U.S. Treasury Obligations	per approval	12 months
Other Obligations guaranteed by the U.S. Government	per approval	12 months
Obligations of U.S. Federal Agencies	per approval	12 months
Certificates of Deposit	per approval	12 months
Deposit Notes	per approval	12 months
Repurchase Obligations	per approval	30 days
Bankers Acceptances	per approval	12 months
Savings and Money Market Accounts	per approval	12 months
Money Market Mutual Funds	per approval	12 months
Local Agency Investment Fund (LAIF)	per approval	12 months

The Executive Officer shall consult with the Finance Committee Chair for any investment transaction exceeding 5% of the Authority's total portfolio; the Finance Committee will be routinely informed of these transactions.

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
Money market mutual funds	$ 13,894,365	Due on demand
Certificates of deposit	$ 9,432,363	12 months

The Authority has no investments that are highly sensitive to interest rate fluctuations.

Note 2 - Cash and Investments (Continued)

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 rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

				Rating as of Fiscal Year End			
Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	AAA	AA	A	Not Rated
Money market mutual funds	$ 13,894,365	N/A	$ -	$ -	$ -	$ -	$ 13,894,365
Certificates of deposit	9,432,363						9,432,363
	$ 23,326,728		$ -	$ -	$ -	$ -	$ 23,326,728

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 (other than money market mutual funds and certificates of deposits) that represent 5% or more of total Authority investments.

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 fair 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.

As of June 30, 2013, $100,403 of the Authority's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts

Cash Restricted for Capital Purchases and Projects

As required by the City of Marina and the Fort Ord Reuse Authority, the Preston Park Property maintains a capital reserve cash account for future capital purchases. As of June 30, 2013, the reserve balance was $4,341,403.

Note 3 – Interfund Activity

<u>Interfund Transfers</u>
Interfund transfers consist of transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the 2012-2013 fiscal year are as follows:

	Transfers In	Transfers Out
Major Governmental Funds:		
Lease and Sale Proceeds Special Revenue Fund	$ 910,670	$ -
Developer Fees Special Revenue Fund		910,670
Totals	$ 910,670	$ 910,670

Note 4 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

Governmental Activities

Capital assets, being depreciated:	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
Equipment and furniture	$ 451,051	$ 3,272	$ (294,739)	$ 159,584
Less - accumulated depreciation	(337,503)	(35,829)	294,739	(78,593)
Total capital assets, net	$ 113,548	$ (32,557)	$ -	$ 80,991

Depreciation expense was $35,829 for the fiscal year ended June 30, 2013, and charged to the general government function.

Business-type Activities

Preston Park

Capital assets, being depreciated:	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
Improvements	$ 3,970,204	$ 261,989	$ -	$ 4,232,193
Furniture and fixtures	435,172	2,600		437,772
Automobile	35,563	11,843		47,406
Less - accumulated depreciation	(3,093,662)	(359,887)		(3,453,549)
Total capital assets, net	$ 1,347,277	$ (83,455)	$ -	$ 1,263,822

Depreciation expense was $359,887 for the fiscal year ended June 30, 2013, and charged to functions/programs of the Authority's business-type activities as Preston Park.

Note 5 - Defined Benefit Pension Plan

<u>Plan Description</u>
All eligible full-time employees participate in the Authority's defined benefit pension plan, administered through the California Public Employee's Retirement System, which provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. The California Public Employees' Retirement System (CalPERS) is an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provision as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local resolution (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California, 95814.

Note 5 - Defined Benefit Pension Plan (Continued)

Funding Status and Progress
Participants are required to contribute 7% of their annual covered salary. The Authority makes the contributions required of its employees on their behalf and for their account. The Authority's required contribution is based upon an actuarially determined rate. The current 2012-13 fiscal year employer rate was 13.578% of annual covered payroll. The 2013-2014 fiscal year employer rate is 14.057% of annual covered payroll. The contribution requirements of plan members, and the Authority, are established and may be amended by CalPERS.

Annual Pension Cost
The Authority's total annual pension cost of $273,143 to CalPERS was equal to the Authority's required and actual employer contributions of $180,228 and the employee share of $92,915. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions included:

- a 7.75% investment rate of return (net of administrative expenses).
- projected annual salary increases of 3.55% to 14.45% depending on age, service and type of employment.
- an inflation rate of 3.0%.
- a payroll growth rate of 3.25%.
- individual salary growth merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.0% and an annual production growth of 0.25%.

The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). The Schedule of Funding Progress on page 32 shows that the plan was underfunded as of June 30, 2011. Information for the fiscal year ended June 30, 2013 has not been released by the Plan Actuary.

The contribution rate for normal cost is determined using the entry-age normal actuarial cost method, a projected benefit cost method. It takes into account those benefits that are expected to be earned in the future as well as those already accrued. Significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation as described above.

Historic Trend Information
Three-year trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	$ 135,110	100%	$ -0-
6/30/2012	$ 158,799	100%	$ -0-
6/30/2013	$ 273,143	100%	$ -0-

Note 6 - 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 $17,500; this amount increases to $23,000 for employees 50 years and older. 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.

Note 6 - Deferred Compensation Plan (Continued)

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 7 - Long-Term Debt Obligations

Long-term debt activity for the fiscal year was comprised of the following:

		Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Capital lease		$ 216,182	$ -	$ 105,537	$ 110,645	$ 110,645
PERS Side fund	*	289,379	20,106	43,387	266,098	44,645
OPEB			125,037	11,111	113,926	
Preston Park loan		18,456,588		268,383	18,188,205	18,188,205
Compensated absences		147,431	81,020	85,383	143,068	41,771
Totals		$ 19,109,580	$ 226,163	$ 513,801	$ 18,821,942	$ 18,385,266

*Denotes a prior period adjustment. See note 19 for further detail.

Note 8 - Capitalized Lease Obligation

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

Scheduled Payments
Future minimum lease payments are as follows:

Fiscal Year Ending June 30,	
2014	$ 116,000
Total gross lease payments	116,000
Less amount representing interest	5,355
Net minimum lease payments	$ 110,645

Note 9 - Loans Payable

Preston Park Loan
In March 2010, the Authority borrowed $19 million from Rabobank Inc. In June 2009, the Board of Directors authorized the new loan to 1) provide stimulus grant local matching funds and 2) retire certain existing debts (2002 Revenue Bonds and $9M Line of Credit).

The new loan has a fixed interest rate of 5.98% for five years and matures in June 2014. The monthly debt service (principal and interest) of $113,740 is being funded by the Authority's 50% share of Preston Park lease revenue.

As of June 30, 2013, the amount of outstanding principal was $18,188,205. See Note 14 – A for further details.

Note 10 – Public Employees Retirement System Side Fund

During the fiscal year 2005-2006, the Authority was required to participate in the Public Employees Retirement System (PERS) risk pool. As a result, a side fund was created to account for the difference between the funded status of the pool and the funded status of the Authority's plan, in addition to the existing unfunded liability. The outstanding balance at June 30, 2013 was $266,098.

Note 11 - Compensated Absences

The leave policy was revised in June 2011 to limit vacation accrual and include a vacation cash out provision. The 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 accrue an unlimited amount of sick leave; vacation accrual is limited to 240 hours. Employees may elect to cash out up to 80 hours of accrued vacation one time during a fiscal year. 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 services. 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.

The Authority's liability for accrued vacation and sick pay at June 30, 2013 was $143,068.

Note 12 - Post Employment Benefits Other than Pensions

Plan Description
The Authority administers a single employer defined benefit healthcare plan (Plan).

The Authority provides post employment healthcare benefits to all qualified employees who met the Authority's Public Employees Retirement System (PERS) current plan requirements. For regular Authority employees hired prior to January 1, 2013, five years of full time continuous employment with the Authority is required. The employee must be at least 50 years of age and has participated in the PERS plan for at least five years for health care benefits. For regular Authority employees hired on or after January 1, 2013, five years of full time continuous employment with the Authority is required. The employee must be at least 52 years of age and has participated in the PERS plan for at least five years for health care benefits.

The Authority pays a fixed sum that is not to exceed 100% of the medical plan premium from the date of retirement for the life of the retired employee. Depending on the PERS payment plan chosen by the employees for spousal coverage after the death of an employee, the Authority would also cover the spouse for life under the same plan.

Funding Policy
The contribution requirement of plan members and the Authority are established and may be amended by the Authority. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Authority. In the fiscal year 2012 - 2013, the Authority contributed $11,111 to the Plan.

Annual OPEB and Net OPEB Obligation
The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation.

Annual required contribution	$ 125,037
Annual OPEB cost (expense)	125,037
Contributions made	(11,111)
Increase in net OPEB obligation (asset)	113,926
Net OPEB obligation - beginning of the fiscal year	
Net OPEB obligation - end of the fiscal year	$ 113,926

Note 12 - Post Employment Benefits Other than Pensions (Continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2012-2013 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	Net OPEB Obligation (asset)
6/30/2013	$ 125,037	9%	$ 113,926

Funded Status and Funding Progress
As of July 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $986,915, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $986,915.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions
Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012, the actuarial cost method used is the Projected Unit Credit with service prorates. The actuarial assumptions included a 4.0 percent investment rate of return and an annual healthcare cost trend rate of 7.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after five years.

The method of determining the actuarial value of assets is not applicable. The UAAL is being amortized on a level dollar basis over thirty years.

Note 13 – Health Care Plan

During the year ended June 30, 2013, 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 $1,323 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 14 - Commitments and Contingencies

A. Litigation
As of June 30, 2013 the Authority was involved in several potential litigations.

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. The Authority retains authority and special counsel to defend any such actions.

The Authority borrowed $19 million to fund Base Reuse Plan activities in 2010 from Rabobank Inc. using the Preston Park Housing complex as collateral. That loan comes due in June 2014 and must be paid off either through the sale to the City of Marina or by public sale. The outstanding balance of $18,188,205 is the Authority's obligation and the Authority does not have sufficient funds to retire the indebtedness in any other manner when it comes due in June 2014. The City of Marina has legally contested the Authority's ability to sell the property and the use of the property as collateral for the loan by filing an injunction against the sale of the property that was granted by Monterey County Superior Court. That case is expected to be heard in Spring 2014. Since the City of Marina has filed formal action also against Rabobank Inc., it is expected that the loan maturity date will be addressed in the litigation process.

B. Grant Payments
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. Current year grant information is as follows:

1. Environmental Remediation Project
   The $99.3 million federal grant was paid 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 provided 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).

   o Unearned Revenue
   The Authority's share of unspent, unearned Army grant revenue at June 30, 2013 is classified as revenue collected in advance of the earnings process and is recorded as unearned revenue, a liability account, for financial statement purposes. It will be recognized as revenue when earned.

Note 15 - 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. The Authority's share of property sale and lease income activity for the fiscal year was as follows:

Lease income	
Preston Park Housing	$1,742,627

Note 16 - Contingent Receivables

Contingent receivables are those for which there is some uncertainty of the legal obligation but have a prospect of a favorable settlement. Generally, a contingency involves some future determination, e.g., judgment or settlement.

1. **$50,457** - The City of Del Rey Oaks (DRO)
   In 2002, DRO participated in a construction project funded by the EDA grant and local matching funds. On April 23, 2002, the DRO Council affirmed the City's commitment to provide the 25% local match or $*50,457* to pave a portion of South Boundary Road within the DRO city limits. DRO never paid this obligation citing insufficient resources. The Authority reports this debt as a long-term receivable on its financial statements and intends to collect payment as a deduction from the future land sale proceeds of DRO real property. The amount of $50,457 is recorded as unearned revenue.

2. **$4.1 million** – East Garrison Partners (EGP)
   The Monterey County (County) approved the EGP project in 2005, postponing land sale revenues to future years. A portion of these land sale revenue was due to the Authority under State law and the terms of the Authority/County 2001 Implementation Agreement. As a consequence, the Authority did not collect the deferred $4.1M in land sale revenue and issued debt of the same amount to fund its ongoing building removal responsibilities. EGP, County and FORA entered into a Memorandum of Understanding (MOU), which required EGP to: a) pay the Authority monthly interest payments on the $4.1M loan that the Authority acquired in lieu of the land sale proceeds and b) repaid the $4.1M principal due in 2011 or upon termination of the MOU. In 2009, EGP defaulted on the project. A new developer, Union Community Partners (UCP) purchased the rights and property associated with the project and questions their responsibility for the principal repayments.

Note 17 - US Army Environmental Services Cooperative Agreement Grant

Removal of munitions and explosives of concern (MEC) at the former Fort Ord 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. The 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 Arcadis, Inc. to provide MEC remediation services and executed a Cost-Cap insurance policy for this remediation work trough the American International Insurance Group (AIG).

The ESCA Remediation Program (RP) has been underway for approximately 5.5 years. The ESCA property was transferred to Authority ownership on May 8, 2009. The FY 2011 ESCA RP field work focused in the Parker Flats, future East Garrison and interim action ranges areas of the former Fort Ord.

On December 17, 2008, the Authority 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 (now "Chartis" company) for payment to LFR, Inc. under the terms of the insurance policies and related agreements. The Authority's administrative costs and oversight responsibility, including third-party quality assurance work, are also funded by the ESCA grant.

Note 18 - Office Lease

On July 2, 2009, the Authority entered into a lease agreement for office space, with occupancy to commence on the date that a certificate of occupancy for the premises is delivered to the Authority, and shall terminate on midnight of the last day of the fifty-seventh (57th) month, thereafter. Monthly rent for the initial lease term, as determined by a current, independent appraisal, shall be one dollar seventy cents ($1.70) per square foot, per month, for a total of $988,000 over the 57 month period. The transaction is part of an exchange agreement whereby the Authority is exchanging land, with a value of $988,000, as determined by an independent appraisal, for rent and tenant improvements. The Authority is responsible for a pro-rata share of the common area maintenance. The office lease agreement is scheduled to terminate with the sunset provisions of the Authority.

Note 19 – Prior Period Adjustments

The accompanying financial statements include adjustments that resulted in the restatements of beginning net position. The following summarizes the effect of the prior period adjustments to beginning net position as of July 1, 2012:

	Government-wide Statement
Net position - beginning of fiscal year	$ (6,404,048)
To adjust long term liabilities for PERS side fund	(289,379)
Net position - beginning of fiscal year, restated	$ (6,693,427)

Note 20 - Subsequent Events

The Authority management has reviewed the results of operations for the period from June 30, 2013 through January 2, 2014, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

The management, however, feels that it is important to disclose the following information as it may affect the Authority's financial position as of June 30, 2013, and cause prior period adjustments in its financial statements, as follows:

- Several significant receivables are under collection by the Authority. If not collected, year end fund balances may be reduced.
- The Preston Park appraisal value of the land and buildings as of September 20, 2013, was $66,700,000.
- There are four pending litigations as of January 2, 2014:
  1. City of Marina v Fort Ord Reuse Authority regarding sale of Preston Park Housing Complex (liability unknown).
  2. Keep Fort Ord Wild v Fort Ord Reuse Authority concerning Eastside Parkway environmental review (limited financial liability).
  3. Keep Fort Ord Wild v Fort Ord Reuse Authority concerning Public Records Act Compliance Issues (limited financial liability).
  4. Keep Fort Ord Wild v Fort Ord Reuse Authority concerning Conflict of Interest (limited financial liability).

REQUIRED SUPPLEMENTARY INFORMATION

FORT ORD REUSE AUTHORITY

Budgetary Comparison Information

Budget and Actual - All Funds

For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Resources (Inflows)				
Membership dues	$ 261,000	$ 261,000	$ 261,000	$ -
Franchise fees	275,000	275,000	244,506	(30,494)
Property taxes		1,300,000	1,211,423	(88,577)
Federal grants	787,690	787,690	827,746	40,056
Developer fees	6,000,000	3,930,986	4,232,542	301,556
Planning reimbursements	7,000	7,000		(7,000)
Lease/Rental income	840,000	1,460,908	1,742,627	281,719
Real estate sales	28,450,279	500,000	28,296	(471,704)
CSU mitigation fees	326,795	326,795	326,795	
Investments/Interest earnings	135,000	100,000	142,130	42,130
Other revenue			10,817	10,817
Amounts available for appropriation	37,082,764	8,949,379	9,027,882	78,503
Charges to Appropriations (Outflows)				
Salaries and benefits	2,090,828	2,125,294	2,004,595	120,699
Supplies and services	193,050	185,050	136,795	48,255
Contractual services	1,417,500	1,826,500	1,718,892	107,608
Capital improvements	4,584,000	1,787,542	472,457	1,315,085
Debt service	19,124,340	1,480,880	1,480,918	(38)
Insurance amortization			600,000	(600,000)
Total charges to appropriations	27,409,718	7,405,266	6,413,657	991,609
Surplus (Deficit)	$ 9,673,046	$ 1,544,113	$ 2,614,225	$ 1,070,112

FORT ORD REUSE AUTHORITY
Schedule of Funding Progress
Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2013

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 - 2% at 55 Risk Pool	June 30, 2009	June 30, 2010	June 30, 2011
Accrued Liabilities (AL)	$ 3,104,798,222	$ 3,309,064,934	$ 3,619,835,876
Actuarial Value of Assets (AVA)	$ 2,758,511,101	$ 2,946,408,106	$ 3,203,214,899
Unfunded Liabilities (UL)	$ 346,287,121	$ 362,656,828	$ 416,620,977
Funded Ratio (AVA/AL)	88.9%	89.0%	88.5%
Annual Covered Payroll	$ 742,981,488	$ 748,401,352	$ 759,263,518
UL as a Percentage of Payroll	46.6%	48.5%	54.9%

Note - Details of the defined benefit pension plan can be found in Note 5 of the basic financial statements.
Information for the year ended June 30, 2013 has not been released by the Plan Actuary.

Schedule of Funding Progress for
Retiree Health Plan

Actuarial Valuation Date	Projected Unit Credit Cost Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL as of % of Payroll
7/1/2012	$ 986,915	$ -	$ 986,915	0%	$ 1,274,140	77%

FORT ORD REUSE AUTHORITY

SINGLE AUDIT REPORT

JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Fort Ord Reuse Authority
Marina, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business type activities, and each major fund of the Fort Ord Reuse Authority (Authority) as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 2, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as an item 2013-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Fort Ord Reuse Authority's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
January 2, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Fort Ord Reuse Authority
Marina, California

Report on Compliance for Each Major Federal Program

We have audited the Fort Ord Reuse Authority's (Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the fiscal year ended June 30, 2013. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and 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 Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2013.

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Report on Internal Control

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
January 2, 2014

FORT ORD REUSE AUTHORITY
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

Description and Program Title	Federal CFDA Number	Federal Expenditures
DEPARTMENT OF THE ARMY		
Direct Program:		
U.S. Army Corp of Engineers, HTRW Center of Expertise, Project grant for Environmental Services Cooperative Agreement		
Project grant for clean up of munitions and explosives of concern Agreement No. W9128F-07-2-0162	12.000	$ 827,746
Total Expenditures of Federal Awards		$ 827,746

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

FORD ORD REUSE AUTHORITY
Notes to Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Fort Ord Reuse Authority (Authority) presented on the modified 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 Authority's basic financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2. All federal grants were direct programs.

3. There were no subrecipients of federal awards.

4. The Catalog of Federal Domestic Assistance (CFDA) numbers included in the accompanying Schedule were determined based upon program name, review of grant contract information and the Office of Management and Budget's CFDA.

FORD ORD REUSE AUTHORITY
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	**Unmodified – governmental activities and governmental funds** **Qualified – business-type activities and proprietary fund**
Internal control over financial reporting:	
Material weakness(es) identified?	____ Yes __X__ No
Significant deficiency(ies) identified not considered to be material weaknesses?	__X__ Yes ____ None Reported
Noncompliance material to financial statements noted?	____ Yes __X__ No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	____ Yes __X__ No
Significant deficiency(ies) identified not considered to be material weaknesses?	____ Yes __X__ None Reported
Type of auditor's report issued on compliance for major programs:	**Unmodified**
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510 (a)	____ Yes __X__ No

Identification of major programs:

CFDA Number(s)	**Name of Federal Program Cluster**
12.000	U.S. Army Corp of Engineers, HTRW Center of Expertise, Project Grant for Environmental Services Cooperative Agreement

Dollar threshold used to distinguish between Type A And Type B programs:	**$300,000**
Auditee qualified as low-risk auditee:	__X__ Yes ____ No

Section II – Findings – Financial Statement Audit

Significant Deficiencies

2013-01 Finding – Deficiencies in internal control over Preston Park (Third Party Management Company):

During our audit, we noted the following issues:

1. There was a deposit that had already been deposited into the bank. However, it was not recorded in the general ledger.
2. Capital asset additions for the fiscal year 2012-2013 were not entered into the capital asset tracking module for depreciation, resulting in understatement of depreciation expense and accumulated depreciation.
3. There were many capital asset additions replacing older appliances and other equipment. However, we did not see any older assets removed from the asset listing. Thus, these assets may still be depreciating, if not already fully depreciated.
4. Lack of reconciliations between physical assets and capital asset listing.
5. The liability for tenant security deposits did not agree to the security deposit cash account.

Effect:

1. The general ledger does not reflect the actual balance as of year-end.
2. Depreciation for current year capital asset additions is not reflected in depreciation expense and accumulated depreciation.
3. Preston Park does not have a current and accurate inventory of capital assets, which could result in overstatement or understatement of capital asset valuation.
4. If the liability does not agree to the security deposits received, the difference could lead to overstatement of revenue.

Recommendation:

We recommend that Preston Park implement procedures to accurately record and report cash, assets, and liabilities.

Third Party Management's Response:

1. The Deposit in question, Deposit #2469 in the amount of $8,346 hit the bank on 6/28/13 but was not posted to Yardi until July. We understand the auditor finding and the journal entry made to correct at Year End. We will have the Senior Property Accountant and/or the Accounting Manager review on a monthly basis to make sure that any Unearned Revenue gets booked in the correct month.
2. Alliance uses FAS 50 Asset Accounting to calculate the Depreciation for Preston Park. Capital additions are uploaded from the General Ledger to FAS on a monthly basis. We are adding, as part of the monthly accounting review, a reconciliation to be done between the Capital Assets posted to the GL and the Expense Report produced by FAS. Since there were some differences at Year End, we will go back to July 2013 and make the necessary adjustments to make sure these reports tie out going forward.
3. The Accounting Manager will work with the Business Manager and Regional Manager to get a listing of capital assets that have been replace or have been recycled through MARS. After we identify them, and if applies, we'll proceed with removing them from the asset accounts and accumulated depreciations.
4. The amount transferred from the Operating Account to the Security Deposit account in June was made to tie to the $463,347 Prior Receipts instead of Current Receipts. This was an error and was not caught until the following month. This has since been corrected and the Security Deposits amount in the reports now ties to the Bank Reconciliation. Please note that many times there is a timing difference due to the fact that the month end and the bank happen on the same date. For that reason we might not be able to wire the money on the day of close if the close happens after the cut off time. For example, in October you will notice that is a wire in transit in the amount of $2,618.60. Alliance does a monthly reconciliation for these accounts as part of the month end process. I have attached a copy of the most recent one.

Section III – Findings and Questioned Costs – Major Federal Awards Program Audit

None

Prior Fiscal Year's Findings – Financial Statement Audit

2012-01 Finding – Bank reconciliations are not prepared on a monthly basis:
During our fieldwork, we noted that bank reconciliations are prepared quarterly instead of monthly.

Effect:
With the lack of frequency in preparing reconciliations, there is an increased risk of misappropriation of funds because management cannot determine as frequently if cash in the bank matches the general ledger.

Recommendation:
We recommend bank reconciliations are prepared on a monthly basis for the bank accounts that issue checks.

Status:
Implemented

2012-02 Finding – Deficiencies in expense authorization requests:
During our test of expenditures, we noted that the Executive Officer approves his/her own purchase authorization request.

Effect:
With the lack of review of expense authorization requests, there is a serious weakness of the system of internal controls and this opens the way for the possibility of not only unapproved but also fraudulent purchases.

Recommendation:
We recommend that all purchase authorization requests are approved by the proper authority.

Status:
Implemented

2012-03 Finding – Noncompliance with GASB 45:
During our audit, we noted that the Authority has not done the Governmental Accounting Standards Board (GASB 45) actuarial study.

Effect:
The liability of other post-employment benefits did not present in the basic financial statement.

Recommendation:
We recommend that the Authority conduct a GASB statement No. 45 actuarial study.

Status:
Implemented

Prior Fiscal Year's Findings – Major Federal Award Programs Audit

None