



FORT ORD REUSE AUTHORITY

REGULAR MEETING FORT ORD REUSE AUTHORITY (FORA) FINANCE COMMITTEE

Monday, January 6, 2020 at 9:00 a.m.

920 2nd Avenue, Suite A, Marina CA 93933 (FORA Conference Room)

AGENDA

1. CALL TO ORDER/ESTABLISHMENT OF QUORUM
2. PLEDGE OF ALLEGIANCE
3. ACKNOWLEDGEMENTS, ANNOUNCEMENTS AND CORRESPONDENCE
4. PUBLIC COMMENT PERIOD

Members of the public wishing to address the Committee on matters within its jurisdiction, but not on this agenda, may comment for up to 3 minutes and will not receive Committee action.

5. MEETING MINUTES ACTION
 - a. Approve April 30, 2019 Regular Meeting Minutes

6. BUSINESS ITEMS INFORMATION/ACTION

Business items are for Committee discussion, debate, direction to staff, and/or action. Comments from the public are not to exceed 3 minutes or as otherwise determined by the Chair. Whenever possible, written correspondence on a Business Item should be submitted to the Committee staff 36 hours in advance of the meeting, to provide adequate time for its consideration.

- a. Fiscal Year 18-19 Audited Financial Report
Recommendation: Review and consider recommending approval of the Moss, Levy Hartzheim fiscal year 2018-19 audited financial report to the Board of Directors.
- b. Post FORA Transition
Recommendation: Provided Staff direction on Post FORA Transition Items.

7. ITEMS FROM MEMBERS

Receive communication from Committee members as it may pertain to future agenda items.

8. ADJOURNMENT

For information regarding items on this agenda or to request disability related modifications and/or accommodations please contact the FORA office at (831)883-3672, 48 hours prior to the meeting. Agendas are available on the FORA website at www.fora.org.



**FORT ORD REUSE AUTHORITY
FINANCE COMMITTEE MEETING MINUTES**

**9:00 a.m., Tuesday, April 30, 2019 | Executive Officer's Conference Room
920 2nd Avenue, Suite A, Marina CA 93933**

1. CALL TO ORDER/ESTABLISHMENT OF QUORUM

Chair City of Salinas Mayor Joe Gunter, called the meeting to order at 9:00 a.m.

MEMBERS PRESENT:

Mayor Joe Gunter (City of Salinas)
Mayor Pro-Tem Gail Morton (City of Marina)
Andre Lewis (CSUMB)
Councilmember Jon Wizard (City of Seaside)

2. PLEDGE OF ALLEGIANCE led by City of Seaside Council member Jon Wizard.

3. ACKNOWLEDGEMENTS, ANNOUNCEMENTS AND CORRESPONDENCE

There were no acknowledgements, announcements and correspondence.

4. PUBLIC COMMENT PERIOD

There were no comments received from the public.

5. APPROVAL OF MEETING MINUTES

a. February 22, 2019 Regular Meeting Minutes

MOTION: On motion by Committee member Morton and second by Committee member Wizard and carried by the following vote the Finance Committee approved the regular meeting minutes of February 22, 2019.

MOTION PASSED UNANIMOUSLY

6. BUSINESS ITEMS

a. Del Rey Oaks Loan Repayment Request

Executive Officer Michael A. Houlemard, Jr. introduced the item providing the background to the request and reviewing the letter received from City of Del Rey Oaks, City Manager Dino Pick. Del Rey Oaks is requesting to make a payment of \$211,000 and begin a monthly payment plan of \$15,000 until the loan is paid in full. In addition, it has been requested that FORA consider adjusting the interest rate to a comparable rate of approximately 2%. The Committee held a discussion providing input and direction to the Executive Officer.

b. Fiscal Year 2019-20 Budget

- i. Review and discussion
- ii. Consider Recommending FORA Board Budget approval

Controller Helen Rodriguez provided an overview of each of the budget items and responded to questions and comments from the Committee.

MOTION: On motion by Committee member Wizard and second by Committee member Lewis and carried by the following vote, the Finance Committee moved to recommend approval of staff proposed compensation and benefits adjustment and the adoption of the FY 2019-20 Annual budget.

7. ITEMS FROM MEMBERS

There were no items from members.

8. ADJOURNMENT at 10:04 a.m.

Minutes Prepared by:
Heidi Lizarbe
Deputy Clerk

DRAFT

**FORT ORD REUSE AUTHORITY
MARINA, CALIFORNIA**

Annual Financial Report

June 30, 2019

Board of Directors

Voting Members

Supervisor Jane Parker
Mayor Joe Gunter
Council Member Frank O'Connell
Mayor Pro-Tem Gail Morton
Mayor Ian Oglesby
Council Member Jon Wizard
John Gagliotti
Supervisor Mary Adams
Supervisor John Phillips
Council Member Alan Haffa
Mayor Mary Ann Carbone
Council Member Cynthia Garfield
Council Member Jan Reimers

Representing

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

Title

Chair
Vice-chair
Past-Chair
Director
Director
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

Draft



PARTNERS

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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, 2019, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Fort Ord Reuse Authority, California, as of June 30, 2019, 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 36, the Schedule of Plan's Proportionate Share of Net Pension Liability and Related Ratios as of Measurement Date – Authority Miscellaneous Plan on page 37, the Schedule of Pension Contributions – Authority Miscellaneous Plan on page 38, the Schedule of Change in Net OPEB Liability and Related Ratios on page 39, and the Schedule of OPEB Contributions on page 40, 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 December 19, 2019 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
December 19, 2019



FORT ORD REUSE AUTHORITY

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

This Fort Ord Reuse Authority (Authority) financial performance analysis provides an overview of Authority financial activities for fiscal year ending June 30, 2019. Please read it in conjunction with the basic financial statements and related notes that follow this section.

FINANCIAL HIGHLIGHTS

During Fiscal Year 2018/2019 (FY 18/19) the Fort Ord Reuse Authority ("Authority" or "FORA") financial landscape sustained its strong position as significant economic factors continued to support the recovery program. As noted in recent years, worldwide and national recovery from the 2006-2012 recession was ongoing, with regional response on a positive upswing. Former Fort Ord residential and commercial project development fueled the FORA program's financial demands in several important ways. In particular, the Authority Community Facilities District Special Tax/Developer Fees (CFD fees) and land sale/lease revenues (that had been slow/deferred/reduced during the Great Recession) are sustained 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 recent expansion), and East Garrison, Marina Heights/Sea Haven, and the Dunes on Monterey Bay Housing. Other revenue sources continue to rise, as underlying property valuation increases again elevated FORA's tax share amounts.

During FY 18-19, the Authority:

- ❖ Transitioned from regulatory close out of essential and significant munitions and explosives of concern (MEC) cleanup processing to long term obligations management for approximately 3,350 former Fort Ord acres. The U.S. Army Environmental Services Cooperative Agreement (ESCA) contract field work has been completed and over 30% of these properties have now been transferred. In FY 18/19 FORA staff finalized an amendment of the ESCA contract that provides up to \$6.8M reimbursement for future land use covenant monitoring and long term stewardship for the properties remediated under the ESCA. The City of Seaside has surfaced as the likely Successor-in-Interest and FORA's current ESCA obligations will be likely be transferred to Seaside in 2020 for reuse activities and habitat conservation.
- ❖ FORA sustained and increased funds in the Section 115 Trust designated for California Public Employees Retirement System (CalPERS) pension liabilities by \$1,000,000 with the Reserves previously set-aside by the Board of Directors.
- ❖ Continued to complete the Authority's remaining former Fort Ord building removal program responsibilities at Surplus II and Stockade areas while settling a dispute that provided \$3,000,000 in cash for credits to expedite Dunes on Monterey Building Removal.
- ❖ Completed the final administrative draft Environmental Impact Report/ Environmental Impact Statement for the Habitat Conservation Plan (HCP). The draft HCP will be released for public review in FY 2019/2020.

- ❖ Collected \$12.2 million in revenues, including \$7.0 million in CFD fees, \$3.0 Million in property tax payments and \$801K in grants. Additional land sales, CFD fee, tax and grant revenues are expected in FY 19-20.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces 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 Authority financial picture 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 liabilities).

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 fiscal 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 fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, all the current fiscal 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 18-19, the Authority employed federal grants, property tax receipts, lease proceeds, development fees, franchise fees and membership dues to finance:

- MEC remediation processing, documentation, documents production and reports;
- Capital Improvement Program ("CIP") planning/implementation;
- General governmental operations, administration, risk assessment, and planning;
- Base Reuse Plan implementation, consistency determinations, and review;
- Legal expenses for new and ongoing litigation and multiple contracts;
- Property surveys and transfers;
- Prevailing Wage support/monitoring;
- Habitat conservation planning and restoration;

- June 30, 2020 Sunset Transition Planning; 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 designated to finance the Authority's CIP (building removal), lease proceeds are designated to debt financing (Preston Park Loan); 2) Developer Fees Fund – CFD fees are designated to finance the Authority's CIP (CEQA mitigations); 3) Pollution Legal Liability (PLL) Fund – revenue is designated to finance the PLL coverage; and 4) Army Grant ET/ESCA – grant funds are designated to finance the munitions and explosives cleanup activities.

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 decreased over the last 12 months from \$50.1 million to positive \$48.3

million, primarily due to capital improvement and building removal 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 liabilities not due at the end of the fiscal year). In addition, the unspent balance in the ESCA grant fund at June 30, 2019 of \$292 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 increased from \$10.9 million to \$12.3 million primarily due to increase in CFD fees and property tax revenues (as compared to the previous fiscal year). Other revenue sources did not vary significantly.

Revenue sources in FY 18-19 were provided from the following:

- CFD fees – 60.2%
- Property tax – 24.5%
- Federal funding (ESCA) – 6.5%
- Other revenue sources (lease proceeds, franchise fees, membership dues, interest, PLL) – 8.8%

Expenditures: The FY 18-19 cost of the Authority's programs was \$14.0 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 \$47.2 million. This is a decrease of about \$2.1 million from FY 17-18 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
2017-2018	\$ 9,931,682	\$ 11,342,971	\$ 26,554,072	\$ 1,374,757	\$ -	\$ 49,203,482
2018-2019	\$ 9,763,579	\$ 7,363,446	\$ 28,819,100	\$ 1,204,237	\$ -	\$ 47,150,362
Change + (-)	\$ (168,103)	\$ (3,979,525)	\$ 2,265,028	\$ (170,520)	\$ -	\$ (2,053,120)

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 18-19 budget on June 8, 2018, and the mid-year budget update on March 8, 2019. 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 18-19	Budget	Actuals	Variance	Notes
Revenues	\$ 16,156,479	\$ 12,243,102	\$ (3,913,377)	CFD Fees
Expenditures	\$ 32,326,991	\$ 14,296,222	\$ 18,030,769	Building Removal, CIP
Surplus (Deficit)	\$ (16,170,512)	\$ (2,053,120)	\$ 14,117,392	

Revenue: Net \$3.9 million decrease

Revenue projections varied from the mid-year budget due to CFD fees due to significantly lower housing builds than as projected.

Expenditures: \$18.0 million decrease

Due to project timing in Contractual and Capital categories, building removal activities deferred to FY 19-20. Other expenditure categories were in line with the approved budget.

The budgetary comparison information schedule can be found on page 36 of this report.

LONG-TERM LIABILITIES

As of June 30, 2019, the Authority had approximately \$270 thousand in long-term liabilities consisting of compensated absences and other post employment employee benefit obligations. This amount represents the Authority's liability for compensated absences (vacation and sick leave \$144 thousand) and post-employment benefit cost (\$126 thousand).

More detailed information about the Authority's total long-term liabilities is presented on pages 26-32, Notes 5-9 to the financial statements.

INTERFUND TRANSFERS

By June 30, 2019, 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) \$1.7M transfer from the General Fund to the CFD/Developer Fee Fund to fund capital projects and as budgeted in the CIP program.
- 2) \$0.3 transfer from the General Fund to the Lease and Sales Proceeds Fund to fund building removal cost 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 FISCALYEAR'S BUDGETS

In FY 18-19 major economic revitalization projects (itemized on page 1) were in operation, construction, 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. With the conclusion of U.S. Army ESCA contract field work comes long term stewardship obligations and additional contract amendments to address further short and long term needs. This past fiscal year, the Board also moved ahead with CIP project planning and design.

In coming fiscal year, the Authority will need to finalize and confirm land sales/leasing revenue to support operations and assure collection of developer fees/taxes to complete its State Law mandated obligations. The Authority must continue to monitor CalPERS pension/health care obligations and operational funding through 2020, and complete a Transition Plan in 2020 regarding the Authority's sunset. These obligations and responsibilities are crucial as the legislative sunset of FORA looms on June 30, 2020.

As underlying economic factors continue strong the Authority should secure revenue sources in a reserve that assures its post sunset obligations (programmatic, contractual and ministerial) may be met by a successor(s). Assuming the economic rebound continues, the Authority should be financially solvent to fund its obligations through sunset. Given the pending transition, new obligations must be limited/restricted to ensure limit post 2020 funding obligations for underlying jurisdictions.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizenry, taxpayers, customers, investors and creditors with an 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.



Michael A. Houlemard, Jr.
Executive Officer

Draft

Government-wide Financial Statements

FORT ORD REUSE AUTHORITY
Statement of Net Position
June 30, 2019

	Governmental
	Activities
ASSETS	
Cash and investments	\$ 39,957,735
Cash and investments, restricted	6,880,780
Accounts receivable	803,292
Interest receivable	198,682
Net pension asset	253,703
Prepaid insurance	949,342
Capital assets, net of accumulated depreciation	14,792
Total Assets	<u>49,058,326</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	<u>1,106,101</u>
Total Deferred Outflows of Resources	<u>1,106,101</u>
LIABILITIES	
Accounts payable and accrued expenses	548,769
Unearned revenue	292,024
Long-term debt and obligations:	
Due within one year	143,635
Due in more than one year	126,225
Total Liabilities	<u>1,110,653</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions	<u>763,718</u>
Total Deferred Inflows of Resources	<u>763,718</u>
NET POSITION	
Net investment in capital assets	14,792
Restricted for:	
PERS Pension Liabilities	6,880,780
Unrestricted	41,394,484
Total Net Position	<u><u>48,290,056</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, 2019

Functions/Programs	Program Revenues			Net (Expenses)
	Program Expenses	Charges for Services	Operating Grants and Fees	Revenues and Changes in Net Position
				Total
Governmental Activities				
General government	\$ 2,593,042	\$ -	\$ 98,552	\$ (2,494,490)
Capital improvements	9,484,835		7,044,972	(2,439,863)
Environmental cleanup	801,069		801,069	
Reuse planning/EDC transfers & environmental	1,168,890		29,885	(1,139,005)
subtotal - capital improvement program	11,454,794		7,875,926	(3,578,868)
Total primary government	\$ 14,047,836	\$ -	\$ 7,974,478	(6,073,358)

General revenues:	
Property tax revenue	3,000,505
Membership dues	310,928
Franchise fees	463,945
Investment earnings	523,290
Miscellaneous	855
Total general revenues	4,299,523
Change in net position	(1,773,835)
Net position at beginning of fiscal year	50,063,891
Net position at end of fiscal year	\$ 48,290,056

Fund Financial Statements

FORT ORD REUSE AUTHORITY
Balance Sheet
Governmental Funds
June 30, 2019

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	Army Grant ET/ESCA	Total Governmental Funds
ASSETS						
Cash and investments	\$ 2,759,468	\$ 7,496,344	\$ 28,990,317	\$ 266,379	\$ 445,227	\$ 39,957,735
Cash and investments restricted	6,880,780					6,880,780
Accounts receivable	205,595			597,697		803,292
Interest receivable	56,790			141,892		198,682
Prepaid insurance	5,572	568	2,715	937,858	2,629	949,342
Total Assets	<u>\$ 9,908,205</u>	<u>\$ 7,496,912</u>	<u>\$ 28,993,032</u>	<u>\$ 1,943,826</u>	<u>\$ 447,856</u>	<u>\$ 48,789,831</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 85,539	\$ 133,466	\$ 173,932	\$ -	\$ 155,832	\$ 548,769
Unearned revenue					292,024	292,024
Total Liabilities	<u>85,539</u>	<u>133,466</u>	<u>173,932</u>		<u>447,856</u>	<u>840,793</u>
Deferred Inflows of Resources:						
Deferred revenue - local contribution	59,087					59,087
Deferred revenue - insurance reimbursements				739,589		739,589
Total deferred inflows of resources	<u>59,087</u>			<u>739,589</u>		<u>798,676</u>
Fund Balances						
Non-spendable	5,572	568	2,715	937,858	2,629	949,342
Committed				266,379		266,379
Restricted						
PERS Pension Liabilities	6,880,780					6,880,780
Assigned						
Habitat Conservation Plan			17,113,239			17,113,239
Building Removal		7,362,878				7,362,878
Capital Improvement Program			11,703,146			11,703,146
FORA 2020 Sunset Operating Obligations	2,877,227					2,877,227
Unassigned					(2,629)	(2,629)
Total Fund Balances	<u>9,763,579</u>	<u>7,363,446</u>	<u>28,819,100</u>	<u>1,204,237</u>		<u>47,150,362</u>
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	<u>\$ 9,908,205</u>	<u>\$ 7,496,912</u>	<u>\$ 28,993,032</u>	<u>\$ 1,943,826</u>	<u>\$ 447,856</u>	<u>\$ 48,789,831</u>

FORT ORD REUSE AUTHORITY

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2019**

Total fund balances - governmental funds \$ 47,150,362

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	\$	159,021	
Accumulated depreciation		<u>(144,229)</u>	
Net			14,792

In governmental funds, net pension assets have not been included as financial resources. In the statement of net position, all assets are reported. 253,703

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 inflows 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. 798,676

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	\$	(763,718)	
Deferred outflows of resources relating to pensions		<u>1,106,101</u>	
Net			342,383

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:

OPEB	\$	(126,225)	
Compensated absences		<u>(143,635)</u>	
Total			<u>(269,860)</u>

Total net position, governmental activities \$ 48,290,056

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, 2019

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	Army Grant ET/ESCA	Governmental Funds
REVENUE						
Membership dues	\$ 310,928	\$ -	\$ -	\$ -	\$ -	\$ 310,928
Franchise fees	463,945					463,945
Property taxes	3,000,505					3,000,505
Federal grants					801,069	801,069
Developer fees			7,043,958			7,043,958
Lease/Rental income	98,552					98,552
Investment/Interest earnings	493,706		29,584			523,290
Other revenue	855					855
Total Revenue	4,368,491		7,073,542		801,069	12,243,102
EXPENDITURES						
Salaries and benefits	1,822,218	61,268	421,440		408,573	2,713,499
Supplies and services	312,439	10,110	59,999		54,894	437,442
Contractual services	705,243	290,156	155,397		337,602	1,488,398
Capital improvements		3,614,180	5,872,183			9,486,363
Insurance amortization				170,520		170,520
Total Expenditures	2,839,900	3,975,714	6,509,019	170,520	801,069	14,296,222
Excess of revenues over (under) Expenditures	1,528,591	(3,975,714)	564,523	(170,520)		(2,053,120)
OTHER FINANCING SOURCES (USES)						
Transfers in	3,811		1,700,505			1,704,316
Transfers out	(1,700,505)	(3,811)				(1,704,316)
Total other financing sources (uses)	(1,696,694)	(3,811)	1,700,505			
Net change in fund balances	(168,103)	(3,979,525)	2,265,028	(170,520)		(2,053,120)
Fund Balances - July 1, 2018	9,931,682	11,342,971	26,554,072	1,374,757		49,203,482
Fund Balances - June 30, 2019	\$ 9,763,579	\$ 7,363,446	\$ 28,819,100	\$ 1,204,237	\$ -	\$ 47,150,362

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, 2019**

Total net change in fund balances - governmental funds	\$ (2,053,120)
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 \$10,907 is more than depreciation expense \$(9,379) in the period.	1,528
Gain or loss from disposed capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:	(947)
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:	66,040
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 includes establishment of an allowance.	30,899
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:	61,075
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:	120,690
Change in net position of governmental activities	<u>\$ (1,773,835)</u>

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2019

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

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2019

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, No. 39, No. 61, and No. 80 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 Statement Nos. 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, 2019

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 and 2015 Pollution Legal liability insurance.

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2019

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.

Restrict Cash and Investments

The Authority has established the PARS Post-Employment Benefits Trust as a tax-exempt trust within the meaning of Section 115 of the IRS Code to accumulate resources to "stabilize" the amount of its General fund resources that it will need to meet future contribution requirements to CalPERS. The balances and activities of the Trust are irrevocably dedicated to funding future obligations to CalPERS. The assets will benefit the Authority through reduced future cash flow demands on the District's General fund resources and continue to be assets of the District. These amounts are reflected as restricted cash and investments in the General fund.

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, 2019

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, 2019, 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 transactions.

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
June 30, 2019

- Restricted net position - Restricted net position includes 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 to 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 (\$143,635) 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 they have 5 years of service 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, 2019, 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 by the Authority Board taking the same formal action that imposed the constraint originally (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 and Habitat Conservation Plan, 2) \$2.9 million to be used for operating obligations through FORA 2020 sunset.

Unassigned – all other spendable amounts.

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2019

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.

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.

S. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Authority's plan (OPEB Plan) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

T. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 84	"Fiduciary Activities"	The provision of this statement is effective for fiscal years beginning after December 15, 2018.
Statement No. 87	"Leases"	The provision of this statement is effective for fiscal years beginning after December 15, 2019.
Statement No. 89	"Accounting for Interest Cost Incurred before the End of a Construction Period"	The provision of this statement is effective for fiscal years beginning after December 15, 2019.
Statement No. 90	"Majority Equity Interest-an Amendment of GASB Statements No. 14 and No. 61"	The provision of this statement is effective for fiscal years beginning after December 15, 2018.
Statement No. 91	"Conduit Debt Obligations"	The provision of this statement is effective for fiscal years beginning after December 15, 2020

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2019

Note 2 - Cash and Investments

Cash and investments as of June 30, 2019 are classified in the accompanying financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 39,957,735
Cash and investments, restricted	6,880,780
Total cash and investments	<u>\$ 46,838,515</u>

Cash and investments as of June 30, 2019 consist of the following:

Cash on hand	\$ 200
Deposits with financial institutions	(125,964)
Investments	<u>46,964,279</u>
Total cash and investments	<u>\$ 46,838,515</u>

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

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

Authorized Investments Type	Maximum Percentages	Maximum Maturity
U.S. Treasury Obligations	per approval	24 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
Corporate Notes	per approval	24 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	\$ 32,264,584	Due on demand
Local agency investment fund	\$ 7,549,559	Due on demand
Certificates of deposit	\$ 269,356	12 months
Restricted cash and investments – section 115 trust		
U.S. Treasury	\$ 2,072,812	12 months or less
Corporate notes	\$ 4,805,210	12 months or less
Money market mutual funds	\$ 2,758	Due on demand

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

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2019

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End						
				A+	A	A-	BBB+	BBB	BBB-	Not Rated
Money market mutual funds	\$ 32,264,584	N/A	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,264,584
Local agency investment fund	7,549,559									7,549,559
Certificates of deposit	269,356									269,356
Restricted Cash and Investments - Section 115 Trust										
U.S. Treasury	2,072,812									2,072,812
Corporate Notes	4,805,210	BBB-		807,628	650,013	1,215,920	965,554	965,172	200,923	
Money market mutual funds	2,758									2,758
	<u>\$ 46,964,279</u>		<u>\$ -</u>	<u>\$ 807,628</u>	<u>\$ 650,013</u>	<u>\$ 1,215,920</u>	<u>\$ 965,554</u>	<u>\$ 965,172</u>	<u>\$ 200,923</u>	<u>\$ 42,159,069</u>

Concentration of Credit Risk

The investment policy of the Authority contains limitations on the amount that can be invested in any type of investment or industry group beyond that stipulated by the California Government Code. There are no investments in any one issuer (other than money market mutual funds and certificates of deposits) that represent 5% or more of total Authority investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

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

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.

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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.

The Authority pool investment has the following recurring fair value measurements as of June 30, 2019:

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)
Restricted - Section 115 Trust				
U.S. Treasury	\$ 2,072,812	\$ -	\$ 2,072,812	\$ -
Corporate Notes	4,805,210		4,805,210	
Total Investments Measured at Fair Value	6,878,022	\$ -	\$ 6,878,022	\$ -
Investments Measured at Amortized Cost				
LAIF	7,549,559			
Total Pooled Investments	<u>\$ 14,427,581</u>			

The Authority also had investments in money market mutual funds and certificates of deposit, 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 2018-2019 fiscal year are as follows:

	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ 3,811	\$ 1,700,505
Developer Fees Special Revenue Fund	1,700,505	
Lease and Sales Proceeds Special Revenue Fund		3,811
	<u>\$ 1,704,316</u>	<u>\$ 1,704,316</u>

Note 4 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

Governmental Activities

	Balance at July 1, 2018	Additions	Deletions	Balance at June 30, 2019
Capital assets, being depreciated:				
Equipment and furniture	\$ 153,625	\$ 10,907	\$ (5,511)	\$ 159,021
Less - accumulated depreciation	(139,414)	(9,379)	4,564	(144,229)
Total capital assets, net	<u>\$ 14,211</u>	<u>\$ 1,528</u>	<u>\$ (947)</u>	<u>\$ 14,792</u>

Depreciation expense was \$9,379 for the fiscal year ended June 30, 2019 and charged to the general government function.

FORT ORD REUSE AUTHORITY
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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, 2019, are summarized as follows:

Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% at 55	2.0% at 62
Benefit vesting schedule	5 Years	5 Years
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 contribution rates	7.000%	6.250%
Required employer contribution rates	9.409%	6.842%

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, 2019, the contributions recognized as part of pension expense were as follows:

Contribution – employer	\$1,302,576
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B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2019, the Authority reported net pension liability (asset) for its proportionate share of the net pension liability (asset) in the amount of (\$253,703).

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The Authority's net pension liability (asset) is measured as the proportionate share of the net pension liability (asset). The net pension liability (asset) is measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The Authority's proportion of the net pension liability (asset) 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.

For the fiscal year ended June 30, 2019, the Authority recognized pension expense of \$105,085. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 6,422
Changes of assumptions		21,834
Changes in proportions		734,208
Net difference between projected and actual earnings on pension plan investments		1,254
Differences between Authority contributions and proportionate share of contributions	939,941	
Authority contributions subsequent to the measurement date	<u>166,160</u>	
Total	<u>\$ 1,106,101</u>	<u>\$ 763,718</u>

\$166,160 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 (asset) in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Fiscal Year Ended June 30</u>	<u>Amount</u>
2020	\$ 30,604
2021	64,072
2022	79,265
2023	<u>2,282</u>
Total	<u>176,223</u>

FORT ORD REUSE AUTHORITY
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Actuarial Assumptions – The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry age normal in Accordance with the Requirements of GASB 68
Discount Rate	7.15%
Consumer Price Inflation	2.50%
Wage Growth	Varies by Entry Age and Service
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds
Post-retirement Benefit Increases	Contract COLA up to 2.75% until PPPA Floor on purchasing power applies, 2.50% 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.

Change of Assumptions – In December 2017, the CalPERS Board adopted new mortality assumptions for plans participating in the Public Employees' Retirement Fund (PERF). The mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90 percent of scale MP 2016 published by the Society of Actuaries. The inflation assumption was reduced from 2.75 percent to 2.50 percent. The assumptions for individual salary increases and overall payroll growth were reduced from 3.00 percent to 2.75 percent.

Discount Rate – The discount rate used to measure the total pension liability (asset) was 7.15%. 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 7.15 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 expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-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.

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Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+(c)
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	<u>100%</u>		

(a) In the CalPERS's system, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(b) An expected inflation of 2.0% was used for this period

(c) An expected inflation of 2.92% 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 (asset), calculated using the discount rate, as well as what the Authority's proportionate share of the net pension liability (asset) 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% 6.15%	Current Discount Rate 7.15%	Discount Rate +1% 8.15%
Employer's Net Pension Liability (Asset) - Miscellaneous	\$ 994,302	\$ (253,703)	\$ (1,283,910)

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, 2019, the Authority had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2019.

Hypothetical Termination Liability

The hypothetical termination liability is an estimate of the financial position of the plan had the contract with CalPERS been terminated as of June 30, 2018. The plan liability on a termination basis is calculated differently compared to the plan's ongoing funding liability. For the hypothetical termination liability calculation, both compensation and service are frozen as of the valuation date and no future pay increases or service accruals are assumed. This measure of funded status is not appropriate for assessing the need for future employer contributions in the case of an ongoing plan, that is, for an employer that continues to provide CalPERS retirement benefits to active employees.

A more conservative investment policy and asset allocation strategy was adopted by the CalPERS Board for the Terminated Agency Pool. The Terminated Agency Pool has limited funding sources since no future employer contributions will be made. Therefore, expected benefit payments are secured by risk-free assets and benefit security for members is increased while funding risk is limited. However, this asset allocation has a lower expected rate of return than the PERF and consequently, a lower discount rate is assumed. The lower discount rate for the Terminated Agency Pool results in higher liabilities for terminated plans.

The effective termination discount rate will depend on actual market rates of return for risk-free securities on the date of termination. As market discount rates are variable, the table below shows a range for the hypothetical termination liability based on the lowest and highest interest rates observed during an approximate 2-year period centered around the valuation date.

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MISCELLANEOUS PLAN

Market Value of Assets (MVA)	Hypothetical Termination Liability ^{1,2} @ 2.50%	Funded Status	Unfunded Termination Liability @ 1.75%	Hypothetical Termination Liability ^{1,2} @ 3.25%	Funded Status	Unfunded Termination Liability @ 3.00%
\$ 9,056,500	\$ 16,839,974	53.80%	\$ 7,783,474	\$ 15,638,859	57.90%	\$ 6,582,359

PEPRA MISCELLANEOUS PLAN

Market Value of Assets (MVA)	Hypothetical Termination Liability ^{1,2} @ 2.50%	Funded Status	Unfunded Termination Liability @ 2.50%	Hypothetical Termination Liability ^{1,2} @ 3.25%	Funded Status	Unfunded Termination Liability @ 3.25%
\$ 316,370	\$ 567,371	55.80%	\$ 251,001	\$ 487,384	64.90%	\$ 171,014

¹ The hypothetical liabilities calculated above include a 5 percent mortality contingency load in accordance with CalPERS's Board policy.

² The current discount rate assumption used for termination valuations is a weighted average of the 10-year and 30-year U.S. Treasury yields where the weights are based on matching asset and liability durations as of the termination date. The discount rates used in the table are based on 20-year Treasury bonds, rounded to the nearest quarter percentage point, which is a good proxy for most plans. The 20-year Treasury yield was 2.91 percent on June 30, 2018, and was 2.83 percent on January 31, 2019.

In order to terminate the plan, the Authority must first contact the Retirement Services Contract Unit to initiate a Resolution of Intent to terminate. The completed Resolution will allow the plan actuary to give the Authority a preliminary termination valuation with a more up-to-date estimate of the plan liabilities. CalPERS advises the Authority to consult with the plan actuary before beginning this process.

Note 6 - Deferred Compensation Plan

The Authority offers its full-time employees a deferred compensation plan in accordance with Internal Revenue Code §457. The plan permits the employee to defer until future years up to 25% of annual gross earnings not to exceed \$18,000; this amount increases to \$24,000 for employees 50 years and older. Assets are not available to participants for disbursement until termination, retirement, death, or an emergency.

The Authority does not fund the compensation deferred under the Plan except for \$1,533 per month contributed on behalf of the Executive Officer per the employment agreement. The contributions are held in investments that are underwritten by ICMA Retirement Corporation. Periodic contributions are made through payroll deductions of the employees and all plan fees associated with the accounts are the responsibility of the individual employee.

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

Note 7 - Long-Term Obligations

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

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
OPEB	\$ 192,265	\$ 19,973	\$ 86,013	\$ 126,225	\$ -
Compensated absences	264,325	97,850	218,540	143,635	143,635
Totals	<u>\$ 456,590</u>	<u>\$ 117,823</u>	<u>\$ 304,553</u>	<u>\$ 269,860</u>	<u>\$ 143,635</u>

FORT ORD REUSE AUTHORITY
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Note 8 - Compensated Absences

The Authority's liability for accrued vacation and sick pay at June 30, 2019 was \$143,635. Of this amount, the Authority's management estimates \$143,635 will be due in next fiscal year.

Note 9 - Post Employment Benefits Other than Pensions

The Authority's liability for OPEB at June 30, 2019 was \$126,225.

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. 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. The Authority's Board will terminate all benefits at June 30, 2020, as per legislative sunset provisions, with an effective date of January 1, 2021.

Eligibility

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. Membership in the plan consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

Active plan members	16
Inactive employees or beneficiaries currently receiving benefit payments	3
Inactive employees entitled to but not yet receiving benefit payments	_____
Total	19

Contribution

The obligation of the Authority to contribute to the plan is established and may be amended by the Board. For the fiscal year ended June 30, 2019, the Authority makes contributions based on an actuarially determined rate.

Actuarial assumptions

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Funding method	Entry Age Normal Cost, level percent of pay
Discount Rate	3.15% as of June 30, 2019 and 3.50% as of June 30, 2018
Inflation	2.75%
Aggregate payroll Increases	3.00%
Mortality Improvement Scale	SOA RPH-2014 Total Dataset Mortality Table fully generation using Scale MP-2017
Healthcare Tread Rate	An annual healthcare cost trend rate of 6.50% initially reduced by decrements to an ultimate of 5.0% thereafter.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.15 percent. The projection of cash flows used to determine the discount rate assumed that Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

FORT ORD REUSE AUTHORITY
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Change in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
	(a)	(b)	(c) = (a) - (b)
Balance at June 30, 2018	\$ 192,265	\$ -	\$ 192,265
Changes Recognized for the Measurement Period:			
Service Cost	18,960	-	18,960
Interest on the total OPEB liability	5,888	-	5,888
Changes of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes of assumptions	(4,875)	-	(4,875)
Contributions from the employer	-	86,013	(86,013)
Net investment income	-	-	-
Administrative expenses	-	-	-
Benefit payments	(86,013)	(86,013)	-
Net Changes during July 1, 2018 to June 30, 2019	(66,040)	-	(66,040)
Balance at June 30, 2019 (Measurement Date)	\$ 126,225	\$ -	\$ 126,225

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the City, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.15 percent) or 1-percentage-point higher (4.15 percent) than the current discount rate:

Plan's Net OPEB Liability (Asset)		
Discount Rate - 1%	Current Discount Rate	Discount Rate + 1%
\$ 124,604	\$ 126,225	\$ 127,607

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.5 percent) or 1-percentage-point higher (7.5 percent) than the current healthcare cost trend rates:

Plan's Net OPEB Liability (Asset)		
Current		
Current Trend Rate - 1%	Healthcare Cost Trend Rate	Current Trend Rate + 1%
\$ 123,760	\$ 126,225	\$ 128,665

Note 10 – Health Care Plan

During the fiscal year ending June 30, 2019, 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 \$1,909 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
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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 2019.

o Unearned Revenue

The Authority's share of unspent, unearned Army grant revenue at June 30, 2019 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, 2019, no sales 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. **\$59,087** - 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, which accrues interest at 1%, 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 \$59,087 is recorded as deferred revenue and deferred inflows of resources.

FORT ORD REUSE AUTHORITY
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2. **\$739,589 - 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 was 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 \$597,697. DRO agrees to repay the remaining balance of \$597,697 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 \$739,589 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 required specific MEC removal activities before they are 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 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.

The ESCA Remediation Program (RP) has been underway for approximately 12 years. The ESCA property was transferred to Authority ownership on May 8 2009. Approximately 2,600 acres of ESCA property remain in the Authority's ownership as of June 30, 2019.

The ESCA properties have received Records of Decision (RODs), documenting controls required to protect public health and safety, and Land Use Control Implementation Plan/Operation and Maintenance Plans (LUCIP/OMP) implementing, operating and maintaining ROD controls tailored to individual site conditions and historic MEC use. The Final ESCA LUCIP/OMP documents were accepted by the Army and Regulators in February 2019. The ESCA properties received the last EPA Remedial Action Completion letter February 2019. The EPA has outlined the requirements for a site-wide ESCA remedial completion and associated site-wide EPA Remedial Action Completion documents which are in progress. ESCA property cannot be transferred to the jurisdictions and remain closed for public access until DTSC Covenants Restricting Use of Property amendments, Army deed modifications and issuance of the Army CERCLA Warranties/Deed Amendments are completed. In 2019, FORA has requested the Army CERCLA Warranties/Deed Amendments for the ESCA Del Rey Oaks, Monterey Regional Parks District, CSUMB Off-Campus, Seaside and MPC properties.

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2019

Of the \$98 million that FORA ESCA RP received, FORA paid \$82.1 million up front, to secure an AIG “cost-cap” insurance policy up to \$128 million. AIG controlled the \$82.1 million in a “commutation” account and paid Arcadis directly as work was performed. Under those agreements, AIG paid Arcadis directly while FORA oversaw Arcadis compliance with the ESCA and AOC requirements. On January 25, 2017, Arcadis notified FORA that the ESCA commutation account was exhausted and that future Arcadis work would be paid under the terms of the AIG “cost-cap” insurance policy until March 30, 2019. Starting April 2019, the Army ESCA Contingent Funds have been used to pay for ESCA work.

ESCA Amendment 2017: ESCA Remedial Action Completion has initiated Army Long-Term Obligations (LTO) on ESCA property. On December 20, 2017, the Authority signed another ESCA amendment for \$6,846,204. The purpose of this Modification is to amend the ESCA to add additional requirements (Administrative Funds, Post-Closure MEC find Assessments, and Long-Term/Land Use Controls (LUC) Management), and to reduce the period of performance from March 30, 2037 to June 30, 2028. As a result of ESCA Agreement Modification 0009 the maximum funding obligation has been increased by \$6,846,204 from \$99,316,187 to \$106,162,391.

FORA (and its Successor) will need continued qualified ESCA LTO support services through 2028. May 2019 the FORA Board adopted Resolution 19-05 authorizing the FORA Executive Officer to retain the current ESCA team of Arcadis, Westcliffe Engineers, Inc. and Weston Solutions, Inc. to assist FORA by providing LTO support services at a cost not to exceed \$1,328,741. In June, FORA contracted with these three firms to provide ESCA LTO Support Services until 2028.

ESCA Amendments 2019: In 2018, Army BRAC Headquarters (HQ) in Washington D.C. changed their document review and approval process resulting in extended Army review of ESCA documents, driving ESCA work/costs beyond the March 30, 2019 AIG cost-cap insurance termination date. On August 2018, the FORA Board authorized the FORA Executive Officer and FORA Special Counsel, to enter into Army negotiations for additional funds covering ESCA costs beyond the AIG cost-cap insurance policy expiration date. On February 20, 2019, Army BRAC HQ and Army Corps of Engineers contract support team visited/inspected the ESCA properties to finalize the Scope of Work and Estimate. On March 31, 2019, FORA received ESCA Agreement Modification 00010 with \$343,455 of Army funds covering ESCA costs beyond the AIG cost-cap insurance policy expiration date increasing the maximum Army ESCA Funding obligation from \$106,162,391 to \$106,505,646.

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.

REQUIRED SUPPLEMENTARY INFORMATION

Draft

FORT ORD REUSE AUTHORITY
Budgetary Comparison Information
Budget and Actual - All Funds
For the Fiscal Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows)				
Membership dues	\$ 310,928	\$ 310,928	\$ 310,928	\$ -
Franchise fees	712,557	721,557	463,945	(257,612)
Property taxes	2,974,613	2,974,613	3,000,505	25,892
Federal grants	1,129,167	1,078,135	801,069	(277,066)
Developer fees	10,734,756	10,734,756	7,043,958	(3,690,798)
Lease/Rental income	50,000	50,000	98,552	48,552
Investments/Interest earnings	161,490	281,490	523,290	241,800
Other revenue	5,000	5,000	855	(4,145)
Amounts available for appropriation	<u>16,078,511</u>	<u>16,156,479</u>	<u>12,243,102</u>	<u>(3,913,377)</u>
Charges to Appropriations (Outflows)				
Salaries and benefits	2,902,432	2,797,745	2,713,499	84,246
Supplies and services	536,025	536,025	437,442	98,583
Contractual services	2,112,350	2,472,350	1,488,398	983,952
Capital improvements	29,701,327	26,520,871	9,486,363	17,034,508
Insurance amortization			170,520	(170,520)
Total charges to appropriations	<u>35,252,134</u>	<u>32,326,991</u>	<u>14,296,222</u>	<u>18,030,769</u>
Surplus (Deficit)	<u>\$ (19,173,623)</u>	<u>\$ (16,170,512)</u>	<u>\$ (2,053,120)</u>	<u>\$ 14,117,392</u>

FORT ORD REUSE AUTHORITY
Cost-Sharing Multiple-Employer Defined Pension Plan - Last 10 Years*
For the Fiscal Year Ended June 30, 2019

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

	<u>Miscellaneous Plan Fiscal Year 2014-2015</u>		<u>Miscellaneous Plan Fiscal Year 2015-2016</u>		<u>Miscellaneous Plan Fiscal Year 2016-2017</u>		<u>Miscellaneous Plan Fiscal Year 2017-2018</u>
Plan's proportion of the Net Pension Liability (Asset)	0.590430%		0.05410%		0.039445%		0.026709%
Plan's proportionate share of the Net Pension Liability (Asset)	\$ 1,459,235	\$	1,484,295	\$	1,370,283	\$	1,052,889
Covered employee payroll	\$ 1,354,733	\$	1,438,162	\$	1,607,692	\$	1,799,389
Plan's proportionate share of the Net Pension Liability (Asset) as a percentage of its covered employee payroll	107.71%		103.21%		85.23%		58.51%
Plan's fiduciary net position	\$ 5,759,729	\$	6,217,932	\$	6,423,004	\$	7,669,722
Plan fiduciary net position as a percentage of total pension liability	79.79%		80.73%		82.42%		87.93%
			<u>Miscellaneous Plan Fiscal Year 2018-2019</u>				
Plan's proportion of the Net Pension Liability (Asset)			-0.006732%				
Plan's proportionate share of the Net Pension Liability (Asset)	\$		(253,703)				
Covered employee payroll	\$		1,891,303				
Plan's proportionate share of the Net Pension Liability (Asset) as a percentage of its covered employee payroll			-13.41%				
Plan's fiduciary net position	\$		9,479,651				
Plan fiduciary net position as a percentage of total pension liability			102.75%				

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

Draft

FORT ORD REUSE AUTHORITY
Cost-Sharing Multiple-Employer Defined Pension Plan - Last 10 Years*
For the Fiscal Year Ended June 30, 2019

Schedule of Contributions

	Miscellaneous Plan Fiscal Year 2014-2015	Miscellaneous Plan Fiscal Year 2015-2016	Miscellaneous Plan Fiscal Year 2016-2017	Miscellaneous Plan Fiscal Year 2017-2018
Actuarially determined contribution	\$ 203,703	\$ 223,235	\$ 257,685	\$ 275,892
Contributions in relation to the actuarially determined contributions	(203,703)	(223,235)	(646,827)	(1,302,576)
Contributions deficiency (excess)	<u>-</u>	<u>-</u>	<u>(389,142)</u>	<u>(1,026,684)</u>
Covered employee payroll	\$ 1,438,161	\$ 1,607,692	\$ 1,799,389	\$ 1,891,303
Contributions as a percentage of covered employee payroll	14.16%	13.89%	35.95%	68.87%
	<u>Miscellaneous Plan Fiscal Year 2018-2019</u>			
Actuarially determined contribution	\$ 166,160			
Contributions in relation to the actuarially determined contributions	(166,160)			
Contributions deficiency (excess)	<u>-</u>			
Covered employee payroll	\$ 1,948,042			
Contributions as a percentage of covered employee payroll	8.53%			

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

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FORT ORD REUSE AUTHORITY
SCHEDULE OF CHANGE IN NET OPEB LIABILITY AND RELATED RATIOS
Last 10 Years*
As of June 30, 2019

Employer Fiscal Year End Measurement Period	2017-18 2017-18 ¹	2018-19 2018-19 ¹
Total OPEB Liability		
Service Cost	\$ 18,515	\$ 18,960
Interest on the Total OPEB Liability	7,646	5,888
Changes of Benefit Terms	-	-
Difference between Expected and Actual Experience	-	-
Changes of Assumptions	116	(4,875)
Benefit Payments	(80,764)	(86,013)
Net Change in Total OPEB Liability	(54,487)	(66,040)
Total OPEB Liability - Beginning	246,752	192,265
Total OPEB Liability - Ending	\$ 192,265	\$ 126,225
OPEB Fiduciary Net Position		
Contributions from the Employer	\$ 80,764	\$ 86,013
Net Investment Income	-	-
Administrative Expenses	-	-
Benefit Payments	(80,764)	(86,013)
Net Change in Plan Fiduciary Net Position	-	-
Plan Fiduciary Net Position - Beginning	-	-
Plan Fiduciary Net Position - Ending	\$ -	\$ -
Plan Net OPEB Liability - Ending	\$ 192,265	\$ 126,225
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%	0.00%
Covered-Employee Payroll	\$ 1,891,000	\$ 1,947,730
Net OPEB Liability as a Percentage of Covered-Employee Payroll	10.17%	6.48%

¹ Historical information is required only for measurement periods for which GASB 75 is applicable.

Notes to Schedule:

Changes of assumptions: In 2018, the accounting discount rate reduced from 3.40 percent to 3.50 percent
In 2019, the accounting discount rate reduced from 3.50 percent to 3.15 percent.

FORT ORD REUSE AUTHORITY
SCHEDULE OF CONTRIBUTIONS - OPEB
Last 10 Years*
As of June 30, 2019

	<u>2018</u>	<u>2019</u>
Contractually Required Contribution - Authority	\$ 80,764	\$ 86,013
Contributions - Authority	(80,764)	(86,013)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,891,000	\$ 1,947,730
Contributions as a percentage of covered employee payroll	4.271%	4.416%

* GASB 75 requires this information for plans funding with OPEB trusts be reported in the employer's Required Supplementary Information for 10 years or as many years as are available upon implementation. Fiscal year 2018 was the 1st year of implementation, therefore only two fiscal years are shown.

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FORT ORD REUSE AUTHORITY

SINGLE AUDIT REPORT

JUNE 30, 2019

Draft



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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, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 19, 2019.

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

Moss, Levy & Hartzheim, LLP
Culver City, California
December 19, 2019

Draft



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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, 2019. 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, 2019.

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
December 19, 2019

FORT ORD REUSE AUTHORITY
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

<u>Description and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
DEPARTMENT OF DEFENSE		
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>\$ 801,069</u>
 Total Expenditures of Federal Awards		 <u><u>\$ 801,069</u></u>

Draft

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, 2019

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, 2019**

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)

12.000

Name of Federal Program Cluster

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, 2019**

Section II – Findings – Financial Statement Audit

None

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

None

Draft

**FORT ORD REUSE AUTHORITY
Single Audit Report
Status of Prior Fiscal Year Findings
For the Fiscal Year Ended June 30, 2019**

Prior Fiscal Year's Findings – Financial Statement Audit

None

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

None

Draft