

**FORT ORD REUSE AUTHORITY
MARINA, CALIFORNIA**

Annual Financial Report

June 30, 2017

Board of Directors

Voting Members

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Council Member Frank O'Connell
Supervisor Jane Parker
Mayor Jerry Edelen
Mayor Joe Gunter
Council Member Jan Reimers
Council Member Gail Morton
Supervisor Mary Adams
Supervisor John Phillips
Council Member Alan Haffa
Council Member Cynthia Garfield
Mayor Mary Ann Carbone
Council Member Dennis Alexander

Representing

City of Seaside
City of Marina
County of Monterey
City of Del Rey Oaks
City of Salinas
City of Carmel-by-the-Sea
City of Marina
County of Monterey
County of Monterey
City of Monterey
City of Pacific Grove
City of Sand City
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Title

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Vice-Chair
Member-at-Large
Member-at-Large
Director
Director
Director
Director
Director
Director
Director
Director

Appointed Official

Michael A. Houlemard, Jr.
Executive Officer

FORT ORD REUSE AUTHORITY
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FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fort Ord Reuse Authority
Marina, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Fort Ord Reuse Authority (Authority), California, as of and for the fiscal year ended June 30, 2017, 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.

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, 2017, 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.

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 35, the Schedule of Plan's Proportionate Share of Net Pension Liability and Related Ratios as of Measurement Date – Authority Miscellaneous Plan on page 36, the Schedule of Pension Contributions – Authority Miscellaneous Plan on page 37, and the Schedule of Funding Progress for Post-Employment Benefits Other than Pensions on page 38, 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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 November 30, 2017 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

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California
November 30, 2017



FORT ORD REUSE AUTHORITY

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

This Fort Ord Reuse Authority (Authority) financial performance analysis provides an overview of Authority financial activities for fiscal year ending June 30, 2017. Please read it in conjunction with the basic financial statements and related notes that follow this section.

FINANCIAL HIGHLIGHTS

The national, state, and regional recovery from the 2006-2012 economic downturn/recession continues to improve former Fort Ord reuse and economic recovery in several important ways. Consequently, the Authority Community Facilities District Special Tax/Developer fee (CFD fee) and land sale revenues (that had been slow/deferred/reduced during the Great Recession) have now returned in moderate amounts. Since 2012, new significant projects have begun or completed construction, including: VA General Gourley 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, Dunes Fast Casual Restaurants, and East Garrison and the Dunes on Monterey Bay Housing. Other revenue sources continue to or are expected rise, as valuation increases elevated our tax share amounts this past year.

During FY 16-17, the Authority:

- ❖ Continued toward regulatory close out of essential and significant munitions and explosives of concern (MEC) cleanup processing for approximately 3,450 former Fort Ord acres of. The field work has been completed under the U.S. Army ESCA contract and more than 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.
- ❖ Completed the Fort Ord Regional Urban Design Guidelines outlining a key path forward for the centers, gateways, and mixed use areas of the former military installation – receiving a national award for planning work from the American Planning Association.
- ❖ Increased reserve designating funds for California Public Employees Retirement System (CalPERS) pension by \$2.3 million to a total of \$7.3 million.
- ❖ Initiated the first of three phases of the Authority's remaining \$7 million program of building removal responsibilities at Surplus II and Stockade areas.
- ❖ Revised and edited the second administrative draft Environmental Impact Report/ Environmental Impact Statement for the Habitat Conservation Plan (HCP). The draft HCP will be released for public review in 2018.
- ❖ Collected \$11.1 million in revenues, including \$7.3 million in CFD fees and \$2.0 Million in property tax payments. Additional land sales, CFD fee and tax revenue is expected in FY 17-18.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the Authority's basic financial statements, which are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements.

This report also contains required and other supplementary information in addition to the basic financial statements for further information and analysis.

Government-Wide Financial Statements

The *Government-Wide Financial Statements* present the financial picture of the Authority and provide readers with a broad view of the Authority's finances. These statements present governmental activities and include all assets of the Authority as well as all liabilities (including long-term debt).

The *Statement of Net Position and the Statement of Activities and Changes in Net Position* report information about the Authority as a whole and about its activities. These statements include all assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or paid.

The *Statement of Net Position* presents information on all of the Authority's assets/deferred outflows and liabilities/deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating.

The *Statement of Activities and Changes in Net Position* presents information showing how the Authority's net position changed during the 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.

The Authority was engaged in the following types of activities:

Governmental Activities: During the FY 16-17, the Authority 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 completion/implementation;
- Legal expenses for ongoing litigation and multiple contracts;
- Property surveys and transfers;
- Prevailing Wage support/Monitoring;
- Habitat conservation planning;
- Pollution legal liability protection; and
- Business Recruitment and Regional Economic Development

The Government-Wide Financial Statements can be found on pages 10-11 of this report.

Fund Financial Statements

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

The governmental funds are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Governmental Funds: The Governmental Funds are used to account for essentially the same functions reported as governmental activities in the Government-Wide Financial Statements. However, unlike the Government-Wide Financial Statements, Governmental Funds Financial Statements focus on current financial resources, which emphasize near-term inflows and outflows of expendable resources as well as balances of expendable resources at the end of the fiscal year. The Authority's services and activities are reported in governmental funds and comprise the General Fund and four Special Revenue Funds.

The General Fund: The general operating fund accounts for all of the Authority'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: The Authority maintained four Special Revenue Funds: 1) Lease/Land Sale Proceeds Fund - land sale proceeds are assigned to finance the Authority's CIP (building removal), 2) Developer Fees Fund – CFD fees are assigned to finance the Authority's CIP (CEQA mitigations); 3) Pollution Legal Liability (PLL) Fund – revenue is committed to finance the PLL coverage; and 4) Army Grant ET/ESCA – grant funds are restricted to finance the munitions and explosives cleanup activities.

The fund financial statements can be found on pages 12-15 of this report.

Notes to the Basic Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements.

Required Supplementary Information: In addition to the basic financial statements, this report also presents certain Required Supplementary Information including the Authority's budgetary comparison schedule for the General Fund and Special Revenue Fund consolidated, the Schedule of Funding Progress for Post-Employment Benefits Other than Pensions, and information concerning the progress in funding obligation to provide pension benefits to its employees.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements provide long-term and short-term information about the Authority's overall financial condition.

Net position in the Statement of Activities on page 11 of this report show the Authority's governmental activities improved over the last 12 months from \$39.3 million to positive \$44.6 million, primarily increased developer and franchise fee revenues offset by lower expenditures. Net position is a good indicator of the Authority's financial position. A positive balance in net position means that all assets the Authority 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, 2017 of \$531 thousand 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.

Revenue: The Authority's annual revenue decreased from \$38.3 million to \$11.1 million primarily due to the prior year gain on sale of Preston Park and increase in CFD fees offset by decrease of lease rental revenue and federal funds (ESCA) (as compared to the previous fiscal year). Other revenue sources did not vary significantly.

Revenue sources in FY 16-17 were provided from the following:

- CFD fees – 66%
- Property tax - 18%
- Federal funding (ESCA) - 8%
- Other revenue sources (lease proceeds, franchise fees, membership dues, interest, PLL) - 8%

Expenditures: The FY 16-17 cost of the Authority's programs was \$5.8 million. The major governmental programs were the Environmental cleanup, Capital Improvement Program and the Fort Ord Base Reuse Plan reassessment/implementation.

The government-wide financial statement showing the net cost of the Authority's major projects can be found on page 11 of this report.

FUND FINANCIAL STATEMENT ANALYSIS

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, the Authority 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 the Authority's individual parts.

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Authority's financial requirements. In particular, unassigned fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As the Authority completed the fiscal year, its governmental funds reported a combined fund balance of \$46.3 million. This an increase of about \$5.4 million from FY 15-16 and all is assigned or committed for specific use such as federal grant funds assigned for munitions cleanup, CFD fees and land sale proceeds assigned for CIP projects, building removal and the Habitat Conservation Plan, CalPERS pension liabilities, the Authority's 2020 Sunset operating obligations and non-spendable funds such pre-paid insurance.

Ending Fund Balances

Fiscal Year	General Fund	Land Sale/Leases	Developer Fees	Pollution Liability	Army Grants	TOTALS
2015-2016	\$ 14,361,786	\$ 11,829,557	\$ 14,571,550	\$ 226,676	\$ -	\$ 40,989,569
2016-2017	\$ 12,717,894	\$ 11,797,910	\$ 21,601,292	\$ 226,676	\$ -	\$ 46,343,772
Change + (-)	\$ (1,643,892)	\$ (31,647)	\$ 7,029,742	\$ -	\$ -	\$ 5,354,203

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 the Authority 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 control expenses.

The Authority's Board approved the FY 16-17 budget on May 13, 2016 and the mid-year budget update on March 10, 2017. As development activities on the former Fort Ord have steadily increased, the Authority's Board policies have gained financial stability.

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

FY 16-17	Budget	Actuals	Variance	Notes
Revenues	\$ 8,985,751	\$ 11,117,391	\$ 2,131,640	CFD Fees
Expenditures	\$ 9,183,765	\$ 5,763,188	\$ 3,420,577	Contracts, CIP
Surplus (Deficit)	\$ (198,014)	\$ 5,354,203	\$ 5,552,217	

Revenue: Net \$2.1 million increase

Revenue projections varied from the mid-year budget to increased CFD fees resulting from increased housing builds.

Expenditures: \$3.4 million decrease

Due to project timing in Contractual and Capital categories, building removal activities deferred to FY 17-18. Other expenditure categories were in line with the approved budget.

The budgetary comparison information schedule can be found on page 35 of this report.

LONG-TERM DEBT

As of June 30, 2017, the Authority had approximately \$2.5 million in long-term debt consisting of compensated absences and retirement funding obligations. This amount represents the Authority's liability for compensated absences (vacation and sick leave \$0.2 million), the Public Employees Retirement System (PERS) side fund and pension liability (\$1.3 million), and post-employment benefit cost (\$1.0 million).

Update: In October 2017, pursuant to the approved FY 17-18 budget, the Authority made a \$0.6 million payment to CalPERS to reduce pension liability and pay-off side fund.

More detailed information about the Authority's total long-term debts is presented on pages 26-32, Notes 5-11 to the financial statements.

INTERFUND TRANSFERS

By June 30, 2017, the following interfund (between the Authority's 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) \$3,811 transfer from the General Fund to the Land Sale/Leases Fund for supplies and services and contractual cost related to building removal.
- 2) \$699,473 transfer from the General Fund to the CFD/Developer Fee Fund to fund capital projects and as budgeted in the CIP program.

More detailed information about the Authority's interfund transfers is presented on page 25, Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In FY 16-17, major economic revitalization projects (itemized on page 1) were in operation or were completed. These major/significant projects are supported by the Authority's CIP program such as the habitat conservation, roadway design and planning, building removal, and the conclusion of much of the remaining field work under the U.S. Army ESCA contract. This past year, the Board also approved additional CIP projects that are now in planning or design.

In coming years, the Authority will need to continue promoting and confirming land sales/leasing revenue to support operations and assure collection of developer fees/taxes to complete its State Law mandated obligations. The Authority 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 the Authority's sunset/transition issues.

As underlying economic factors have rebounded from the 2007-2012 recession and the Authority sunsets in 2020, it is important that the Authority secures revenue sources in a reserve that assures its post sunset obligations (programmatic, contractual and ministerial) may be met by a successor in interest. Assuming the rebound continues, the Authority should be financial solvent and be able to fund its known obligations through its sunset. Since there is a pending transition, taking on new obligations must be limited/restricted as each new requirement comes with an impact to funding post 2020 obligations.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances, and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Fort Ord Reuse Authority, Executive Officer, 920 2nd Avenue, Suite A, Marina, California, 93933.

A handwritten signature in black ink, reading "Michael A. Houlemard, Jr." in a cursive script.

Michael A. Houlemard, Jr.
Executive Officer

Government-wide Financial Statements

FORT ORD REUSE AUTHORITY
Statement of Net Position
June 30, 2017

	Governmental Activities
ASSETS	
Cash and investments	\$ 45,243,771
Accounts receivable	1,571,386
Interest receivable	85,907
Prepaid insurance	1,320,794
Capital assets, net of accumulated depreciation	12,263
Total Assets	<u>48,234,121</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	660,092
Total Deferred Outflows of Resources	<u>660,092</u>
LIABILITIES	
Accounts payable and accrued expenses	613,042
Unearned revenue	530,983
Long-term debt and obligations:	
Due within one year	58,531
Due in more than one year	2,497,463
Total Liabilities	<u>3,700,019</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions	550,876
Total Deferred Inflows of Resources	<u>550,876</u>
NET POSITION	
Net investment in capital assets	12,263
Unrestricted	44,631,055
Total Net Position	<u><u>44,643,318</u></u>

See accompanying notes to basic financial statements

Government-wide Financial Statements

**FORT ORD REUSE AUTHORITY
Statement of Activities
For the Fiscal Year Ended June 30, 2017**

Functions/Programs Governmental Activities	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	Program Expenses	Charges for Services	Operating Grants and Fees	
General government	\$ 3,035,241	\$ -	\$ 90,929	\$ (2,944,312)
Capital improvements	739,365		7,329,708	6,590,343
Environmental cleanup	884,542		884,542	
Reuse planning/EDC transfers & environmental subtotal - capital improvement program	927,380		32,552	(894,828)
Interest on long-term debt and short-term debt	2,551,287		8,246,802	5,695,515
Total governmental activities	255,000		8,337,731	(255,000)
Total primary government	5,841,528		8,337,731	2,496,203
	\$ 5,841,528	\$ -	\$ 8,337,731	2,496,203

General revenues:

Property tax revenue	1,999,473
Membership dues	261,000
Franchise fees	424,959
Investment earnings	117,266
Miscellaneous	9,514
Total general revenues	2,812,212

Change in net position

5,308,415

Net position at beginning of fiscal year

39,334,903

Net position at end of fiscal year

\$ 44,643,318

Fund Financial Statements

**FORT ORD REUSE AUTHORITY
Balance Sheet
Governmental Funds
June 30, 2017**

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	Army Grant ET/ESCA	Total Governmental Funds
ASSETS						
Cash and investments	\$ 10,533,227	\$ 11,813,288	\$ 21,845,903	\$ 226,676	\$ 824,677	\$ 45,243,771
Accounts receivable	973,689			597,697		1,571,386
Interest receivable				85,907		85,907
Prepaid insurance	1,315,899		3,055		1,840	1,320,794
Total Assets	<u>\$ 12,822,815</u>	<u>\$ 11,813,288</u>	<u>\$ 21,848,958</u>	<u>\$ 910,280</u>	<u>\$ 826,517</u>	<u>\$ 48,221,858</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES,

AND FUND BALANCES

Liabilities						
Accounts payable	\$ 54,464	\$ 15,378	\$ 247,666	\$ -	\$ 295,534	\$ 613,042
Unearned revenue					530,983	530,983
Total Liabilities	<u>54,464</u>	<u>15,378</u>	<u>247,666</u>		<u>826,517</u>	<u>1,144,025</u>
Deferred Inflows of Resources:						
Deferred revenue - local contribution	50,457					50,457
Deferred revenue - insurance reimbursements				683,604		683,604
Total deferred inflows of resources	<u>50,457</u>			<u>683,604</u>		<u>734,061</u>

Fund Balances (Note 1M, page 25)

Non-spendable	1,315,899		3,055		1,840	1,320,794
Committed						226,676
Assigned						
Habitat Conservation Plan			11,981,987			11,981,987
Building Removal		7,089,000				7,089,000
Capital Improvement Program		4,708,910	9,616,250			14,325,160
PERS Pension Liabilities	7,300,000					7,300,000
FORA 2020 Sunset Operating Obligations	4,101,995					4,101,995
Unassigned					(1,840)	(1,840)
Total Fund Balances	<u>12,717,894</u>	<u>11,797,910</u>	<u>21,601,292</u>	<u>226,676</u>		<u>46,343,772</u>

Total Liabilities, Deferred Inflow of Resources, and Fund Balances

	\$ 12,822,815	\$ 11,813,288	\$ 21,848,958	\$ 910,280	\$ 826,517	\$ 48,221,858
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FORT ORD REUSE AUTHORITY

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2017**

Total fund balances - governmental funds \$ 46,343,772

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	\$	150,676	
Accumulated depreciation		<u>(138,413)</u>	
Net			12,263

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. 734,061

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	\$	(550,876)	
Deferred outflows of resources relating to pensions		<u>660,092</u>	
Net			109,216

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	\$	(1,370,283)	
OPEB		(968,384)	
Compensated absences		<u>(217,327)</u>	
Total			<u>(2,555,994)</u>

Total net position, governmental activities \$ 44,643,318

Fund Financial Statements

FORT ORD REUSE AUTHORITY
Statement of Revenues, Expenditures, and Change in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	Army Grant ET/ESCA	Governmental Funds
REVENUE						
Membership dues	\$ 261,000	\$ -	-	\$ -	\$ -	\$ 261,000
Franchise fees	424,959					424,959
Property taxes	1,999,473					1,999,473
Federal grants					884,542	884,542
Developer fees			7,329,708			7,329,708
Lease/Rental income	90,929					90,929
Investment/Interest earnings	96,476		20,790			117,266
Other revenue	9,514					9,514
Total Revenue	<u>2,882,351</u>		<u>7,350,498</u>		<u>884,542</u>	<u>11,117,391</u>
EXPENDITURES						
Salaries and benefits	2,150,814		448,019		344,278	2,943,111
Supplies and services	237,099		78,207		53,065	368,411
Contractual services	577,904		226,803		487,199	1,295,697
Capital improvements			698,822			730,449
Insurance amortization	170,520					170,520
Settlement			255,000			255,000
Total Expenditures	<u>3,136,337</u>	<u>35,458</u>	<u>1,706,851</u>		<u>884,542</u>	<u>5,763,188</u>
Excess of revenues over (under) Expenditures	<u>(253,986)</u>	<u>(35,458)</u>	<u>5,643,647</u>			<u>5,354,203</u>
OTHER FINANCING SOURCES (USES)						
Transfers in						1,389,906
Transfers out	(1,389,906)	3,811	1,386,095			(1,389,906)
Total other financing sources (uses)	<u>(1,389,906)</u>	<u>3,811</u>	<u>1,386,095</u>			
Net change in fund balances	<u>(1,643,892)</u>	<u>(31,647)</u>	<u>7,029,742</u>			<u>5,354,203</u>
Fund Balances - July 1, 2016	<u>14,361,786</u>	<u>11,829,557</u>	<u>14,571,550</u>	<u>226,676</u>		<u>40,989,569</u>
Fund Balances - June 30, 2017	<u>\$ 12,717,894</u>	<u>\$ 11,797,910</u>	<u>\$ 21,601,292</u>	<u>\$ 226,676</u>	<u>\$ -</u>	<u>\$ 46,343,772</u>

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, 2017**

Total net change in fund balances - governmental funds	\$ 5,354,203
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 \$7,847 is less than depreciation expense \$(16,763) in the period.	(8,916)
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:	(226,071)
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.	32,552
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:	206,412
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:	(49,765)
Change in net position of governmental activities	<u>\$ 5,308,415</u>

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2017

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 - Compensated Absences
- Note 9 - Post Employment Benefits Other than Pensions
- Note 10 - Health Care Plan
- Note 11 - Commitments and Contingencies
- Note 12 - Property Sales and Lease Income
- Note 13 - Contingent Receivables
- Note 14 - US Army Environmental Services Cooperative Agreement Grant
- Note 15 - Office Lease
- Note 16 - Subsequent Events

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2017

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, 2017

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.

D. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. 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 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:

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.

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2017

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.

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.

H. Receivables

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

I. Prepaid Items

The Authority has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The Authority has chosen to report the expenditures during the period benefited.

J. Interfund Transactions

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.

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2017

K. Capital Assets

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 (with half-year conversion applied to the first year of acquisition) over the following estimated useful lives:

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

In all cases, the infrastructure assets are owned by the Authority, as trustee, for a relatively short period of time.

During the reporting period, the Authority did not receive or transfer any real property during the fiscal year. 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, 2017, the Authority owned approximately 2,675 acres of historical Fort Ord land which included the following parcels:

- EDC properties transferred in connection with the Environmental Services Cooperative Agreement (ESCA) Grant.

Real property assets are not recorded on the Authority's books since the Authority, as trustee, is a short-term real property holding entity. The Authority transfers property to underlying jurisdictions for disposal/development, retaining 50% interest in any future sale or leasing proceeds from any of these properties transferred for private development or for public non-institutional purposes. The ESCA Grant properties are undergoing munitions and explosives of concern remediation with 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 \$50 - \$75 million, of which the Authority is entitled to a 50% share of leasing or land sales proceeds.

L. Unearned Revenue

Governmental funds report a liability of resources obtained prior to revenue recognition. This includes resources received in advance of an exchange transaction, resources received in advance in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when eligibility requirements other than time requirements have not been met, and resources received in advance in relation to derived tax revenue nonexchange transaction.

M. 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.

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
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- 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.

N. 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.

O. 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 (\$58,531) 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 can only cash out if have 5 years of services and the rest above the maximum 174 hours will be applied to CalPERS service credit. 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.

P. Fund Balance

As of June 30, 2017, 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, 1) Community Facilities District (CFD)/Developer fees and land sale proceeds – assigned to the Authority Capital Improvement Program (CIP) program, 2) General Fund reserved \$5.3 million for PERS pension liabilities and \$4.7 million to be used for operating obligations through FORA 2020 sunset.

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, 2017

Q. 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 and insurance reimbursements.

R. 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 at fair value.

Note 2 - Cash and Investments

Cash and investments as of June 30, 2017 are classified in the accompanying financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 45,243,771
Total cash and investments	<u>\$ 45,243,771</u>

Cash and investments as of June 30, 2017 consist of the following:

Cash on hand	\$ 200
Deposits with financial institutions	573,536
Investments	<u>44,670,035</u>
Total cash and investments	<u>\$ 45,243,771</u>

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2017

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.

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	\$ 37,114,541	Due on demand
Local agency investment fund	\$ 7,292,267	Due on demand
Certificates of deposit	\$ 263,227	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.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>			
				<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Not Rated</u>
Money market mutual funds	\$ 37,114,541	N/A	\$ -	\$ -	\$ -	\$ -	\$ 37,114,541
Local agency investment fund	7,292,267						7,292,267
Certificates of deposit	263,227						263,227
	<u>\$ 44,670,035</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,670,035</u>

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2017

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, 2017, \$652,319 of the Authority's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

Investment in State Investment Pool

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis.

Fair Value Measurements:

The Authority pool investment categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and,
- Level 3: Investments reflect prices based upon unobservable sources.

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2017

The Authority pool investment has the following recurring fair value measurements as of June 30, 2017:

Investment by Fair Value Level	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
Certificates of deposits	\$ 263,227	\$ 263,227	\$ -	\$ -
Total Investments Measured at Fair Value	263,227	263,227	-	-
Investments Measured at Amortized Cost				
LAIF	7,292,267			
Total Pooled Investments	\$ 7,555,494			

The Authority also had investments in the money market mutual funds, however, these investments are not required to be measured under Level 1, 2 or 3.

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 2016-2017 fiscal year are as follows:

	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ -	\$ 1,389,906
Lease and Sale Proceeds Special Revenue Fund	3,811	
Developer Fees Special Revenue Fund	1,386,095	
Totals	\$ 1,389,906	\$ 1,389,906

Note 4 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

Governmental Activities

	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017
Capital assets, being depreciated:				
Equipment and furniture	\$ 176,278	\$ 7,847	\$ (33,449)	\$ 150,676
Less - accumulated depreciation	(155,099)	(16,763)	33,449	(138,413)
Total capital assets, net	\$ 21,179	\$ (8,916)	\$ -	\$ 12,263

Depreciation expense was \$16,763 for the fiscal year ended June 30, 2017, and charged to the general government function.

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2017

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, 2017, 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, 2017, the contributions recognized as part of pension expense were as follows:

Contribution – employer \$223,235

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

As of June 30, 2017, the Authority reported net pension liability for its proportionate share of the net pension liability in the amount of \$1,370,283.

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2017

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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 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.

	<u>Miscellaneous</u>
Proportion - June 30, 2015	0.05410%
Proportion - June 30, 2016	<u>0.03945%</u>
Change - Increase (Decrease)	<u><u>-0.01466%</u></u>

For the fiscal year ended June 30, 2017, the Authority recognized pension expense of \$263,437. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 6,203	\$ -
Changes of Assumptions	-	76,125
Differences between Projected and Actual Contributions and Proportionate Share of Contributions	396,204	-
Change in Employer's Proportion	-	84,758
Pension Contributions Made Subsequent to	257,685	389,993
	<u>\$ 660,092</u>	<u>\$ 550,876</u>

\$257,685 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	Miscellaneous
2018	\$ (162,850)
2019	(148,212)
2020	59,970
2021	102,623
2022	-
Thereafter	-
	<u>\$ (148,469)</u>

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2017

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal in Accordance with the Requirements of GASB 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment Expenses, includes Inflation
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be found on CalPERS' website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), 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 of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB 68 section.

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 expectation's 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-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 in the next page 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.

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2017

<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	51.0%	5.25%	5.71%
Global Debt Security	20.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-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:

	Discount Rate -1% 6.65%	Current Discount Rate 7.65%	Discount Rate +1% 8.65%
Employer's Net Pension Liability/(Asset) - Miscellaneous	\$ 2,419,503	\$ 1,370,283	\$ 503,156

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, 2017, the Authority had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2017.

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.

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2017

Note 7 - Long-Term Debt Obligations

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

	Beginning			Ending	Due Within
	Balance	Additions	Deletions	Balance	One Year
Net pension liability	\$ 1,484,295	\$ 150,760	\$ 264,772	\$ 1,370,283	\$ -
OPEB	742,313	286,732	60,661	968,384	
Compensated absences	167,562	246,814	197,049	217,327	58,531
Totals	<u>\$ 2,394,170</u>	<u>\$ 684,306</u>	<u>\$ 522,482</u>	<u>\$ 2,555,994</u>	<u>\$ 58,531</u>

Note 8 - Compensated Absences

The Authority's liability for accrued vacation and sick pay at June 30, 2017 was \$217,327. Of this amount, the Authority's management estimates \$58,531 will be due in next fiscal year.

Note 9 - 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 2016 - 2017, the Authority contributed \$60,661 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.

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2017

Annual required contribution	\$ 286,539
Interest on net OPEB obligation	29,693
Adjustment to annual required contribution	<u>(29,500)</u>
Annual OPEB cost (expense)	286,732
Contributions made	<u>(60,661)</u>
Increase in net OPEB obligation	226,071
Net OPEB obligation - beginning of the fiscal year	<u>742,313</u>
Net OPEB obligation - end of the fiscal year	<u><u>\$ 968,384</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended 2015, 2016 and 2017 is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contribution</u>	<u>Net OPEB Obligation (asset)</u>
6/30/2015	\$ 286,945	6%	\$ 498,683
6/30/2016	286,668	15%	742,313
6/30/2017	286,732	21%	968,384

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 10 – Health Care Plan

During the fiscal year ending June 30, 2017, 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 \$1,826 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, 2017

Note 11 - Commitments and Contingencies

A. Litigation

Various claims and lawsuits are pending against the Authority. Although the outcome of those claims and lawsuits are not presently determinable, in the opinion of the Authority Counsel the resolution of these matters are within the self-insured retention and are not likely to have a material adverse effect on the financial condition on the Authority.

Appropriate insurance policies protect the Authority from most potential litigation effects. In addition, the Authority requires indemnification and contract provisions with its vendors and contractors that also guard against, and redirect, litigation costs and potential impact to the Authority's assets. 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 2017.

o Unearned Revenue

The Authority's share of unspent, unearned Army grant revenue at June 30, 2017 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 12 - 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. During the fiscal year ending June 30, 2017, no sales were occurred.

Note 13 - 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 and deferred inflows of resources.

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2017

2. **\$683,604 - The City of Del Rey Oaks (DRO)**

In 2014, the Authority loaned DRO \$715,768 in funds to cover DRO's portion of PLL insurance during years of financial hardship. The original two-year term of July 1, 2013 through June 30, 2015 is extended for three years, through June 30, 2018. By November 30, 2014, in conjunction with September 12, 2014 sale of portion of DRO property on the former Fort Ord, DRO made a prorated payment of \$162,806 (including 5% interest) against the \$715,768 loan, which reduced the balance to \$565,456. DRO agrees to repay the remaining balance of \$565,456 on the loan and all accrued interest at a rate of 5% upon the sale of the remaining DRO property on the former Fort Ord or upon termination of the MOU, whichever occurs first. 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 \$683,604 is recorded as deferred revenue and deferred inflows of resources.

3. **\$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 the Authority 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 14 - 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 9 years. The ESCA property was transferred to Authority ownership on May 8, 2009. The FY 2017 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 the Authority's ownership as of June 30, 2017.

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.

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2017

Note 15 - Office Lease

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

Note 16 - Subsequent Events

Management feels it is important to disclose the following information as it may affect the Authority's financial position as of June 30, 2017, and cause prior period adjustments in its financial statements, as follows:

- Several significant receivables are under collection by the Authority. As of November 30, 2017, 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. \$651,052 from the City of Del Rey Oaks regarding unpaid premium for Pollution Legal Liability insurance. Owed since 2011.
 - c. On November 9, 2017, the Authority paid down the CalPERS Unfunded Accrued Liability (UAL) in the amount of \$575,000.

REQUIRED SUPPLEMENTARY INFORMATION

FORT ORD REUSE AUTHORITY
Budgetary Comparison Information
Budget and Actual - All Funds
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Resources (Inflows)				
Membership dues	\$ 261,000	\$ 331,000	\$ 261,000	\$ (70,000)
Franchise fees	265,000	615,000	424,959	(190,041)
Property taxes	1,722,472	1,722,472	1,999,473	277,001
Federal grants	995,933	922,410	884,542	(37,868)
Developer fees	6,739,869	5,239,869	7,329,708	2,089,839
Lease/Rental income	29,500	50,000	90,929	40,929
Real estate sales	480,187			
Investments/Interest earnings	105,000	105,000	117,266	12,266
Other revenue	25,000		9,514	9,514
	<u>10,623,961</u>	<u>8,985,751</u>	<u>11,117,391</u>	<u>2,131,640</u>
Amounts available for appropriation				
Charges to Appropriations (Outflows)				
Salaries and benefits	2,953,810	2,955,973	2,943,111	12,862
Supplies and services	398,055	413,305	368,411	44,894
Contractual services	1,966,000	1,932,813	1,295,697	637,116
Capital improvements	11,067,978	3,881,674	730,449	3,151,225
Debt service			255,000	(255,000)
Insurance amortization			170,520	(170,520)
	<u>16,385,843</u>	<u>9,183,765</u>	<u>5,763,188</u>	<u>3,420,577</u>
Total charges to appropriations				
Surplus (Deficit)	<u>\$ (5,761,882)</u>	<u>\$ (198,014)</u>	<u>\$ 5,354,203</u>	<u>\$ 5,552,217</u>

FORT ORD REUSE AUTHORITY
Cost-Sharing Multiple-Employer Defined Pension Plan - Last 10 Years*
For the Fiscal Year Ended June 30, 2017

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

	Miscellaneous Plan Fiscal Year 2014-2015	Miscellaneous Plan Fiscal Year 2015-2016	Miscellaneous Plan Fiscal Year 2016-2017
Plan's proportion of the Net Pension Liability (Asset)	0.59043%	0.05647%	0.05413%
Plan's proportionate share of the Net Pension Liability (Asset)	\$ 1,459,235	\$ 1,484,295	\$ 1,370,283
Covered employee payroll	\$ 1,354,733	\$ 1,438,162	\$ 1,607,692
Plan's proportionate share of the Net Pension Liability (Asset) as a percentage of its covered employee payroll	107.71%	103.21%	85.23%
Plan's fiduciary net position	\$ 5,759,729	\$ 6,217,932	\$ 6,423,004
Plan fiduciary net position as a percentage of total pension liability	79.79%	80.73%	82.42%

*- Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

FORT ORD REUSE AUTHORITY
Cost-Sharing Multiple-Employer Defined Pension Plan - Last 10 Years*
For the Fiscal Year Ended June 30, 2017

Schedule of Contributions

	Miscellaneous Plan Fiscal Year 2014-2015	Miscellaneous Plan Fiscal Year 2015-2016	Miscellaneous Plan Fiscal Year 2016-2017
Actuarially determined contribution	\$ 203,703	\$ 223,235	\$ 257,685
Contributions in relation to the actuarially determined contributions	(203,703)	(223,235)	(257,685)
Contributions deficiency (excess)	-	-	-
Covered employee payroll	\$ 1,438,161	\$ 1,607,692	\$ 1,799,389
Contributions as a percentage of covered employee payroll	14.16%	13.89%	14.32%
Notes to Schedule			
Valuation date:	June 30, 2013	June 30, 2014	June 30, 2015

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	Varies by Entry Age and Service
Investment rate of return	7.65% net of pension plan investment and administrative expenses; includes inflation
Retirement age	59 years - Miscellaneous plan
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

*- Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

FORT ORD REUSE AUTHORITY
Post Employment Benefit Plan Other than Pensions Trend Information
For the Fiscal Year Ended June 30, 2017

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, 2017



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 and each major fund of the Fort Ord Reuse Authority (Authority) as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 30, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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, LLP
Culver City, California
November 30, 2017



MOSS, LEVY & HARTZHEIM LLP

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the fiscal year ended June 30, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the 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 the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2017.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
November 30, 2017

FORT ORD REUSE AUTHORITY
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2017

Description and Program Title	Federal CFDA Number	Federal Expenditures
DEPARTMENT OF THE ARMY		
Direct Program:		
U.S. Army Corp of Engineers, HTRW Center of Expertise, Project grant for Environmental Services Cooperative Agreement		
Project grant for clean up of munitions and explosives of concern Agreement No. W9128F-07-2-0162	12.000	<u>\$ 884,542</u>
Total Expenditures of Federal Awards		<u>\$ 884,542</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, 2017

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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 the Uniform Guidance, 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.

NOTE 3 **INDIRECT COST RATES**

The Authority has not elected to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

**FORD ORD REUSE AUTHORITY
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified not considered to be material weaknesses?

_____ Yes X None Reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified not considered to be material weaknesses?

_____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, 2 CFR 200.516 (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:

\$750,000

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, 2017**

Section II – Findings – Financial Statement Audit

None

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, 2017**

Prior Fiscal Year's Findings – Financial Statement Audit

None

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

None