

**FORT ORD REUSE AUTHORITY  
MARINA, CALIFORNIA**

**Annual Financial Report**

**June 30, 2015**

**Board of Directors**

**Voting Members**

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Mayor Ralph Rubio  
Supervisor Jane Parker  
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Council Member Gail Morton  
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Council Member Casey Lucius

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County of Monterey  
City of Del Rey Oaks  
City of Carmel-by-the-Sea  
City of Marina  
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County of Monterey  
City of Monterey  
City of Sand City  
City of Salinas  
City of Seaside  
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2<sup>nd</sup> Vice Chair  
Director  
Director  
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Director  
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Director

**Appointed Official**

Michael A. Houlemard, Jr.  
Executive Officer

**FORT ORD REUSE AUTHORITY**  
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**June 30, 2015**

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## FINANCIAL SECTION



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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Fort Ord Reuse Authority  
Marina, California

**Report on the Financial Statements**

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, 2015, 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 and Business-type Activities**

The Authority has not recorded the value of land and buildings, and accurate recording of other capital assets listed in Note 4 and related depreciation expense is not being maintained by the Authority within its business-type activities (Preston Park). 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 and Business-type Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Proprietary Fund and Business-type Activities of the Authority, as of June 30, 2015, 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 governmental fund of the Fort Ord Reuse Authority, California, as of June 30, 2015, 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

### *Change in Accounting Principle*

As discussed in Note 1 of the notes to the basic financial statements, effective July 1, 2014, the Authority adopted the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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 40, the Schedule of Plan's Proportionate Share of Net Liability and Related Ratios as of Measurement Date – Authority Miscellaneous Plan on page 41, the Schedule of Contributions – Authority Miscellaneous Plan on page 42, and the Schedule of Funding Progress for Post-Employment Benefits Other than Pensions on page 43, 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 conducted 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 December 8, 2015 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 not to 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, LLP  
Culver City, California  
December 8, 2015



# FORT ORD REUSE AUTHORITY

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

This Fort Ord Reuse Authority's (FORA) financial statement section presents FORA's financial performance analysis of fiscal year ended June 30, 2015, presented in conjunction with the basic financial statements and related notes, that follow this section.

This is management's discussion and analysis (MD&A) of FORA financial performance for the fiscal year ended June 30, 2015.

## FINANCIAL HIGHLIGHTS

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The 2006-2012 national and state economic downturn/recession significantly slowed Fort Ord reuse and economic recovery. Consequently, FORA Community Facilities District Special Tax/Developer fee (CFD fee) and land sale revenues were deferred/reduced during those years. However, since 2012 new significant projects have begun construction, including: VA General Gourly Health Care Center, California Central Coast Veterans Cemetery, South County Housing University Villages Apartments, Manzanita Place Housing, the Cinemax Theatre Complex, Promontory Student Housing, Marriott/Springhill Suites Hotel, and East Garrison and the Dunes on Monterey Bay Housing.

### During FY 14-15, FORA:

- ❖ Continued essential and significant munitions and explosives of concern (MEC) cleanup for approximately 3,450 acres of former Fort Ord Land. The field work has been completed under the U.S. Army ESCA contract and about 25% of these properties have now been transferred to the County of Monterey, Monterey Peninsula College and State of California for reuse activities and habitat conservation.
  - ❖ Established a \$10 million Reserve account designating funds for California Public Employees Retirement System (CalPERS) pension liabilities and operating obligations through FORA 2020 sunset.
  - ❖ Designated additional \$5 million towards completion of FORA's building removal responsibilities at Surplus II and Stockade areas.
  - ❖ Completed \$112,000 in the Habitat Conservation Plan (HCP) toward finishing of a screen check draft HCP and related Environmental Impact Report/Environmental Impact Statement documents. The draft HCP will be released for public review in 2016.
  - ❖ Collected \$5.5 million in redevelopment revenues, including \$2.8 million in CFD fees, \$1.2 million in land sales, and \$1.5 million in property tax payments. Additional land sales, CFD fee and tax revenue is expected in FY 15-16.
  - ❖ Hired an Economic Development Coordinator to develop a program for Fort Ord job creation activities and Base Reuse Plan (BRP) economic recovery and assist cities, counties, and other organizations in economic development planning.
-

## OVERVIEW OF THE FINANCIAL STATEMENTS

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This MD&A serves as an introduction to the FORA's basic financial statements and includes three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic 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 components 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 Preston Park Housing project information, reported in business-type of activities.

The statement of net position presents information on all of the FORA's assets/deferred outflows and liabilities/deferred inflows, 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 and business-type activities provided by a governmental entity.

FORA was engaged in the following types of activities:

*Governmental Activities:* During the FY 14-15 FORA employed federal grants, property tax receipts, lease proceeds, development fees, franchise fees and membership dues to finance:

- MEC remediation investigation, processing, documentation, and removals;
- Capital Improvement (including building removal and water augmentation) planning;
- General governmental operations administration and planning;
- BRP implementation, consistency determinations, and review;
- Regional Urban Design Guidelines development;
- Legal expenses for ongoing litigation and multiple contracts;
- Property surveys and transfers;
- Habitat conservation planning;
- Pollution legal liability protection;
- Business Recruitment and Regional Economic Development; 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 the General Fund and 4 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 14-15 FORA maintained 4 Special Revenue Funds: 1) Lease/Land Sale Proceeds Fund - land sale proceeds are designated to finance the FORA CIP (building removal), lease proceeds are designated to debt financing (Preston Park Loan); 2) Developer Fees Fund – CFD 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: Preston Park Housing revenues and expenses 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

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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 over the last 12 months from negative \$4.4 million to positive \$1.1 million. A positive balance in net position means that all assets FORA had at the fiscal year end (including long-term receivables and non-liquid assets) exceed all liabilities (including long-term debt not due at the end of the fiscal year). In addition, the unspent balance in the ESCA grant fund at June 30, 2015 of \$2.3 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 position from \$6.2 million to \$6.4 million.

### Revenue

FORA annual revenue (including Preston Park revenue) increased from \$13.4 million to \$16.8 million due to increased CFD fees and federal funds (ESCA) (as compared to the previous fiscal year). Other revenue sources did not vary significantly.

Revenue sources in FY 14-15 were provided from the following:

- Lease proceeds (Preston Park) - 47%
- CFD fees – 17%
- Property tax - 9%

- Federal funding (ESCA) - 9%
- Land sale proceeds – 8%
- PLL Insurance premium reimbursements – 5%
- Other revenue sources (franchise fees, membership dues, interest) - 5%

#### Expenditures

The FY 14-15 cost of FORA programs was \$11.1 million (including Preston Park expenses). The cost of governmental programs was about \$5.4 million and business-type activities (Preston Park) about \$5.7 million. The major governmental programs were the Environmental cleanup and the Fort Ord Base Reuse Plan reassessment/implementation.

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

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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 \$20.4 million; an increase of about \$4.9 million from FY 14-15.

\$14.4 million of the \$20.4 million ending fund balance is assigned for specific use, such as federal grant funds assigned for munitions cleanup, CFD fees and land sale proceeds assigned for CIP projects and non-spendable funds such pre-paid insurance. Approximately \$6 million is available for administration, operations and reserves.

#### Ending Fund Balances

Fiscal Year	General Fund	Land Sale/Leases	Developer Fees	Pollution Liability	Army Grants	TOTALS
2013-2014	\$ 6,025,549	\$ 2,725,714	\$ 6,401,253	\$ 364,035	\$ -	\$ 15,516,551
2014-2015	\$ 7,698,418	\$ 3,925,777	\$ 8,539,392	\$ 226,842	\$ -	\$ 20,390,429
Change + (-)	\$ 1,672,869	\$ 1,200,063	\$ 2,138,139	\$ (137,193)	\$ -	\$ 4,873,878

**BUDGETARY HIGHLIGHTS**

A budget is a financial operations plan that provides a basis for planning, controlling, and evaluating 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 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 14-15 budget on June 13, 2014 and the mid-year budget update on February 13, 2015. As development activities on the former Fort Ord have steadily increased, FORA Board policies have gained financial stability.

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

FY 14-15	Budget	Actuals	Variance	Notes
Revenues	\$ 12,334,181	\$ 10,129,058	\$(2,205,123)	CFD Fees
Expenditures	\$ 13,173,526	\$ 5,255,180	\$ 7,918,346	Contracts, CIP, PLL Insurance
Surplus (Deficit)	\$ (839,345)	\$ 4,873,878	\$ 5,713,223	

Revenue: Net \$2.2 million decrease

Due to lower than budgeted CFD fee collection; other revenue projections did not significantly vary from the mid-year budget.

- \$2.3 million CFD/developer fee decrease (FORA collected \$2.8 million as compared to CIP budget projections of \$5.1 million)

Expenditures: \$7.9 million decrease

Due to project timing in Contractual and Capital categories and financial presentation (budget v. financial statements). Other expenditure categories (Salaries, Office Expenses and Debt Financing) were in line with the approved budget.

- \$2.8 million decrease in Contractual/Consulting Services due to a) \$1 million savings in several projects (BRP implementation, CEQA consultants, Financial Consultant as these items did not conclude in FY 14-15 and/or were deferred to FY 15-16; and b) \$1.8 million purchase of PLL insurance is capitalized and amortized in financial statements (shown as an expense in the budget).
- \$4.7 million Capital Project decrease due to a) CFD fee collection (as capital projects are CFD fee collection dependent) and project timing; and b) building removal activities budgeted at \$2.6 million were deferred to FY 15-16.

The budgetary comparison information schedule can be found on page 40 of this report.

## LONG-TERM DEBT

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FORA applies real property assets and lease revenue (such as Preston Park Housing) to amortize or collateralize long-term indebtedness. Asset valuation as of June 30, 2015 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, 2015, FORA had approximately \$19.9 million in long-term debt consisting of:

- a. \$18 million - Preston Park loan; and
  - b. \$1.9 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 maturity date was extended from December 15, 2014 to June 15, 2015 and again from June 15, 2015 to September 15, 2015.

*Update: Preston Park loan was paid off and closed on September 15, 2015.*

- b) This amount represents FORA's liability for compensated absences (vacation and sick leave \$0.1 million), the Public Employees Retirement System (PERS) side fund and pension liability (\$1.4 million), and post-employment benefit cost (\$0.5 million).

*Update: In July 2015 pursuant to the approved FY 15-16 budget, FORA made a \$0.6 million payment to CalPERS to reduce pension liability and pay-off side fund.*

More detailed information about FORA's total long-term debts is presented on pages 30-36, Notes 5-11 to the financial statements.

## INTERFUND TRANSFERS

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By June 30, 2015, the following interfund (between FORA funds) transfers were made to provide an accurate accounting of funds available for CIP program and uniformity with the annual and CIP budgets as well as other binding documents. Such entries are now a part of and reported in annual budgets.

- 1) \$360,018 transfer from the Land Sale/Leases Fund to the General Fund of any remaining lease proceeds (after Preston Park debt service and other budgeted costs) leaving only Land Sale proceeds in this fund, thus providing an accurate balance of the funds available for building removal and other CIP projects.
- 2) \$560,627 transfer from the CFD/Developer Fee Fund to the General Fund to partially repay the \$7.9 million borrowed to fund capital projects and as budgeted in the CIP program.

In addition, \$705,195 in ESCA fund expended on the Pollution Legal Liability premium were transferred to the General Fund (as the PLL insurance purchase and financing is accounted for in the General Fund).

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In FY 14-15 major economic revitalization projects (itemized on page 1) were approved, initiated, or approved for occupancy. These major/significant projects are supported by FORA's processing of significant CIP program items such as habitat conservation and the conclusion of much of the remaining field work under the U.S. Army ESCA contract.

Despite these successes, the past fiscal year has reinforced the need to emphasize blight removal in Seaside and Marina, finalize 2012 Reassessment Report items, complete the Regional Urban Design Guidelines, and secure approval of the Habitat Conservation Plan – significant remaining goals to the reuse effort.

In coming years, FORA will need to confirm/access land sales/leasing revenue to continue support for blight removal and assure collection of developer fees/taxes to complete its State Law mandated obligations. FORA will also need to develop a functional budget plan to address CalPERS pension/health care obligations and operational funding through 2020 and begin preparations for a report to the legislature due in 2018 regarding FORA sunset/transition issues.

As 1) underlying economic factors have rebounded from the 2007-2012 recession and 2) FORA sunsets in 2020, it is important that FORA secures revenue sources in a reserve that assures its post sunset obligations (programmatic, contractual and ministerial) may be met by a successor in interest.

## CONTACTING FORA'S FINANCIAL MANAGEMENT

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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 2<sup>nd</sup> Avenue, Suite A, Marina, California, 93933.

Michael A. Houlemard, Jr.  
Executive Officer

<b>Government-wide Financial Statements</b>
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**FORT ORD REUSE AUTHORITY**  
**Statement of Net Position**  
**June 30, 2015**

	<b>Governmental</b>	<b>Business-type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and investments	\$ 12,811,483	\$ 804,795	\$ 13,616,278
Cash restricted for equipment purchases		2,371,041	2,371,041
Cash and investments restricted for Habitat	7,852,094		7,852,094
Accounts receivable	1,497,598		1,497,598
Interest receivable	63,839		63,839
Tenant receivables		5,932	5,932
Prepaid expenses		99,079	99,079
Prepaid insurance	1,637,336		1,637,336
Capital assets, net of accumulated depreciation	31,940	3,782,188	3,814,128
Total Assets	23,894,290	7,063,035	30,957,325
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	203,703		203,703
Total Deferred Outflows of Resources	203,703		203,703
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	392,863	113,819	506,682
Unearned revenue	2,260,654	28,685	2,289,339
Long-term debt and obligations:			
Due within one year	17,856,990		17,856,990
Due in more than one year	2,055,216	507,185	2,562,401
Total Liabilities	22,565,723	649,689	23,215,412
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	414,985		414,985
Total Deferred Inflows of Resources	414,985		414,985
<b>NET POSITION</b>			
Net investment in capital assets	31,940	3,782,188	3,814,128
Restricted for:			
Capital purchases and projects		2,371,041	2,371,041
Unrestricted	1,085,345	260,117	1,345,462
Total Net Position	\$ 1,117,285	\$ 6,413,346	\$ 7,530,631

<b>Government-wide Financial Statements</b>
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**FORT ORD REUSE AUTHORITY**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2015**

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Program Expenses	Charges for Services	Operating Grants and Fees	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities</b>						
General government	\$ 2,119,437	\$ -	\$ 47,594	\$ (2,071,843)	\$ -	\$ (2,071,843)
Capital improvements	124,532		2,920,936	2,796,404		2,796,404
Environmental cleanup	1,446,094		1,446,094			
Reuse planning/EDC transfers & environmental subtotal - capital improvement program	834,682		3,541,682	2,707,000		2,707,000
	2,405,308		7,908,712	5,503,404		5,503,404
Interest on long-term debt and short-term debt	861,654			(861,654)		(861,654)
Total governmental activities	5,386,399		7,956,306	2,569,907		2,569,907
<b>Business-type Activities</b>						
Preston Park	5,745,260	5,839,621			94,361	94,361
Total business-type activities	5,745,260	5,839,621			94,361	94,361
Total primary government	\$ 11,131,659	\$ 5,839,621	\$ 7,956,306	2,569,907	94,361	2,664,268
<b>General revenues:</b>						
Property tax revenue				1,477,673		1,477,673
Membership dues				261,000		261,000
Franchise fees				255,647		255,647
Investment earnings				149,066	1,938	151,004
Miscellaneous				784,263	74,970	859,233
Total general revenues				2,927,649	76,908	3,004,557
<b>Change in net position</b>				5,497,556	171,269	5,668,825
Net position (deficit) at beginning of fiscal year				(2,901,075)	6,242,077	3,341,002
Prior period adjustments				(1,479,196)		(1,479,196)
Net position (deficit) at beginning of fiscal year, restated				(4,380,271)	6,242,077	1,861,806
Net position at end of fiscal year				\$ 1,117,285	\$ 6,413,346	\$ 7,530,631

<b>Fund Financial Statements</b>
----------------------------------

**FORT ORD REUSE AUTHORITY**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2015**

	<b>General Fund</b>	<b>Lease and Sale Proceeds</b>	<b>Developer Fees</b>	<b>Pollution Legal Liability</b>	<b>Army Grant ET/ESCA</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>						
Cash and investments	\$ 5,574,301	\$ 3,893,371	\$ 682,846	\$ 226,841	\$ 2,434,124	\$ 12,811,483
Cash and investments restricted for Habitat			7,852,094			7,852,094
Accounts receivable	789,403	145,327	18,259	544,609		1,497,598
Interest receivable	10,750			53,089		63,839
Prepaid insurance	1,637,336					1,637,336
Total Assets	<u>\$ 8,011,790</u>	<u>\$ 4,038,698</u>	<u>\$ 8,553,199</u>	<u>\$ 824,539</u>	<u>\$ 2,434,124</u>	<u>\$ 23,862,350</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
Liabilities						
Accounts payable	\$ 94,915	\$ 112,921	\$ 11,557	\$ -	\$ 173,470	\$ 392,863
Unearned revenue					2,260,654	2,260,654
Total Liabilities	<u>94,915</u>	<u>112,921</u>	<u>11,557</u>		<u>2,434,124</u>	<u>2,653,517</u>
Deferred Inflows of Resources:						
Deferred revenue - local contribution	218,457					218,457
Deferred revenue - insurance reimbursements				597,697		597,697
Deferred revenue - developer fees			2,250			2,250
Total deferred inflows of resources	<u>218,457</u>		<u>2,250</u>	<u>597,697</u>		<u>818,404</u>
Fund Balances (Note 1L, page 25)						
Non-spendable	1,637,336					1,637,336
Committed				226,842		226,842
Assigned		3,925,777	8,539,392			12,465,169
Unassigned	6,061,082					6,061,082
Total Fund Balances	<u>7,698,418</u>	<u>3,925,777</u>	<u>8,539,392</u>	<u>226,842</u>		<u>20,390,429</u>
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	<u>\$ 8,011,790</u>	<u>\$ 4,038,698</u>	<u>\$ 8,553,199</u>	<u>\$ 824,539</u>	<u>\$ 2,434,124</u>	<u>\$ 23,862,350</u>

**FORT ORD REUSE AUTHORITY**

**Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Position  
June 30, 2015**

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Total fund balances - governmental funds \$ 20,390,429

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	\$ 172,768	
Accumulated depreciation	<u>(140,828)</u>	
Net		31,940

The focus of governmental funds is on short-term financing, therefore, some assets will not be available to pay for current-period expenditures. Those assets are offset by deferred outflows in the governmental funds and not included in fund balance. Deferred revenue associated with these assets is not included in the statement of net position.

818,404

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred inflows of resources relating to pensions	\$ (414,985)	
Deferred outflows of resources relating to pensions	<u>203,703</u>	
Net		(211,282)

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:

Net pension liability	\$ (1,459,235)	
OPEB	(498,683)	
Preston Park Loan Payable	(17,817,383)	
Compensated absences	<u>(136,905)</u>	
Total		<u>(19,912,206)</u>

Total net position, governmental activities \$ 1,117,285

<b>Fund Financial Statements</b>
----------------------------------

**FORT ORD REUSE AUTHORITY**  
**Statement of Revenues, Expenditures, and Change in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2015**

	<b>General Fund</b>	<b>Lease and Sale Proceeds</b>	<b>Developer Fees</b>	<b>Pollution Legal Liability</b>	<b>Army Grant ET/ESCA</b>	<b>Governmental Funds</b>
<b>REVENUE</b>						
Membership dues	\$ 261,000	\$ -	\$ -	\$ -	\$ -	\$ 261,000
Franchise fees	255,647					255,647
Property taxes	1,477,673					1,477,673
Federal grants					1,446,094	1,446,094
Developer fees			2,763,736			2,763,736
Lease/Rental income	47,594	1,743,924				1,791,518
Real estate sales		1,200,061				1,200,061
Investment/Interest earnings	78,899		70,167			149,066
Other revenue	621,456			162,807		784,263
<b>Total Revenue</b>	<b>2,742,269</b>	<b>2,943,985</b>	<b>2,833,903</b>	<b>162,807</b>	<b>1,446,094</b>	<b>10,129,058</b>
<b>EXPENDITURES</b>						
Salaries and benefits	1,684,384		14,070		364,129	2,062,583
Supplies and services	110,075		9,635		9,982	129,692
Contractual services	815,521	413,612	12,105		366,788	1,608,026
Capital improvements			99,327			99,327
Insurance amortization	85,260			300,000		385,260
Debt service		970,292				970,292
<b>Total Expenditures</b>	<b>2,695,240</b>	<b>1,383,904</b>	<b>135,137</b>	<b>300,000</b>	<b>740,899</b>	<b>5,255,180</b>
<b>Excess of revenues over (under) Expenditures</b>	<b>47,029</b>	<b>1,560,081</b>	<b>2,698,766</b>	<b>(137,193)</b>	<b>705,195</b>	<b>4,873,878</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	1,625,840					1,625,840
Transfers out		(360,018)	(560,627)		(705,195)	(1,625,840)
<b>Total other financing sources (uses)</b>	<b>1,625,840</b>	<b>(360,018)</b>	<b>(560,627)</b>		<b>(705,195)</b>	
<b>Net change in fund balances</b>	<b>1,672,869</b>	<b>1,200,063</b>	<b>2,138,139</b>	<b>(137,193)</b>		<b>4,873,878</b>
Fund Balances - July 1, 2014	6,025,549	2,725,714	6,401,253	364,035		15,516,551
Fund Balances - June 30, 2015	\$ 7,698,418	\$ 3,925,777	\$ 8,539,392	\$ 226,842	\$ -	\$ 20,390,429

**FORT ORD REUSE AUTHORITY**

**Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balances  
of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2015**

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Total net change in fund balances - governmental funds	\$ 4,873,878
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 \$4,470 is less than depreciation expense \$(29,675) in the period.	(25,205)
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.	108,638
In the statement of activities, postemployment benefits are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, amounts earned were greater than amounts paid by:	(270,427)
The focus of governmental funds is on short-term financing, therefore, some assets are offset by unearned revenue or deferred inflows. Loans and notes issued during the year are reported as expenditures in the governmental funds when paid. Collections of loans and notes are reported as revenues in the governmental funds when received. The annual activity for loans and notes is not reported as revenues and expenses in the statement of activities. Net activity including establishment of an allowance.	754,897
In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:	48,445
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:	7,330
Change in net position of governmental activities	<u>\$ 5,497,556</u>

<b>Fund Financial Statements</b>
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**FORT ORD REUSE AUTHORITY  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
June 30, 2015**

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	Business-type Activities - Enterprise Fund
	<u>Preston Park</u>
<b>ASSETS</b>	
Current Assets:	
Cash and investments	\$ 804,795
Cash restricted for capital purchases and projects	2,371,041
Tenant receivables	5,932
Prepaid expenses	99,079
	<u>3,280,847</u>
Total current assets	<u>3,280,847</u>
Noncurrent Assets:	
Property and equipment, net of accumulated depreciation	<u>3,782,188</u>
Total noncurrent assets	<u>3,782,188</u>
Total assets	<u>7,063,035</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable and accrued expenses	113,819
Unearned revenue	28,685
	<u>142,504</u>
Total current liabilities	<u>142,504</u>
Noncurrent liabilities:	
Tenant security deposits	<u>507,185</u>
Total noncurrent liabilities	<u>507,185</u>
Total liabilities	<u>649,689</u>
<b>NET POSITION</b>	
Net investment in capital assets	3,782,188
Restricted for:	
Capital purchases and projects	2,371,041
Unrestricted	260,117
	<u>6,413,346</u>
Total net position	<u>\$ 6,413,346</u>

<b>Fund Financial Statements</b>
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**FORT ORD REUSE AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
For the Fiscal Year Ended June 30, 2015**

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	Business-type Activities - Enterprise Fund
	<u>Preston Park</u>
Operating Revenues:	
Rental income, net	\$ 5,839,621
Total operating revenues	<u>5,839,621</u>
Operating Expenses:	
Administrative	647,179
Utilities	100,565
Operating and maintenance	739,540
Taxes and insurance	305,236
Depreciation	610,219
Total operating expenses	<u>2,402,739</u>
Operating income (loss)	<u>3,436,882</u>
Non-Operating Revenues (Expenses):	
Interest income	1,938
Miscellaneous revenue	74,970
Total non-operating revenues (expenses)	<u>76,908</u>
Income Before Distribution to Owners	3,513,790
Distribution to owners	<u>3,342,521</u>
Change in net position	171,269
Total net position - July 1, 2014	<u>6,242,077</u>
Total net position - June 30, 2015	<u>\$ 6,413,346</u>

<b>Fund Financial Statements</b>
----------------------------------

**FORT ORD REUSE AUTHORITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For the Fiscal Year Ended June 30, 2015**

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	Business-type Activities - Enterprise Fund
	<u>Preston Park</u>
Cash Flows from Operating Activities:	
Cash received from tenants	\$ 5,859,861
Cash paid to suppliers for goods and services	(1,554,814)
Cash paid to employees for services	(647,179)
Net cash provided (used) by operating activities	<u>3,657,868</u>
Cash Flows from Non-Capital and Related Financing Activities:	
Miscellaneous income	72,864
Distribution to owners	(3,342,521)
Net cash provided (used) by non-capital financing activities	<u>(3,269,657)</u>
Cash Flows from Capital and Related Financing Activities:	
Cash received from disposal of capital assets	2,106
Purchases of property and equipment	(1,509,907)
Net cash provided (used) by capital and related financing activities	<u>(1,507,801)</u>
Cash Flows from Investing Activities:	
Interest revenue	1,938
Net cash provided by investing activities	<u>1,938</u>
Net increase (decrease) in cash and cash equivalents	(1,117,652)
Cash and Cash Equivalents at Beginning of Fiscal Year	<u>4,293,488</u>
Cash and Cash Equivalents at End of Fiscal Year	<u><u>\$ 3,175,836</u></u>
Reconciliation to Statement of Net Position:	
Cash and investments	\$ 804,795
Cash restricted for capital purchases and projects	2,371,041
	<u><u>\$ 3,175,836</u></u>

(Continued)

<b>Fund Financial Statements</b>
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**FORT ORD REUSE AUTHORITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For the Fiscal Year Ended June 30, 2015  
(Continued)**

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	<u>Business-type Activities - Enterprise Fund</u>
	<u>Preston Park</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 3,436,882
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	610,219
(Increase) decrease in tenant receivables	(2,068)
(Increase) decrease in prepaid expenses	197
Increase (decrease) in accounts payable and accrued expenses	(409,670)
Increase (decrease) in tenant security deposits	30,893
Increase (decrease) in unearned revenue	(8,585)
	<u>220,986</u>
Total adjustments	
	<u>\$ 3,657,868</u>
Net cash provided (used) by operating activities	

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

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 - Pension Plan
- Note 6 - Deferred Compensation Plan
- Note 7 - Long-Term Debt Obligations
- Note 8 - Loans Payable
- Note 9 - Public Employees Retirement System Side Fund
- Note 10 - Compensated Absences
- Note 11 - Post Employment Benefits Other than Pensions
- Note 12 - Health Care Plan
- Note 13 - Commitments and Contingencies
- Note 14 - Property Sales and Lease Income
- Note 15 - Contingent Receivables
- Note 16 - US Army Environmental Services Cooperative Agreement Grant
- Note 17 - Office Lease
- Note 18 - Prior Period Adjustments
- Note 19 - Subsequent Events

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**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.

In 2012, Assembly Bill (AB) 1614 was proposed to extend the Authority's statutory June 30, 2014 sunset date in order to permit the completion of remaining ongoing and fixed term obligations. The legislature and the Monterey Bay Region demonstrated broad support for AB 1614 and it was signed into law by Governor Brown in September 2012, effectively extending the Authority's sunset date to June 30, 2020. AB 1614 requires a report to the legislature in 2018 outlining the major sunset issues and their completion or post-sunset assignment.

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 non-fiduciary 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.

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

C. Basis of Presentation (Continued)

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.

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.

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 its special revenue funds as major funds since these funds are believed to be important to financial statement users, as follows:

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

D. Fund Accounting (Continued)

**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:

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 the 2005 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 to control expenses. Each budget is prepared and monitored 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 only be amended by Board approval.
- Budget amendments are presented for Board consideration 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 be expended 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 liquidation sale.

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

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.

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 May 5, 2014 (the last appraisal report before the fiscal year ended), the appraised value of the land and buildings was \$70,000,000.

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 but transferred any real property but transferred parcels to Monterey Peninsula College (MPC) in February 2015. Real property assets have been transferred from the United States Government under an Economic Development Conveyance (EDC) 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, 2015, the Authority owned approximately 2,675 acres of historical Fort Ord land which included the following parcels:

- Preston Park Housing area.
- EDC properties transferred in connection with the Environmental Services Cooperative Agreement (ESCA) Grant (MPC).

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 accompanying covenants restricting use of these properties ("CRUPS") and have limited value until the CRUPS are adjusted or lifted upon remediation completion regulatory concurrence.

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.

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

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.
- 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, 2015, 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 Authority Board is the highest level of decision-making responsibility. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Authority Board (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 Authority Board or Executive Officer may assign amounts for specific purposes (Community Facilities District (CFD)/Developer fees and land sale proceeds – assigned to the Authority Capital Improvement Program (CIP) program).

Unassigned – all other spendable amounts.

When 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 Authority Board has provided otherwise in its commitment or assignment actions.

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

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.

N. Deferred Outflows/Inflows of Resources

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," the Authority recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The Authority has one item which qualifies for reporting in this category; refer to Note 5 for a detailed listing of the deferred outflows of resources the Authority has recognized.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the Authority that is applicable to a future reporting period. The Authority has one item which qualifies for reporting in this category; refer to Note 5 for a detailed list of the deferred inflows of revenues the Authority has recognized. On the fund financial statements, the Authority has deferred inflow of resources on the deferred revenue – local contributions, insurance reimbursements and developer fees.

O. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported as fair value.

P. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 68

For the fiscal year ended June 30, 2015, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions." This Statement is effective for periods beginning after June 15, 2014. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers" as well as the requirements of Statement No. 50, "Pension Disclosures". This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense related to pensions. Implementation of the GASB Statement No. 68 did have an impact on the Authority's financial statements for the fiscal year ended June 30, 2015, see Note 5- Pension Plans and Note 18 – Prior Period Adjustments.

Governmental Accounting Standards Board Statement No. 71

For the fiscal year ended June 30, 2015, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date." This Statement is effective for periods beginning after June 15, 2014. The objective of this Statement is to address an issue regarding application of the transition of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions." The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement will eliminate the source of potential significant

**FORT ORD REUSE AUTHORITY**  
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**Note 1 - Summary of Significant Accounting Policies (Continued)**

P. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 71 (Continued)

understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. Implementation of the GASB Statement No. 71 did have an impact on the Authority's financial statements for the fiscal year ended June 30, 2015, see Note 5 – Pension Plans and Note 18 – Prior Period Adjustment.

**Note 2 - Cash and Investments**

Cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

Statement of Net Position

Cash and investments	\$ 13,616,278
Cash restricted for capital purchases and projects	2,371,041
Cash and investments restricted for Habitat	7,852,094
Total cash and investments	<u>\$ 23,839,413</u>

Cash and investments as of June 30, 2015 consist of the following:

Cash on hand	\$ 200
Deposits with financial institutions	674,432
Investments	23,164,781
Total cash and investments	<u>\$ 23,839,413</u>

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.

<u>Authorized Investments Type</u>	<u>Maximum Percentages</u>	<u>Maximum Maturity</u>
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.

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 2 - Cash and Investments (Continued)**

Disclosures Relating to Interest Rate Risk

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

		<u>Maturity Date</u>
Money market mutual funds	\$ 15,055,855	Due on demand
Certificates of deposit	\$ 8,108,926	12 months

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

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.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
Money market mutual funds	\$ 15,055,855	NA	\$ -	\$ -	\$ -	\$ -	\$ 15,055,855
Certificates of deposit	8,108,926						8,108,926
	<u>\$ 23,164,781</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,164,781</u>

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, 2015, \$163,730 of the Authority's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 2 - Cash and Investments (Continued)**

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, 2015, the reserve balance was \$2,371,041.

**Note 3 – Interfund Activity**

Interfund Transfers

Interfund transfers consist of transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the 2014-2015 fiscal year are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ 1,625,840	\$ -
Lease and Sale Proceeds Special Revenue Fund		360,018
Developer Fees Special Revenue Fund		560,627
Army Grant ET/ESCA Special Revenue Fund		705,195
	<u>\$ 1,625,840</u>	<u>\$ 1,625,840</u>

**Note 4 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

Governmental Activities

	<u>Balance at July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2015</u>
Capital assets, being depreciated:				
Equipment and furniture	\$ 168,298	\$ 4,470	\$ -	\$ 172,768
Less - accumulated depreciation	(111,153)	(29,675)		(140,828)
Total capital assets, net	<u>\$ 57,145</u>	<u>\$ (25,205)</u>	<u>\$ -</u>	<u>\$ 31,940</u>

Depreciation expense was \$29,675 for the fiscal year ended June 30, 2015, and charged to the general government function.

Business-type Activities

Preston Park

	<u>Balance at July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2015</u>
Capital assets, being depreciated:				
Improvements	\$ 6,276,349	\$ 1,509,907	\$ -	\$ 7,786,256
Furniture and fixtures	438,714		(2,106)	436,608
Automobile	46,706			46,706
Less - accumulated depreciation	(3,879,269)	(610,219)	2,106	(4,487,382)
Total capital assets, net	<u>\$ 2,882,500</u>	<u>\$ 899,688</u>	<u>\$ -</u>	<u>\$ 3,782,188</u>

Depreciation expense was \$610,219 for the fiscal year ended June 30, 2015, and charged to functions/programs of the Authority's business-type activities as Preston Park.

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 5 - Pension Plan**

**California Public Employees' Retirement System (CalPERS)**

**A. General Information About the Pension Plan**

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the Local Government's separate Safety (police and fire) and Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.10% to 2.50%	1.00% to 2.50%
Required employee contributions rates	7%	6.25%
Required employer contribution rates	14.888%	6.25%

Specific details for retirement, disability or death benefit calculations for each of the pension plans are available in the CalPERS' Comprehensive Annual Financial Report (CAFR). The CalPERS' CAFR is available online at <https://www.calpers.ca.gov/page/forms-publications>.

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the fiscal year ended June 30, 2015, the contributions recognized as part of pension expense were as follows:

Contribution – employer                      \$155,753

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 5 - Pension Plan (Continued)**

**California Public Employees' Retirement System (CalPERS) (Continued)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

As of June 30, 2015, the Authority reported net pension liability for its proportionate share of the net pension liability was \$1,459,235.

The Authority's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the Authority's proportion was .02345%, which was the same as its proportion measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the Authority recognized pension expense of \$155,258. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions		
Net difference between projected and actual earnings on pension plan investments		(395,627)
Changes in proportion and differences between Authority contributions and proportionate share of contributions		(19,358)
Authority contributions subsequent to the measurement date	<u>203,703</u>	
Total	<u>\$ 203,703</u>	<u>\$ (414,985)</u>

No amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Fiscal Year Ended June 30</u>	<u>Amount</u>
2016	\$ (105,820)
2017	(105,820)
2018	(104,439)
2019	(98,906)

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 5 - Pension Plan (Continued)**

**California Public Employees' Retirement System (CalPERS) (Continued)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Experience Study	July 1, 1997, through June 30, 2011
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.50%
Consumer Price Inflation	2.75%
Wage Growth	Varies
Post-retirement Benefit Increases	Contract COLA up to to 2.75% until purchasing power Protection allowance flows purchasing power applies, 2.75% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed February 2018. Any changes to the discount rate will require Board action and proper stockholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal years. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimated ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 5 - Pension Plan (Continued)**

**California Public Employees' Retirement System (CalPERS) (Continued)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Expected Real Rate of Return Years 1 - 10 (a)</u>	<u>Expected Real Rate of Return Years 11+(b)</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% was used for this period

(b) An expected inflation of 3.0% was used for this period

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – The following presents the Authority's proportionate share of the net pension liability, calculated using the discount rate, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

1% Decrease	6.50%
Net Pension Liability	\$ 2,416,922
Current Discount Rate	7.50%
Net Pension Liability	\$ 1,459,235
1% Increase	8.50%
Net Pension Liability	\$ 664,445

**Pension Plan Fiduciary Net Position** — Detailed information about pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**C. Payable to the Pension Plan**

At June 30, 2015, the Authority had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2015.

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**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 \$18,000; this amount increases to \$24,000 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 \$1,533 per month contributed on behalf of the Executive Officer per the employment agreement. The contributions are held in investments that are underwritten by ICMA Retirement Corporation. Periodic contributions are made through payroll deductions of the employees and all plan fees associated with the accounts are the responsibility of the individual employee.

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

**Note 7 - Long-Term Debt Obligations**

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

	Beginning Balance	Prior Period Adjustment	Additions	Deletions	Ending Balance	Due Within One Year
Net pension liability	\$ -	\$ 1,874,715	\$ 721,882	\$ 1,137,362	\$ 1,459,235	\$ -
PERS Side fund	239,766	(239,766)				
OPEB	228,256		286,945	16,518	498,683	
Preston Park loan	17,926,021			108,638	17,817,383	17,817,383
Compensated absences	144,235		79,129	86,459	136,905	39,607
Totals	<u>\$ 18,538,278</u>	<u>\$ 1,634,949</u>	<u>\$ 1,087,956</u>	<u>\$ 1,348,977</u>	<u>\$ 19,912,206</u>	<u>\$ 17,856,990</u>

**Note 8 - 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 matured 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.

In June 2014, the Authority reached the Loan Modification Agreement #1 with the RaboBank Inc. to extend the loan maturity date, with an interest rate of 5.98%. In December 2014, the Authority extended the loan, through Loan Modification Agreement #2, maturity date to June 15, 2015, LIBOR rate plus 3.5%. Due to the delay on completing the purchase and sales agreement, RaboBank Inc. approved Loan Modification Agreement #3 to extend the maturity date to September 15, 2015.

As of June 30, 2015, the amount of outstanding principal was \$17,817,383. See Note 19 for further details.

**Note 9 – 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, 2014 was \$239,766. The outstanding balance was restated during fiscal year per GASB Statements No. 68 and No. 71. See Note 19 for further details.

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 10 - Compensated Absences**

The leave policy was revised in June 2011 to limit vacation accrual and include a vacation cash out provision. 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, which makes up the due within one year (\$39,607) of the Authority's liability for compensate absences. In the event of separation of employment, an employee is reimbursed for any unused vacation leave, and a portion of their unused sick leave (limited to 174 hours). Reimbursement is based on the employee's regular salary rate at the date of termination or resignation. Vacation leave becomes vested immediately and sick leave becomes vested after 5 years of continuous service. Effective July 1, 2006, 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, 2015 was \$136,905. Of this amount, the Authority's management estimates \$39,607 will be due in next fiscal year.

**Note 11 - 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 have 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 have 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 2014 - 2015, the Authority contributed \$16,518 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	\$ 286,539
Interest on net OPEB obligation	9,085
Adjustment to annual required contribution	<u>(8,679)</u>
Annual OPEB cost (expense)	286,945
Contributions made	<u>(16,518)</u>
Increase in net OPEB obligation (asset)	270,427
Net OPEB obligation - beginning of the fiscal year	<u>228,256</u>
Net OPEB obligation - end of the fiscal year	<u><u>\$ 498,683</u></u>

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 11 - 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 ended 2013, 2014 and 2015 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
6/30/2014	126,380	10%	228,256
6/30/2015	286,945	6%	498,683

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$1,828,071, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,828,071.

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.

As of July 1, 2014, the actuarial cost method used is the Projected Unit Credit with service proration. The actuarial assumptions included a 4.0 percent investment rate of return with 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 12 – Health Care Plan**

During the fiscal year ending June 30, 2015, 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 \$1,481 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.

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 13 - Commitments and Contingencies**

A. Litigation

As of June 30, 2015, the Authority was involved in two litigation matters.

1. Marina v. FORA; regarding the ownership of the Preston Park Housing complex (Marina and FORA agreed to settle pending litigation by Marina acquiring FORA's interest in Preston Park, the purchase was completed in September 2015.)
2. Keep Fort Ord Wild v. FORA/Monterey County; concerning Eastside Parkway environmental review (limited financial liability)

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.

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 the Authority has not complied with rules and regulations governing the grants, refunds 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 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 payments ahead of schedule and to secure a \$1.6 million credit (the last payment received in December 2008). The grant paid for contracted remediation project expenditures through June 2015.

o Unearned Revenue

The Authority's share of unspent, unearned Army grant revenue at June 30, 2015 is classified as advance of earnings revenue and is recorded as unearned revenue, for financial statement purposes. It will be recognized as revenue when earned.

**Note 14 - Property Sales and Lease Income**

California Law requires that all net lease or property sale proceeds generated on the former U.S. Army Base are to be shared equally between the Authority and the governmental entity with jurisdiction over subject property. This state law is affirmed under contract implementation agreements between the Authority and its underlying jurisdictions. The Authority's share of property sale and lease income activity for the fiscal year was as follows:

Lease income

Preston Park Housing	\$1,743,924
----------------------	-------------

**Note 15 - Contingent Receivables**

Contingent receivables are those for which there is some uncertainty of the legal obligation but some 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 deferred revenue.

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 15 - Contingent Receivables (Continued)**

2. **\$4.1 million – East Garrison Partners (EGP)**

Monterey County (County) approved the EGP project in 2005, postponing land sale revenues to future years. A portion of this 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) repay 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 16 - US Army Environmental Services Cooperative Agreement Grant**

Removal of munitions and explosives of concern (MEC) by the U.S. Army at the former Fort Ord has been in progress since 1992. Several areas formerly used for military training at the former base have been cleared over the years, but approximately 3,340 acres still require 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 the 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 through the American International Insurance Group (AIG).

The ESCA Remediation Program (RP) has been underway for approximately 7 years. The ESCA property was transferred to Authority ownership on May 8, 2009. The FY 2015 ESCA RP field work focused in the Parker Flats, future East Garrison and interim action ranges areas of the former Fort Ord. Approximately 2,600 acres of ESCA property remain in FORA's ownership as of June 30, 2015.

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 for payment to LFR Inc. (now "ARCADIS" company) under the terms of the insurance policies and related agreements. The Authority's administrative costs and oversight responsibility, including third-party quality assurance work, and reimbursement to EPA and DTSC for their regulatory obligations, are also funded by the ESCA grant.

**Note 17 - 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 (57<sup>th</sup>) 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.

**FORT ORD REUSE AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 18 – Prior Period Adjustments**

The accompanying financial statements include adjustments that resulted in the restatement of beginning fund balance. The following summarizes the effect of the prior period adjustment to beginning fund balance as of July 1, 2014:

	Governmental Activities
Fund balance - beginning of fiscal year	\$ (2,901,075)
Restatement, per GASB Statement No. 68 and No. 71	(1,479,196)
Fund balance - beginning of fiscal year, restated	\$ (4,380,271)

**Note 19 - Subsequent Events**

Authority management has reviewed the results of operations for the period from June 30, 2015 through December 8, 2015, 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.

Management, however, feels it is important to disclose the following information as it may affect the Authority's financial position as of June 30, 2015, and cause prior period adjustments in its financial statements, as follows:

- Several significant receivables are under collection by the Authority. As of December 8, 2015, the date the financial statements were available to be issued, the following significant receivables have not been collected:
  - a. \$50,457 from the City of Del Rey Oaks regarding matching funds for South-Boundary Road improvements. Owed since 2002.
  - b. \$597,697 from the City of Del Rey Oaks regarding unpaid premium for Pollution Legal Liability insurance. Owed since 2011.
- On July 6, 2015, the Authority paid off the CalPERS side fund liability in full and paid down the Pre-2013 Pool Unfunded Accrued Liability (UAL) in the amount of \$517,260.
- On September 15, 2015, the Authority and the City of Marina completed the 35 million Purchase and Sales Agreement for the Preston Park Housing complex.
- On September 17, 2015, the Authority paid off the Preston Park Loan to the Rabobank, Inc. in the amount of \$17,877,056.

**REQUIRED SUPPLEMENTARY INFORMATION**

**FORT ORD REUSE AUTHORITY**  
**Budgetary Comparison Information**  
**Budget and Actual - All Funds**  
**For the Fiscal Year Ended June 30, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Resources (Inflows)</b>				
Membership dues	\$ 261,000	\$ 261,000	\$ 261,000	\$ -
Franchise fees	245,000	245,000	255,647	10,647
Property taxes	1,531,630	1,531,630	1,477,673	(53,957)
Federal grants	933,970	1,639,166	1,446,094	(193,072)
Developer fees	5,099,000	5,099,000	2,763,736	(2,335,264)
Lease/Rental income	1,788,924	1,788,924	1,791,518	2,594
Real estate sales		1,200,061	1,200,061	
Investments/Interest earnings	175,594	175,594	149,066	(26,528)
Other revenue	705,920	393,806	784,263	390,457
	<u>10,741,038</u>	<u>12,334,181</u>	<u>10,129,058</u>	<u>(2,205,123)</u>
Amounts available for appropriation				
<b>Charges to Appropriations (Outflows)</b>				
Salaries and benefits	2,320,082	2,370,082	2,062,583	307,499
Supplies and services	149,500	157,500	129,692	27,808
Contractual services	2,649,165	4,404,361	1,608,026	2,796,335
Capital improvements	4,827,811	4,827,811	99,327	4,728,484
Debt service	1,364,880	1,413,772	970,292	443,480
Insurance amortization			385,260	(385,260)
	<u>11,311,438</u>	<u>13,173,526</u>	<u>5,255,180</u>	<u>7,918,346</u>
Total charges to appropriations				
<b>Surplus (Deficit)</b>	<u>\$ (570,400)</u>	<u>\$ (839,345)</u>	<u>\$ 4,873,878</u>	<u>\$ 5,713,223</u>

**FORT ORD REUSE AUTHORITY**  
**Cost-Sharing Multiple-Employer Defined Pension Plan - Last 10 Years\***  
**For the Fiscal Year Ended June 30, 2015**

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Schedule of Plan's Proportionate Share of Net Pension Liability  
and Related Ratios as of Measurement Date

		<u>Miscellaneous Plan</u> <u>Fiscal Year 2014-2015</u>
Plan's proportion of the Net Pension Liability (Asset)		0.02345%
Plan's proportionate share of the Net Pension Liability (Asset)	\$	1,459,235
Covered employee payroll	\$	1,354,733
Plan's proportionate share of the Net Pension Liability (Asset) as a percentage of its covered employee payroll		107.71%
Plan's fiduciary net position	\$	5,759,729
Plan's proportionate share of the Fiduciary Net Pension Liability (Asset) as a percentage of the Plan's Total Pension Liability		79.79%

\* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**FORT ORD REUSE AUTHORITY**  
**Cost-Sharing Multiple-Employer Defined Pension Plan - Last 10 Years\***  
**For the Fiscal Year Ended June 30, 2015**

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Schedule of Contributions

	<u>Miscellaneous Plan</u> <u>Fiscal Year 2014-2015</u>	
Actuarially determined contribution	\$	187,722
Contributions in relation to the actuarially determined contributions		<u>(203,703)</u>
Contributions deficiency (excess)	\$	<u>(15,981)</u>
Covered employee payroll	\$	1,438,161
Contributions as a percentage of covered employee payroll		14.16%

**Notes to Schedule**

Valuation date: 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	3.3% to 14.2%, depending on Age, Service and type of employment
Investment rate of return	7.5% net of pension plan investment expenses, including inflation
Retirement age	59 years - Miscellaneous plan
Mortality	The probabilities of mortality are derived from CalPERS' Membership Data for all Funds based on CalPERS' specific data from a 2014 CalPERS Experience Study. The table includes 20 years of mortality improvement using the Society of Actuaries Scale BB.

\* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**FORT ORD REUSE AUTHORITY**  
**Post Employment Benefit Plan Other than Pensions Trend Information**  
**For the Fiscal Year Ended June 30, 2015**

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Schedule of Funding Progress for  
Retiree Health Plan

<u>Actuarial</u> <u>Valuation Date</u>	<u>Projected Unit</u> <u>Credit Cost</u> <u>Accrued Liability</u>	<u>Actuarial Value</u> <u>of Assets</u>	<u>Unfunded</u> <u>Liability</u> <u>(Excess Assets)</u>	<u>Funded Ratio</u>	<u>Annual</u> <u>Covered</u> <u>Payroll</u>	<u>UAAL as of</u> <u>% of Payroll</u>
7/1/2012	\$ 986,915	\$ -	\$ 986,915	0%	\$ 1,274,140	77%
7/1/2014	\$ 1,828,071	\$ -	\$ 1,828,071	0%	\$ 1,294,722	141%

**FORT ORD REUSE AUTHORITY**

SINGLE AUDIT REPORT

JUNE 30, 2015



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS**

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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, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 8, 2015.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs, as item 2015-01, to be a material weakness.

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. We consider the deficiency described in the accompany schedule of findings and questioned costs, as item 2015-02, to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned as item, 2015-02.

### **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  
December 8, 2015



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND REPORT 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 the Authority's major federal program for the fiscal year ended June 30, 2015. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the Authority's major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

**Opinion on 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 its major federal program for the fiscal year ended June 30, 2015.

## Report on Internal Control over Compliance

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 to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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 than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies 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  
December 8, 2015

**FORT ORD REUSE AUTHORITY**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended June 30, 2015**

<u>Description and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>DEPARTMENT OF THE ARMY</b>		
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	<u>\$ 1,446,094</u>
 Total Expenditures of Federal Awards		 <u><u>\$ 1,446,094</u></u>

See accompanying notes to the schedule of expenditures of federal awards

**FORD ORD REUSE AUTHORITY**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended June 30, 2015**

**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 Schedule 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, 2015**

**Section I – Summary of Auditor’s Results**

Financial Statements

Type of auditor’s report issued

**Unmodified – governmental activities and governmental funds**  
**Modified – business-type activities and proprietary fund**

Internal control over financial reporting:  
Material weakness(es) identified?  
Significant deficiency(ies) identified not considered to be material weaknesses?

  X   Yes           No  
  X   Yes           None Reported

Noncompliance material to financial statements noted?

       Yes      X   No

Federal Awards

Internal control over major programs:  
Material weakness(es) identified?  
Significant deficiency(ies) identified not considered to be material weaknesses?

       Yes      X   No  
       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

**FORT ORD REUSE AUTHORITY**  
**Single Audit Report**  
**Schedule of Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2015**

**Section II – Findings – Financial Statement Audit**

**Material Weakness**

2015-01 Finding – Deficiencies in internal control over Preston Park (Third Party Management Company):

During our audit, we noted the following issues:

1. 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.
2. Lack of reconciliations between physical assets and the capital asset listings/depreciation register.

Effect:

Preston Park does not have a current and accurate inventory of capital assets, which could result in overstatement or understatement of capital asset valuation.

Recommendation:

We recommend that Preston Park implement procedures to accurately record assets and reconcile assets on a periodic basis.

Third Party Management's Response:

1. We do not do asset disposal through FAS so there are most likely fully depreciated assets on the books, however no further depreciation would be calculated for those assets so depreciation is not being overstated.
2. A procedure has not yet been implemented to address reconciling the assets.

**Significant Deficiency**

2015-02 Finding – Compliance with Low income eligibility recertifications are not performed timely for Preston Park (Third Party Management Company):

During the fiscal year, 3 out of 10 recertifications of the low income eligibility examined were not performed timely.

Effect:

Preston Park is not in compliance with laws, regulations, contract, or grant agreements regarding low income housing eligibility requirements covered under Title 26 CFR 1-42.5.

Recommendation:

We recommend that Preston Park implement procedures to ensure compliance with recertification requirements.

Third Party Management's Response:

We are aware that the audit did find 2 Recertification files that were signed well after the certification date had passed, and that one recertification file was left unsigned by the residents. The individual associate that was responsible for completing those tasks is no longer with Alliance Residential. Management will conduct Recertifications 90 days prior to the renewal date to avoid issues relating to delay of recertification completion. Records pertaining to the selection of the Concrete Grinding vendor were unavailable as bids were obtained during a previous fiscal year.

**FORT ORD REUSE AUTHORITY  
Single Audit Report  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2015**

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

None

**FORT ORD REUSE AUTHORITY**  
**Single Audit Report**  
**Status of Prior Fiscal Year Findings**  
**For the Fiscal Year Ended June 30, 2015**

**Prior Fiscal Year's Findings – Financial Statement Audit**

**Material Weakness**

2014-01 Finding – Deficiencies in internal control over Preston Park (Third Party Management Company):

During our audit, we noted the following issues:

1. 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.
2. Lack of reconciliations between physical assets and the capital asset listings.

Effect:

Preston Park does not have a current and accurate inventory of capital assets, which could result in overstatement or understatement of capital asset valuation.

Recommendation:

We recommend that Preston Park implement procedures to accurately record assets and reconcile assets on a periodic basis.

Status:

Not implemented, see finding 2015-01.

**Significant Deficiency**

2014-02 Finding – Deficiencies in internal control over Preston Park (Third Party Management Company):

During our audit, we noted the following issues:

1. Payroll allocation calculated for the pay period ending 6/20/14 for one employee did not agree with the standard payroll allocation.
2. Competitive bids for one out of three projects reviewed were not retained.

Effect:

1. Payroll expense is overstated.
2. Preston Park is not in compliance with the procurement requirements of Fort Ord Reuse Authority.

Recommendation:

We recommend that Preston Park implement procedures to accurately record and report expense. We also recommend that Preston Park retain procurement documents for review.

Status:

Implemented.

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

None