

**FORT ORD REUSE AUTHORITY**  
***Marina, California***

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**Annual Financial Report**  
**June 30, 2007**

**Board of Directors**

**Voting Members**

**Representing**

**Title**

Mayor Russell	City of Del Rey Oaks	Chair
Mayor Rubio	City of Seaside	1 <sup>st</sup> Vice Chair
Supervisor Smith	County of Monterey	2 <sup>nd</sup> Vice Chair
Mayor McCloud	City of Carmel-by-the-Sea	Director
Mayor Mettee-McCutchon	City of Marina	Director
Council Member Wilmot	City of Marina	Director
Mayor Della Sala	City of Monterey	Director
Supervisor Calcagno	County of Monterey	Director
Supervisor Potter	County of Monterey	Director
Council Member Davis	City of Pacific Grove	Director
Council Member Barnes	City of Salinas	Director
Mayor Pendergrass	City of Sand City	Director
Council Member Mancini	City of Seaside	Director

**Appointed Official**

Michael A. Houlemard, Jr.  
Executive Director

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Fort Ord Reuse Authority  
Marina, California



LIMITED LIABILITY PARTNERSHIP  
CERTIFIED PUBLIC ACCOUNTANTS

729 Sunrise Avenue, Suite 200

Roseville, California 95678

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Ord Reuse Authority, as of and for the year ended June 30, 2007, which collectively comprise the Fort Ord Reuse Authority basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fort Ord Reuse Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Ord Reuse Authority, as of June 30, 2007, and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

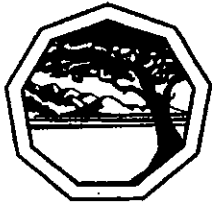
The Management's Discussion and Analysis, budgetary comparison information, and schedule of funding progress listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors  
Fort Ord Reuse Authority  
Marina, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fort Ord Reuse Authority's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Nicholson & Olson*

Certified Public Accountants  
Roseville, California  
September 28, 2007



# FORT ORD REUSE AUTHORITY

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

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WEBSITE: [www.fora.org](http://www.fora.org)

## FORT ORD REUSE AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2007

For the fiscal year beginning July 1, 2003, the Fort Ord Reuse Authority was required to implement Government Accounting Standards Board (GASB) Statement Number 34 "Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments". GASB developed these standards to require annual financial reports to be more comprehensive and to assist outside users, such as financial institutions and bondholders to assess the entire finances of the government entity. Unless otherwise specified, GASB statements apply to financial reports of all state and local governments.

This is management's discussion and analysis (MD&A) of the financial performance of the Fort Ord Reuse Authority (FORA) for the fiscal year ended June 30, 2007.

### FINANCIAL HIGHLIGHTS

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- FORA and the U.S. Army executed an Environmental Services Cooperative Agreement (ESCA), granting FORA approximately \$100 million to remediate munitions and explosives of concern (MEC) on certain remaining not transferred properties.
- FORA collected \$6.2 million in land sale proceeds.
- FORA collected \$5.7 million in development fees.
- FORA completed \$5.9 million in roadway improvements.
- FORA funded \$10.5 million in building removal projects.
- FORA realized \$800,000 interest income on its investments.
- FORA's total assets increased over the course of the fiscal year by \$1 million from \$17.3 million to \$18.3 million.
- At the end of the 2007 fiscal year, unreserved fund balance in the General Fund increased from \$2.4 million to \$2.9 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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This MD&A is intended to serve as an introduction to the FORA's basic financial statements. FORA's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The *government-wide financial statements* provide both long-term and short-term information about FORA's overall financial status and inform how FORA's general government services were financed in the short term as well as what remains for future spending. The *fund financial statements* focus on individual parts of FORA's government and report FORA's operations in more detail than the government-wide statements. The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

## Government-wide Financial Statements

The government-wide financial statements provide information about FORA activities as a whole and present a comprehensive overview of FORA's finances.

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

The *statement of activities* presents information showing how the FORA's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, all the current year's revenues and expenses are reported in the statement of activities regardless of when cash is received or paid. The focus of the government-wide statement of activities is on the net cost of governmental activities provided by a governmental entity.

FORA was engaged in the following types of activities:

*Governmental Activities:* During the 2006-2007 fiscal year FORA's activities included: general administration and planning; property surveying and transfers; infrastructure development; habitat conservation planning; water augmentation planning; insurance policy and liability protection issues; real property planning and development, MEC remediation planning, analysis, and implementation; deconstruction; and construction activities. Membership dues, tax increment payments, federal grants, land sale/lease proceeds, and development fees financed most of these activities.

The government-wide financial statements depicting financing of FORA's major programs can be found on pages 8-9 of this report.

## Fund Financial Statements

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

*Governmental Funds:* All of the FORA's services and activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. FORA maintains 6 individual governmental funds and for financial reporting purposes these funds have been combined into two groupings: the General Fund and Special Revenue Funds. The General Fund accounts for all of FORA's financial resources except for those resources that must be accounted for in Special Revenue Funds, which are restricted as to expenditures.

The fund financial statements can be found on pages 10-13 of this report.

## FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements provide long-term and short-term information about FORA's overall financial condition. In accordance with GASB Statement No. 34, FORA is not required to restate financial information from prior periods for the purpose of providing comparative information for this analysis.

Net assets of FORA's governmental activities increased from \$1.8 million to \$4 million. This amount was comprised of \$29,500 invested in capital assets, \$1.2 million in amounts legally restricted, and \$1.1 million classified as unrestricted.

### Revenues

FORA's total revenues increased from \$12.4 million to \$59 million. This increase was attributable mainly to the federal funding awarded to FORA for MEC remediation services and to increased collection of development fees over the previous fiscal year. The federal funding provided 68% of the total revenue; land sale/lease proceeds designated to financing building removal program provided 15% of the total revenue; development fees designated to financing capital projects provided 10%; other revenue sources such as property tax increment, membership dues, and investment earnings provided the remaining 7% of the total revenue.

### Expenses

The cost for all governmental activities this year was \$59 million. The General Fund paid for \$2.4 million of these costs. Federal grant, development fees, land sale/lease proceeds, FORA member contributions, and loan proceeds funded the balance of the costs.

The government-wide financial statement showing the net cost of each of FORA's major project can be found on page 9 of this report.

## FINANCIAL ANALYSIS OF THE FUND STATEMENTS

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Reporting standards require that a major governmental fund (must satisfy a 10% threshold condition test) be presented in a separate column in the fund financial statements. In accordance with GASB Stmt. No. 34, paragraph 72, FORA has elected to report all its special revenue funds as major funds because these funds are important to financial statement users. The General Fund is always considered a major fund and therefore presented in a separate column. The fund financial statements focus on individual parts of FORA's government.

The governmental funds provide information on near-term inflows, outflows and balances of expendable resources. As FORA completed the fiscal year, its governmental funds reported a combined fund balance of \$16.4 million; an increase of \$2 million over the previous fiscal year. The increase has been used to establish or increase designation of fund balance, such as designations to the capital improvement program.

FY	General Fund	Land Sale/Leases	Developer Fees	Pollution Liability	ET/ESCA	TOTALS
2005-2006	3,681,395	423,777	5,040,481	5,284,185	-	14,429,838
2006-2007	4,102,907	1,643,787	5,133,825	4,695,985	860,164	16,436,668
Change + (-)	421,512	1,220,010	93,344	(588,200)	860,164	2,006,830

## FUND BUDGETARY HIGHLIGHTS

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A budget is a plan of financial operations that provides a basis for the planning, controlling, and evaluating of governmental activities. Governmental funds generally use a fixed budget, which reflects a specific estimate for revenues and expenditures. Once expenditures and revenues are incorporated into the budget, the total estimated expenditure appropriation amount becomes a limit for current expenditures, and the estimated revenue amount becomes the basis for comparison to actual revenues. Even though FORA is not legally subject to any budgetary controls, the budget is included as a part of the general accounting record, and it is used as a guide to controlling expenses.

The FORA Board approved the FY 06-07 budget on June 9, 2006. The mid-year budget update was presented to the Board on March 9 and April 13, 2007.

### Budget Variances

#### **B) General Fund**

##### Revenues: \$340,403 favorable variance

FORA realized slightly increased revenues in almost all funding categories. In this regard, the most significant variances were:

- FORA collected \$168,213 in planning reimbursements; in the last quarter of the 2006-2007 fiscal year FORA collected reimbursements from member jurisdictions for the survey work related to transfer of EDC properties.
- FORA realized \$111,096 increase in investment earnings; the actual return on investments was higher than anticipated in the budget.

##### Expenditures: \$209,192 favorable variance

FORA was able to allocate staff time and related office expenses to the ET/ESCA fund. The budget did not anticipate receipt of this federal funding before June 30, 2007. The savings in the contractual services amount represents slower progression in some projects such as the IOP project, environmental consulting, and legal expenses; these projects and remaining balances were carried over to next FY.

#### **B) Special Revenue Funds**

Budget variances in special revenue funds were mainly attributable to receiving the ET/ESCA award in April 2007.

##### Revenues: \$36.7 million favorable variance

- FORA collected \$40 million from the U.S. Army in April 2007, to pay for MEC cleanup activities.
- FORA did not collect \$3.7 million from Marina Heights; the budget anticipated collecting these development fees in FY 2006-2007.

##### Expenditures: \$34.8 million unfavorable variance

FORA processed payments of about \$39 million to AIG and LFR in consideration for: stop loss, PLL, and environmental insurance policies; munitions remediation planning and regulatory processing, and other work related to deploying the ESCA grant.

The budget saving of \$4.8 million in capital improvements was attributable to delayed progression of the roadway improvements along the General Jim Moore Boulevard and building removal activities at the Dunes of Monterey Bay project site.

The comparative statements of budgeted and actual revenues and expenditures for the General Fund and Special Revenue Funds can be found on pages 30 and 31 of this report.



## LONG-TERM DEBT

At June 30, 2007, FORA had \$12.3 million in long-term debt consisting of:

\$3.6 million debt on the 2002 Series A and Series B Revenue Bonds, \$4.3 million debt on the PLL Insurance loan, \$3.8 million debt on the line of credit (LOC), and a \$675,000 capital lease equipment purchase obligation. The bonds will be repaid from lease revenue proceeds, with final maturity August 2014. The premium for the PLL insurance policy is financed through a 7-year loan from a bank; participating jurisdictions/agencies reimburse FORA for their portions of the premium and financing costs. The LOC draw downs are repaid by land sale/lease proceeds, and by the East Garrison developer who pays interest on LOC advances of up to \$4.1 million in lieu of deferred land sale proceeds from East Garrison land. The capital lease obligation was incurred in 2003 to purchase firefighting equipment and will be repaid by development fees by 2014. More detailed information about FORA's total long-term liabilities is presented on pages 23-26, Notes 7-10 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

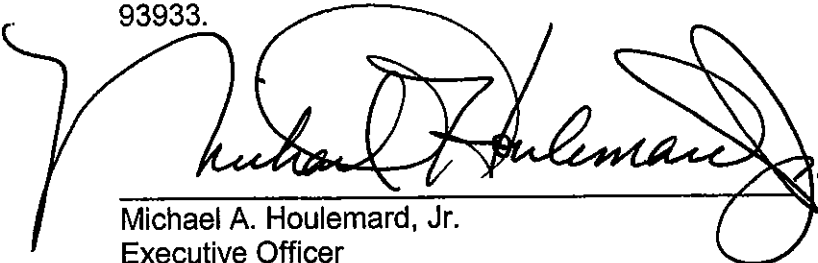
It is anticipated that FORA may accumulate a revenue surplus in the next three to five years. The surplus will come predominantly from property transaction proceeds and current projections forecast all capital programs and projects to have sufficient funds for administrative and implementation activities. There are a few areas where resources/expenses remain imprecise but will be better defined during the 2007-2008 fiscal year. Those are:

1. Uncertainty in the underlying market for all forms of real property development, especially housing;
2. Still unknown cost figures for habitat conservation;
3. Funding for remaining required cleanup of the former Fort Ord; and
4. Capital needs for augmenting current water supply.

FORA completed the terms of the ESCA, which provides funding for the remaining munitions cleanup to FORA. In concert with this agreement, the U.S. Army is processing the transfer of the remaining 3,400 acres of EDC property to FORA. Once this transfer and the related habitat planning occur, FORA's capital needs, cleanup activities, and habitat costs will become known. FORA is expected to coordinate with MCWD modifications of the capital program schedule for completing water resource augmentation infrastructure needs in the coming year.

## CONTACTING FORA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of FORA's finances, and to demonstrate FORA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Fort Ord Reuse Authority, Executive Officer, 100 12<sup>th</sup> Street, Building #2880, Marina, California, 93933.



Michael A. Houlemard, Jr.  
Executive Officer

## ***FINANCIAL STATEMENTS***

# FORT ORD REUSE AUTHORITY

## Government-wide Financial Statements

### Statement of Net Assets

June 30, 2007

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 10,919,994
Cash with fiscal agent	1,197,987
Accounts receivable:	
Due within one year	1,397,944
Due in more than one year	125,607
Interest receivable	21,863
Prepaid expenses	19,698
Prepaid insurance, net	4,500,000
Bond issue cost, net	79,142
Capital assets, net	29,499
	<hr/>
Total Assets	18,291,735
	<hr/>
<b>LIABILITIES</b>	
Accounts payable	1,784,716
Interest payable	15,851
Deferred revenue	25,000
Long-term debt and obligations:	
Due within one year	1,323,161
Due in more than one year	11,067,359
	<hr/>
Total Liabilities	14,216,087
	<hr/>
<b>NET ASSETS</b>	
Investment in capital assets	29,499
Restricted	1,197,987
Unrestricted	1,083,354
	<hr/>
Total Net Assets	\$ 4,075,648
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See accompanying notes to financial statements

# FORT ORD REUSE AUTHORITY

## Government-wide Financial Statements

### Statement of Activities

June 30, 2007

Functions/Programs	Program Expenses	Program Revenues Grants and Fees	Net (Expense) Revenue Governmental Activities
General operations	\$ 1,099,124	\$ 532,159	\$ (566,965)
Capital improvements	6,739,315	6,471,490	(267,825)
Building removal (net of \$3 million credit)	7,478,545	7,599,182	120,637
Environmental cleanup	39,146,661	40,000,000	853,340
Reuse planning/EDC transfers & environmental	1,873,033	2,280,637	407,604
	55,237,553	56,351,309	1,113,756
Interest on long-term debt and short-term debt	658,292	-	(658,292)
Total governmental activities	56,994,969	56,883,468	(111,501)
<b>General revenues</b>			
Property tax revenues			868,766
Membership dues			257,528
Franchise fees			202,853
Investment earnings			1,024,618
Change in net assets			2,242,264
Net assets, beginning of year			1,833,384
Net assets, end of year			\$ 4,075,648

See accompanying notes to financial statements

**FORT ORD REUSE AUTHORITY**

**Fund Financial Statements  
Balance Sheet  
Governmental Funds  
June 30, 2007**

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	Army Grant ET/ESCA	Total Governmental Funds
<b>ASSETS</b>						
Cash and investments	\$ 3,200,692	\$ 1,216,097	\$ 5,216,462	\$ 237,263	\$ 1,049,480	\$ 10,919,994
Cash with fiscal agent	715,197	-	482,790	-	-	1,197,987
Accounts receivable - due within one year	653,718	733,426	10,800	-	-	1,397,944
Account receivable - due after one year	50,457	-	75,150	-	-	125,607
Interest receivable	-	21,863	-	-	-	21,863
Due from other funds	116,022	-	-	-	-	116,022
Prepaid expenses	19,698	-	-	-	-	19,698
Prepaid insurance, net	-	-	-	4,500,000	-	4,500,000
Bond issue cost, net	79,142	-	-	-	-	79,142
<b>Total Assets</b>	<b>\$ 4,834,927</b>	<b>\$ 1,971,386</b>	<b>\$ 5,785,202</b>	<b>\$ 4,737,263</b>	<b>\$ 1,049,480</b>	<b>\$ 18,378,258</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts payable	\$ 732,020	\$ 327,598	\$ 651,377	\$ 426	\$ 73,294	\$ 1,784,716
Interest payable	-	-	-	15,851	-	15,851
Due to other funds	-	-	-	-	116,022	116,022
Deferred revenue	-	-	-	25,000	-	25,000
<b>Total Liabilities</b>	<b>732,020</b>	<b>327,598</b>	<b>651,377</b>	<b>41,278</b>	<b>189,317</b>	<b>1,941,590</b>
<b>Fund Balances (see note 13, pages 27-28)</b>						
Reserved	149,297	733,426	557,940	4,500,000	-	5,940,663
Unreserved:						
Designated	1,000,324	910,362	4,575,885	195,985	860,164	7,542,719
Undesignated	2,953,286	-	-	-	-	2,953,286
<b>Total Fund Balances</b>	<b>4,102,907</b>	<b>1,643,787</b>	<b>5,133,825</b>	<b>4,695,985</b>	<b>860,164</b>	<b>16,456,668</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,834,927</b>	<b>\$ 1,971,386</b>	<b>\$ 5,785,202</b>	<b>\$ 4,737,263</b>	<b>\$ 1,049,480</b>	<b>\$ 18,378,258</b>

# FORT ORD REUSE AUTHORITY

## Fund Financial Statements

### Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets

June 30, 2007

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**Fund Balances - Total Governmental Funds (page 10)** \$ 16,436,668

Amounts reported in the Governmental Activities column  
in the Statement of Net Assets are different because:

#### Capital Assets

Capital assets used in governmental activities were  
not current financial resources. Therefore, they  
were not reported in the Governmental Funds  
Balance Sheet. Capital assets were adjusted as follows:

Depreciable capital assets, net of accumulated depreciation 29,499

#### Long-term Debt Payments

Long-term liabilities were not due and payable in  
the current period. Therefore, they were not  
reported in the Governmental Funds Balance Sheet.

Capital lease obligations	\$ (675,129)	
Bonds payable, net	(3,580,000)	
PLL Loan payable	(4,285,714)	
LOC Payable	(3,798,902)	
Compensated absences	(50,773)	(12,390,519)

**Net Assets - Government-wide Financial Statements (page 8)** \$ 4,075,648

**FORT ORD REUSE AUTHORITY**

**Fund Financial Statements  
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
Year Ended June 30, 2007**

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	Army Grant ET/ESCA	Governmental Funds
<b>REVENUES</b>						
Membership dues	\$ 257,528	\$ -	-	\$ -	\$ -	\$ 257,528
Franchise fees	202,853	-	-	-	-	202,853
Property tax increment	868,766	-	-	-	-	868,766
Federal grants	-	-	-	-	40,000,000	40,000,000
Developer fees	-	-	5,727,306	-	-	5,727,306
Construction reimbursements	744,185	-	-	-	-	744,185
Planning reimbursements	168,213	-	-	-	-	168,213
Legal reimbursements	161,435	-	-	-	-	161,435
Annual Payments	-	-	-	983,657	-	983,657
Rental income	49,534	1,839,544	-	-	-	1,889,078
Real estate sales	-	6,946,704	-	-	-	6,946,704
Investment earnings	361,096	134,152	471,420	51,127	6,824	1,024,618
Other revenue	396	2,500	5,748	5,000	-	13,644
<b>Total Revenues</b>	<b>2,814,005</b>	<b>8,922,900</b>	<b>6,204,474</b>	<b>1,039,784</b>	<b>40,006,824</b>	<b>58,987,986</b>
<b>EXPENDITURES</b>						
Salaries and benefits	975,053	113,742	449,518	-	112,047	1,650,360
Supplies and services	105,496	4,340	56,092	3,557	6,703	176,188
Contractual services	515,018	397,808	248,527	-	35,527,910	36,689,263
Capital improvements	744,185	10,478,545	5,240,994	-	3,500,000	19,963,723
Amortization	13,190	-	-	600,000	-	613,190
<b>Total Expenditures</b>	<b>2,352,941</b>	<b>10,994,435</b>	<b>5,995,130</b>	<b>603,557</b>	<b>39,146,661</b>	<b>59,092,724</b>
<b>Revenues Over (Under) Expenditures</b>	<b>461,063</b>	<b>(2,071,535)</b>	<b>209,344</b>	<b>436,227</b>	<b>860,164</b>	<b>(104,738)</b>
<b>Other Financing Sources (Uses)</b>						
Debt service - Interest and fiscal charges	-	(414,933)	(36,523)	(206,836)	-	(658,292)
Debt service - Principal	-	(5,993,521)	(79,477)	(857,143)	-	(6,930,141)
Loan proceeds	6,700,000	-	-	-	-	6,700,000
Building removal credit	-	3,000,000	-	-	-	3,000,000
Operating transfers in	-	6,700,000	-	39,552	-	6,739,552
Operating transfers (out)	(6,739,552)	-	-	-	-	(6,739,552)
<b>Total Other Sources (Uses)</b>	<b>(39,552)</b>	<b>3,291,545</b>	<b>(116,000)</b>	<b>(1,024,426)</b>	<b>-</b>	<b>2,111,567</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>421,511</b>	<b>1,220,010</b>	<b>93,344</b>	<b>(588,200)</b>	<b>860,164</b>	<b>2,006,829</b>
Beginning Fund Balances	3,681,396	423,777	5,040,481	5,284,185	-	14,429,839
Ending Fund Balances	\$ 4,102,907	\$ 1,643,787	\$ 5,133,825	\$ 4,695,985	\$ 860,164	\$ 16,436,668

# FORT ORD REUSE AUTHORITY

## Fund Financial Statements

### Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-wide Statement of Activities Year Ended June 30, 2007

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**Net Change in Fund Balances - Total Governmental Funds (page 12)** \$ 2,006,829

Amounts reported in the Governmental Activities column  
in the Statement of Net Assets are different because:

#### Long-term Debt Payments

Repayment of long-term debt principal is an  
expenditure in the government funds financial  
statement, but the repayment reduces long-term  
liabilities in the Statement of Net Assets.

Repayment of capital lease obligations	79,477	
Repayment of bonds	360,000	
Repayment of loans	6,490,664	
Compensated absences	<u>5,294</u>	6,935,435

#### Proceeds from Loan Borrowing

Proceeds from long-term borrowing are reported  
as revenue in the governmental funds financial  
statement, but recorded as a liability in the  
Statement of Net Assets.

Loan proceeds to pay for building removal	<u>(6,700,000)</u>
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**Change in Net Assets - Government-wide Financial Statements (page 9)** \$ 2,242,264



**FORT ORD REUSE AUTHORITY**  
**Notes to Financial Statements**  
**June 30, 2007**

The notes to the statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Fort Ord Reuse Authority, as follows:

- Note 1 - Summary of Significant Accounting Policies
- Note 2 - Cash and Investments
- Note 3 - Property and Equipment
- Note 4 - Defined Benefit Pension Plan
- Note 5 - Deferred Compensation Plan
- Note 6 - Liability for Compensated Absences
- Note 7 - Long-Term Liabilities
- Note 8 - Capitalized Lease Obligations
- Note 9 - Bonds Payable
- Note 10 - Loans Payable
- Note 11 - Health Care Plan
- Note 12 - Commitments and Contingencies
- Note 13 - Fund Balance Designations
- Note 14 - Property Sales and Lease Income
- Note 15 - Contingent Note Receivable
- Note 16 - US Army Environmental Grant

**FORT ORD REUSE AUTHORITY**  
**Notes to Financial Statements**  
**June 30, 2007**

***Note 1 - Summary of Significant Accounting Policies***

A. Reporting Entity

The Fort Ord Reuse Authority (Authority) was created December 1993 under Title 7.85 of the California Government Code, Chapters 1-7. After approval by the California State Assembly Ways and Means Committee in April of 1994, the governor signed SB 899 into law on May 10, 1994. The Authority was incorporated in the State of California as an instrumentality and is considered a quasi-governmental agency. The Authority was established to prepare, adopt, finance and implement a plan for the future use and development of the territory previously occupied by the U.S. Army Fort Ord Military Post in Monterey County.

A 13-member board, which consists of various Monterey County Board of Supervisors and city council members from the surrounding area, governs the Authority. In addition, there are no component units as defined in the Governmental Accounting Standards Board Statement (GASB) No. 14 that are included in the Authority's reporting entity.

The Authority receives funding from local, state and federal governmental sources and must comply with the accompanying requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement, since 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.

Senate Bill No. 899 specifies that the "bill would become inoperative when the board determines that 80% of the territory of Fort Ord (that is designated for development or reuse in the plan prepared pursuant to the bill) has been developed or reused in a manner consistent with the plan, or June 30, 2014, whichever occurs first, and would be repealed on January 1, 2015."

B. Accounting Policies

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Authority are described below.

C. Basis of Presentation

The Financial Statement presentation, required by GASB statements no. 34, 37, and No. 38 provides a comprehensive, entity-wide perspective of the Authority's assets,

**FORT ORD REUSE AUTHORITY**  
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liabilities, and replaces the fund-group perspective previously required. The Authority now follows the "primary government's governmental activities" reporting requirements of GASB No. 34 that provides a comprehensive one-line look at the Authority's financial activities.

**D. Fund Accounting**

The accounts of the Authority are organized on the basis of funds and account groups. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Separate statements are provided as supplementary information, which presents the various funds are grouped into two governmental fund types, and a second category of account groups. They are as follows:

**1. Governmental Funds**

- a. *General Fund* is the general operating fund of the Authority and accounts for all revenues and expenditures of the Authority not encompassed within other funds. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.
- b. *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

**E. Basis of Accounting and Measurement Focus**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

**E. Basis of Accounting and Measurement Focus (continued)**

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

All Governmental Funds are accounted for using the modified accrual basis of

**FORT ORD REUSE AUTHORITY**  
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accounting. Revenues are recognized when they become both measurable and available to finance the expenditures of the current period (susceptible to accrual). Major revenue sources susceptible to accrual include all governmental grants that are unrestricted as to use and interest. FORA also receives grants that are considered earned to the extent of expenditures made under the provisions of the grant and are therefore recognized based upon expenditures incurred. Expenditures are recorded when the related fund liability is incurred.

All Governmental Funds are accounted for using a current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental Fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

**F. Budgetary Data**

The Authority is not required by state law to adopt annual budgets for the general and special revenue funds. An annual budget is however prepared, adopted by the Authority's Board, and included as a part of the general accounting record and used as a guide to controlling expenses. Each budget is prepared and controlled by the budget controller at the revenue and expenditure function/object level.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- A proposed draft budget is submitted to the Board for the fiscal year commencing the following July 1.
- Once the budget is approved, it can be amended only by approval of a majority of the members of the Board. Amendments are presented to the Board at their regular meetings.

**G. Use of Estimates**

Financial statement preparation in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**FORT ORD REUSE AUTHORITY**  
**Notes to Financial Statements**  
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H. Cash and Investments

Cash and cash equivalents held by the Authority are reported as cash and cash investments. Funds can spend cash at any time without prior notice or penalty. All investments with fiscal agents are also considered cash equivalents because they are highly liquid. Investments are stated at fair value.

I. Receivables and Payables

Grants, entitlements or shared revenues are recorded as receivables and revenues in the General and Special Revenue Funds when they are received or susceptible to accrual.

Management has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

J. Capital Assets

Furniture and equipment are stated on the actual cost basis. Capitalization level for fixed assets is \$500 per unit (including installation cost). Contributed fixed assets are recorded at their estimated fair market value at the time received. There were no contributed fixed assets in the fiscal year ending June 30, 2007. Fixed assets are depreciated over their estimated useful lives.

In accordance with the option provided by Government Accounting Principles Generally Accepted in the United States of America, Infrastructure assets such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting are not recorded on the Statement of Net Assets. Management has determined that the purpose of stewardship for capital expenses is satisfied without recording these assets.

J. Capital Assets

In addition, depreciation is not recorded on these capital expenses. In all cases, the infrastructure assets are owned by the Authority, as trustee, for a relatively short period of time.

During the reporting period the Authority received and/or owned real property assets transferred from the United States Government under an agreement dated June 23, 2000. These transfers included approximately 1,831 acres of land, buildings, and infrastructure within the cities of Marina and Seaside and the County of Monterey. As of June 30, 2007, the Authority owned 108 acres of the former Fort Ord land which

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included the following parcels:

- Preston Park Housing area
- FORA Complex
- 11<sup>th</sup> Street Parcels

The Authority, as trustee, is short-term property holding entity, transferring property to underlying jurisdictions for disposal/development, and retains a 50% interest in any future sale or leasing proceeds from any of these properties transferred for private development or for public non-institutional purposes. The total current value of these assets is estimated to be approximately \$100 million, of which the Authority is entitled to a 50% share. FORA is responsible for reporting financial elements of such transactions to the United States government through August 2007.

**K. Net Assets**

The Authority's net assets are classified as follows:

- Invested in capital assets - This represents the Authority's total investment in capital assets.
- Restricted net assets - Restricted net assets include resources that the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties or regulatory agencies that direct usage, or other impositions by contract or adopted covenants.
- Unrestricted net assets - Unrestricted net assets represent resources derived from franchise fees and membership dues. These resources are used for transactions relating the general operations of the Authority, and may be used at the discretion of the governing board to meet current expenses for any purpose.

**L. Long -Term Obligations**

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt. In the fund financial statements, long-term debt is not reported.

**M. Major Funds**

In accordance with GASB Stmt. No. 34, paragraph 72, the Authority has elected to report all its special revenue funds as major funds because they believe these funds are particularly important to financial statement users.

**FORT ORD REUSE AUTHORITY**  
**Notes to Financial Statements**  
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**Note 2 - Cash and Investments**

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 10,919,994
Cash and investments with fiscal agents	<u>1,197,987</u>
Total cash and investments	<u>\$ 12,117,981</u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$ 200
Deposits with financial institutions	2,697,552
Investments through a financial institution	<u>8,222,242</u>
Total cash and investments	<u>\$ 10,919,994</u>

The California Government Code requires California banks and savings and loan associations to secure a government agency's deposits, in excess of federal depository insurance, by pledging government securities as collateral. The market value of pledge securities must equal 110 percent of a government agency's deposits.

Investments are managed in compliance with the Investment policy adopted by the Authority's Board of Directors. Such investment policies authorized the Authority to invest in U.S. Treasury, U.S. Government, and U.S. Federal Agency Obligations, Commercial Paper, Bank Obligations, Mortgage-Backed Securities, Asset-Backed Securities, Corporate bonds, notes, and floating rate notes, taxable money market funds, and tax free instruments.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by a bond trustee is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S. Treasury Obligations	None
U.S. Agency Securities	None
Banker's Acceptances	180 days

**FORT ORD REUSE AUTHORITY**  
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Commercial Paper	270 days
Money Market Mutual Funds	N/A
Investment Contracts	30 years

**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. As of fiscal year end, the weighted average maturity of the investments is approximately 1.97 months. 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>
Certificates of Deposit	\$ 1,463,320	1.97 months average maturity
Mutual Funds	6,706,930	on demand
Money Market Funds	<u>51,992</u>	on demand
 Total	 <u>\$ 8,222,242</u>	

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Statistical ratings are generally not available for certificates of deposit, and mutual fund ratings vary by company.

**Concentration of Credit Risk**

The investment policy of the Authority contains limitations on the amount that can be invested in any type of investment or industry group beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Authority investments except U.S. Treasury obligations.

Investments in any one issuer that represents 5% or more of total investments by the Authority is as follows:

\$6,706,930 (61%) of the cash and investments are invested in 18 different mutual funds, all are eligible investment types.

**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



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

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

**Note 3 - Property and Equipment**

A summary of changes in capital assets is as follows:

	Balance July 1, 2006	Additions	Accumulated Depreciation	Balance June 30, 2007
Equipment and furniture	\$ 289,336	\$ 20,848	\$ 280,685	\$ 29,499

Depreciation expense was \$13,903 for the year ending June 30, 2007.

**Note 4 - Defined Benefit Pension Plan**

Plan Description

The Authority contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and Authority ordinance. Copies of PERS annual financial report may be obtained from their Executive Office, 400 "P" Street, Sacramento, California 95814.

**FORT ORD REUSE AUTHORITY**  
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Funding Status and Progress

Active plan participants are required to contribute 7% of their annual covered salary. FORA's Board of Directors approved an amendment to the contract with PERS, and agreed to pay the full 7% of the contributions required of Authority employees on their behalf and for their account. The Authority is required to contribute at an actuarially determined rate; the future 2007-2008 rate is 12.943% of annual covered payroll. The contribution requirements of plan members and the Authority are established and may be amended by PERS.

Annual Pension Cost

The Authority's annual pension cost of \$244,920 for PERS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) an 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by age, service and type of employment, (c) an inflation rate of 3%, and (d) a payroll growth rate of 3.25%.

Three-Year Trend Information for PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	\$ 203,300	100%	-0-
6/30/06	234,265	100%	-0-
6/30/07	244,920	100%	-0-

**Note 5 - Deferred Compensation Plan**

The Authority offers its full-time employees a deferred compensation plan in accordance with Internal Revenue Code §457. The plan permits the employee to defer until future years up to 25% of annual gross earnings not to exceed \$15,500. Assets are not available to participants for disbursement until termination, retirement, death, or an emergency.

The Authority does not fund the compensation deferred under the Plan except for \$833 per month contributed on behalf of the Executive Officer per the employment agreement. The contributions are held in investments that are underwritten by ICMA Retirement Corporation. Periodic contributions are made through payroll deductions of the employees and all plan fees associated with the accounts are the responsibility of the individual employee.

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

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**Note 6 - Liability for Compensated Absences**

Authority employees are allowed to accrue up to 10 days of sick leave and up to 20 days of vacation per year, depending on length of employment. Employees are permitted to carry over an unlimited amount of sick leave hours each calendar year; the carryover for vacation leave is limited to 120 hours. In the event of separation of employment, an employee is reimbursed for any unused vacation leave, and a portion of their unused sick leave (limited to 174 hours). Reimbursement is based on the employee's regular salary rate at the date of termination or resignation. Vacation leave becomes vested immediately and sick leave becomes vested after 5 years of continuous service. The Authority's liability for accrued vacation pay and the underlying retirement benefits at June 30, 2007 was \$50,773. Effective July 1, 2006, FORA management employees are provided 5 days of management leave per year. There is no cash pay-off for unused management time.

**Note 7 - Long-Term Liabilities**

Long-term liabilities for the year ended June 30, 2007, are summarized as follows:

	<u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2007</u>
<u>Leases and bonds</u>				
Capital lease obligations	\$ 754,606	\$ -	\$ 79,477	\$ 675,129
Bonds payable, net of premium and issuance costs	<u>3,940,000</u>	<u>-</u>	<u>360,000</u>	<u>3,580,000</u>
Subtotal	4,694,606	-	439,477	4,255,129
<u>Loans payable</u>				
Insurance loan	5,142,857	-	857,143	4,285,714
Credit line	2,732,424	6,700,000	5,633,522	3,798,902
<u>Other obligations</u>				
Compensated absences	<u>49,121</u>	<u>6,946</u>	<u>5,294</u>	<u>50,773</u>
Total long-term obligations	<u>\$ 12,619,008</u>	<u>\$ 6,706,946</u>	<u>\$ 6,935,436</u>	<u>\$ 12,390,518</u>

For the year ending June 30, 2007, the Authority paid \$ 658,292 in interest expense.

**FORT ORD REUSE AUTHORITY**  
**Notes to Financial Statements**  
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**Note 8 - Capitalized Lease Obligations**

The Authority entered into a lease purchase agreement to purchase fire fighting equipment that was distributed to local jurisdictions.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2008	\$ 116,000
2009	116,000
2010	116,000
2011	116,000
2012	116,000
2013	116,000
2014	<u>116,000</u>
Total gross lease payments	812,000
Less amount representing interest	<u>136,871</u>
Net minimum lease payments	675,129
Less current portion due within the next fiscal year	<u>83,324</u>
Long-term portion	<u>\$ 591,805</u>

**Note 9 - Bonds Payable**

Outstanding Bond payable debt at June 30, 2007 consists of the following:

Revenue Bonds

2004 Series A Revenue Bonds in the amount of \$2,885,000 and 2004 Series B Subordinate Revenue Bonds in the amount of \$2,055,000, total issue \$4,940,000. Principal payments start at \$325,000, increase to \$540,000, and are payable annually on August 1<sup>st</sup> with final maturity August 2014. Interest rates vary between 3.0% and 5.7% and provide for semi-annual payments on February 1<sup>st</sup> and August 1<sup>st</sup>. The Series A Bonds were issued to finance a habitat conservation program and priority infrastructure improvements endorsed by the Board of Directors of FORA. The Series B Bonds were issued to finance priority infrastructure improvements endorsed by the Board of Directors of FORA. The bonds will be repaid from FORA's share of the Preston Park lease revenues.

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Scheduled Payments

Future annual principal and interest requirements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 370,000	\$ 191,088	\$ 561,088
2009	385,000	173,167	558,167
2010	410,000	153,382	563,382
2011	435,000	131,898	566,898
2012	460,000	111,398	571,398
2013-2015	<u>1,520,000</u>	<u>170,697</u>	<u>1,690,697</u>
Totals	<u>\$ 3,580,000</u>	<u>\$ 931,630</u>	<u>\$ 4,511,630</u>

**Note 10 - Loans Payable**

Basewide Pollution Legal Liability Insurance Policy Loan

In 2005, the Authority entered into a long-term financing agreement to purchase a ten-year Basewide Pollution Legal Liability insurance policy. Financing was provided by a local bank through two separate credit line loans, and is secured by real estate (RE) and certificates of deposit (COD). Interest accrues at 4.5% on the RE secured loan, at 3.5% on the COD secured loan, and is paid monthly. Any remaining unpaid loan balances are due January 15, 2012. At June 30, 2007, the amount of outstanding principal was \$4,285,714. Funding by the Authority to repay the loans is being provided by the surrounding municipalities that will benefit from the real estate that will eventually be given to them along with legal liability protection by the insurance policy that encompasses the entire former Fort Ord Army Base. It is the intention of the Authority to repay these loans ratably over seven years.

Scheduled Payments

Future annual principal and interest requirements are estimated as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 857,143	\$ 151,066	\$ 1,008,209
2009	853,831	154,378	1,008,209
2010	892,252	115,957	1,008,209
2011	932,404	75,805	1,008,209
2012	<u>750,084</u>	<u>23,846</u>	<u>773,930</u>
Totals	<u>\$ 4,285,714</u>	<u>\$ 521,052</u>	<u>\$ 4,806,766</u>

The total costs of the insurance policy of \$6,000,000 is being amortized over the term of the coverage, which is 10 years.

**FORT ORD REUSE AUTHORITY**  
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Line of Credit

In March 2006, the Authority entered into a short-term financing agreement for a Line of Credit with a local bank in the amount of \$10 million, unsecured, with interest at 5.98% per annum, payable monthly. Maturity was April 10, 2007 and was renewed for an additional year. Amount drawn down at June 30, 2007 was \$3,798,902. The purpose of this credit line is financing building removal and other capital projects.

**Note 11 - Health Care Plan**

During the year ended June 30, 2007, 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 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 \$1,230 per month per family. In addition, employees receive cash allowance of \$145 per month, under Section 125 Flexible Benefit Plan, to be applied towards premiums of the optional dental, vision, and life benefits.

**Note 12 - Commitments and Contingencies**

A. Litigation

The Authority is involved in litigation arising principally in the normal course of operations. In the opinion of management, the outcome of these lawsuits will not have a material adverse affect on the accompanying combined financial statements and accordingly, no provision for losses has been recorded.

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

B. Grant Programs

The Authority participates in federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivables may be impaired.

In the opinion of management, there are no significant contingent liabilities relating to

**FORT ORD REUSE AUTHORITY**  
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compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**C. Other Commitments: EDC Consultants - Fee for Services**

As previously approved by the Board, certain legal consulting services related to property transfers will be repaid from the Authority's revenue sources such as land sales, leasing residuals, or developer fees.

**Note 13 - Fund Balance Designations**

As required by GASB, fund balance is reported in two components—reserved and unreserved.

When fund balance is **reserved**, it either means that the resources are in a form that cannot be appropriated (ex. non-current receivable) and spent or that the resources are legally limited to being used for a particular purpose.

Reserved funds at June 30, 2007:

General Fund:	\$149,927 reserved for non-current assets that cannot be used to meet current obligations.
Lease and Sale Proceeds Fund:	\$733,426 reserved for non-current receivable.
Developers Fees Fund:	\$557,940 reserved for non-current assets.
Pollution Legal Liability Fund:	\$4,500,000 reserved for unamortized insurance policy.

The portion of fund balance that is not reserved is called **unreserved** fund balance. Unreserved fund balance is available for expenditure and can be further **designated** by FORA management. A designation is not legally binding but does convey FORA's intents for using its available resources. These designated funds include cash with fiscal agents, developer impact fees dedicated for capital improvement projects, land sale and lease revenues used for building demolition, and federal grant monies used for munitions cleanup.

Unreserved designated funds at June 30, 2007:

General Fund:	\$1,000,324 designated for previously approved projects and contracts.
Lease and Sale Proceeds Fund:	\$910,362 designated in accordance with the Fort Ord Base Reuse Plan (BRP) for financing the building removal obligations.
Developers Fees Fund:	\$4,575,885 designated in accordance with the BRP for

**FORT ORD REUSE AUTHORITY**  
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	capital improvement obligations; of this balance, \$3,955,362 is designated to fund the Habitat Management Program.
Pollution Legal Liability Fund:	\$195,985 designated for debt service.
Army Grant ET/ESCA Fund:	\$860,164 designated in accordance with the Cooperative Agreement Award for ESCA project administration and regulatory response costs.

Unreserved undesignated funds at June 30, 2007:

General Fund:	\$2,953,280 available for expenditure and designation.
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***Note 14 - Property Sales and Lease Income***

California Law requires that all net lease or property sale proceeds generated on the former U.S. Army base are to be shared equally between FORA and the governmental entity with jurisdiction over subject property. This state law is affirmed under contracts (Implementation Agreements) between FORA and its underlying jurisdictions. Activity for the year ended is as follows:

Lease income generated from housing

Cash distribution to FORA from:

Preston Park	\$1,264,211
Abrams B	\$550,000

Land Sale proceeds

Cash distribution to FORA from:

East Garrison	\$748,135
Abrams B	\$5,452,320

***Note 15 - Contingent Note Receivable***

The City of Marina owns a \$265,000 promissory note receivable resulting from the sale of real estate on the former Fort Ord Army base. The terms of the note provide that the note will be forgiven if the buyer meets certain affordable housing criteria during the term of this note, which matures in 2012. The City is required by State law to distribute one-half of the proceeds received (\$132,500) from the sale of former Fort Ord Army base real estate to the Fort Ord Reuse Authority. The City does not have the authority to forgive the one-half portion of the note it is legally required to pay FORA and will need to make provisions to compensate FORA if it chooses to forgive repayment of the note.



**FORT ORD REUSE AUTHORITY**  
**Notes to Financial Statements**  
**June 30, 2007**

***Note 16 - US Army Environmental Remediation Grant***

Removal of munitions and explosives of concern ("MEC") at the former Fort Ord military base has been in progress by the U.S. Army since 1992. Several areas formerly used for military training at the former base have been cleared over the years, but approximately 3,400 acres must still undergo specific MEC removal activities before they can be reused for key elements of the Fort Ord Base Reuse Plan. Since March 2005, the Fort Ord Reuse Authority has been working through the terms of a grant funding contract with the Army to allow FORA, on behalf of the Army, to conduct the specific MEC required environmental cleanup activities on these properties.

The grant contract mechanism is an Environmental Services Cooperative Agreement ("ESCA"). A component of these discussions is the authorization for an Early Transfer ("ET") of these Economic Development Conveyance ("EDC") parcels (prior to completion of all remedial actions), providing there is Environmental Protection Agency ("EPA") and California state gubernatorial concurrence. In August 2006, FORA and the Army reached an agreement in principle on policy issues for the ET/ESCA. The Army identified funding for the project/remediation work, liability and risk management, and regulatory oversight and pursued congressional authorities in winter 2007.

In March 2007, the Army informed FORA that the first \$40 million in funding was made available to complete the munitions removal on EDC parcels. This formal notice closed two years of negotiating and processing as to how FORA would implement this work on behalf of the Army and allows earlier removal of the dangerous hazards still suspected to exit on these parcels. At June 30, 2007 FORA had received \$40 million of the estimated \$100 million total grant agreement. The remaining grant payments are established under the ESCA which provides for \$30 million in fiscal year 2007-08, and \$40 million in fiscal year 2009-10.

## ***REQUIRED SUPPLEMENTARY INFORMATION***

Required supplementary information includes financial information and disclosures that are not considered a part of the basic financial statements. Such information includes:

- Schedule of Funding Progress - Defined Benefit Pension Plan
- Budget and Actual - General Fund
- Budget and Actual - Special Revenue Funds

**FORT ORD REUSE AUTHORITY**  
**Schedule of Funding Progress**  
**Defined Benefit Pension Plan**  
**Year Ended June 30, 2007**

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Pooled Report Format

Since the Authority has less than 100 active members, it is required by CalPERS to participate in a risk pool. The following valuation reports the activity of the risk pool as a whole, and not the specific activity of individual members such as the Authority.

<u>Miscellaneous Plan</u>	<u>Actuarial Valuation Date - Year Ended</u>		
	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>June 30, 2005</u>
Accrued Liabilities	\$ 2,596,966,545	\$ 2,746,095,668	\$ 2,891,460,651
Actuarial Value of Assets	2,372,879,034	2,460,944,656	2,588,713,000
Unfunded Liabilities (UL)	224,087,511	285,151,012	302,747,651
Funded Ratio	91.40%	89.60%	89.50%
Annual Covered Payroll	725,020,458	743,691,970	755,046,679
UL as a Percentage of Payroll	30.90%	38.30%	40.10%

Note - Details of the defined benefit pension plan can be found in Note 4 of the financial statements. Information for the years ended June 30, 2006 and 2007 have not been released by the Plan Actuary.

# FORT ORD REUSE AUTHORITY

## Statement of Revenues and Expenditures Budget and Actual - General Fund Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance (1)
	Original	Final		Favorable (Unfavorable)
<b>REVENUES</b>				
Membership dues	\$ 257,528	\$ 257,528	\$ 257,528	\$ -
Franchise fees	192,639	192,639	202,853	10,214
Property tax increment	862,000	862,000	868,766	6,766
Construction reimbursements	750,000	750,000	744,185	(5,815)
Planning reimbursements	-	-	168,213	168,213
Legal reimbursements	-	161,435	161,435	-
Rental proceeds	-	-	49,534	49,534
Investment earnings	85,000	250,000	361,096	111,096
Other income	-	-	396	396
<b>Total Revenues</b>	<b>2,147,167</b>	<b>2,473,602</b>	<b>2,814,005</b>	<b>340,403</b>
<b>EXPENDITURES</b>				
Salaries and benefits	1,057,089	1,057,089	975,053	82,036
Supplies and services	125,904	125,904	105,496	20,408
Contractual services	446,640	629,140	515,018	114,122
Capital improvements	750,000	750,000	744,185	5,815
Amortization	-	-	13,190	(13,190)
Local match - CIP	-	-	-	-
<b>Total Expenditures</b>	<b>2,379,633</b>	<b>2,562,133</b>	<b>2,352,941</b>	<b>209,192</b>
Revenues Over (Under) Expenditures	(232,466)	(88,531)	461,063	549,594
<b>Other Financing Sources (Uses)</b>				
Debt service	-	-	-	-
Loan proceeds	280,000	11,080,000	6,700,000	(4,380,000)
Operating transfers in	-	-	-	-
Operating transfers (out)	(39,552)	(10,839,552)	(6,739,552)	4,100,000
<b>Total Other Sources (Uses)</b>	<b>240,448</b>	<b>240,448</b>	<b>(39,552)</b>	<b>(280,000)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 7,982</b>	<b>\$ 151,917</b>	<b>\$ 421,511</b>	<b>\$ 269,594</b>

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

# FORT ORD REUSE AUTHORITY

## Statement of Revenues and Expenditures Budget and Actual - All Special Revenue Funds Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance (1)
	Original	Final		Favorable (Unfavorable)
<b>REVENUES</b>				
Federal grants	\$ -	\$ -	\$ 40,000,000	\$ 40,000,000
PLL Annual Payments	983,657	983,657	983,657	-
Developer fees	6,664,000	9,454,900	5,727,306	(3,727,594)
Rental income	2,682,432	1,740,000	1,839,544	99,544
Real estate sales	5,258,000	6,710,445	6,946,704	236,259
Loan Interest Reimbursements	-	102,500	110,581	8,081
Investment earnings	307,500	428,000	552,942	124,942
Other income	-	17,925	13,248	(4,677)
<b>Total Revenues</b>	<b>15,895,589</b>	<b>19,437,427</b>	<b>56,173,981</b>	<b>36,736,554</b>
<b>EXPENDITURES</b>				
Salaries and benefits	591,575	621,575	675,307	(53,732)
Supplies and services	70,596	70,596	70,692	(96)
Contractual services	453,360	647,310	646,335	975
Contractual services-ESCA	-	-	35,527,910	(35,527,910)
Capital improvements, net of credits	19,236,655	20,510,803	15,719,539	4,791,264
Capital improvements-ESCA	-	-	3,500,000	(3,500,000)
Amortization	-	-	600,000	(600,000)
<b>Total Expenditures</b>	<b>20,352,186</b>	<b>21,850,284</b>	<b>56,739,783</b>	<b>(34,889,499)</b>
Revenues Over (Under) Expenditures	(4,456,597)	(2,412,857)	(565,801)	1,847,056
<b>Other Financing Sources (Uses)</b>				
Debt service	(2,038,469)	(11,519,304)	(7,588,433)	3,930,871
Loan proceeds	-	-	-	-
Building removal credit	7,650,000	4,438,000	3,000,000	(1,438,000)
Operating transfers in	39,552	10,839,552	6,739,552	(4,100,000)
Operating transfers (out)	-	-	-	-
<b>Total Other Sources (Uses)</b>	<b>5,651,083</b>	<b>3,758,248</b>	<b>2,151,119</b>	<b>(1,607,129)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 1,194,486</b>	<b>\$ 1,345,391</b>	<b>\$ 1,585,318</b>	<b>\$ 239,927</b>

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

***U.S. ARMY REPORT***

**INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY INFORMATION**

Board of Directors  
Fort Ord Reuse Authority  
Marina, California

Our report on our audit of the accompanying statements of the Fort Ord Reuse Authority appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information on page 34 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Nicholson & Olson*

Certified Public Accountants  
Roseville, California  
September 28, 2007

**NICHOLSON  
&  
OLSON**

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CERTIFIED PUBLIC ACCOUNTANTS

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**FORT ORD REUSE AUTHORITY**

**Statement of Revenues, Expenditures and Changes  
in Fund Balances**

**Sources and Uses of Sale/Lease Proceeds**

**Cummulative Statement Year Ended June 30, 2001 Through June 30, 2007**

	Years Ended	
	June 30, 2007	June 30, 2001 through June 30, 2007
<b>REVENUES</b>		
Preston Park housing - Excess revenue	\$ -	\$ 1,250,000
Rental income - Preston Park/Abrams B housing	1,814,211	9,428,281
Rental income - Short-term leases	25,333	117,339
Real estate sale	6,946,704	12,705,075
Interest income	134,152	134,152
Other income	2,500	2,500
Total revenues	8,922,900	23,637,347
<b>EXPENDITURES</b>		
Road construction, operations and maintenance	-	1,167,928
Storm and sanitary sewer construction	-	50,000
Building rehabilitation	-	58,882
Disposal of hazardous materials	-	325,000
Demolition/building removal	10,478,545	22,775,282
Landscaping and other site improvements	-	47,535
Redevelopment and reuse of the former Fort Ord:		
Capital projects financing	6,425,040	7,088,772
Planning / marketing / environmental / financing	499,305	5,918,327
Total expenditures	17,402,890	37,431,725
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	(8,479,990)	(13,794,379)
<b>Other Funding Sources</b>		
Building removal credit	3,000,000	6,015,708
Operating transfers in and loan proceeds	6,700,000	9,422,458
Total other funding sources	9,700,000	15,438,166
NET CHANGE IN FUND BALANCE	1,220,010	1,643,787
BEGINNING FUND BALANCE	423,777	-
ENDING FUND BALANCE	\$ 1,643,787	\$ 1,643,787



***SINGLE AUDIT REPORT***

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Fort Ord Reuse Authority  
Marina, California

We have audited the basic financial statements of the Fort Ord Reuse Authority as of and for the year ended June 30, 2007, and have issued our report thereon dated September 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Fort Ord Reuse Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors  
Fort Ord Reuse Authority

This report is intended for the information of management, federal awarding agencies, and the Office of the Controller of the State of California and is not intended to be and should not be used by anyone other than these specified parties.

*Nicholson & Olson*

Certified Public Accountants  
Roseville, California  
September 28, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

Board of Directors  
Fort Ord Reuse Authority  
Marina, California

**Compliance**

We have audited the compliance of the Fort Ord Reuse Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Fort Ord Reuse Authority's major program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Fort Ord Reuse Authority's management. Our responsibility is to express an opinion on the Fort Ord Reuse Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Fort Ord Reuse Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Fort Ord Reuse Authority's compliance with those requirements.

In our opinion, the Fort Ord Reuse Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs, for the year ended June 30, 2007.

**Internal Control over Compliance**

The management of the Fort Ord Reuse Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Fort Ord Reuse Authority's internal control over

compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, federal awarding agencies, and the Office of the Controller of the State of California and is not intended to be and should not be used by anyone other than these specified parties.

*Nicholson & Olson*

Certified Public Accountants  
Roseville, California  
September 28, 2007

**FORT ORD REUSE AUTHORITY**  
**Note to Schedule of Expenditures of Federal Awards**  
**June 30, 2007**

***Note 1 - Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards, includes the federal grant activity of the Fort Ord Reuse Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**FORT ORD REUSE AUTHORITY**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2007**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued: *unqualified*

Internal control over financial reporting:  
 Material weaknesses identified  Yes  No  
 Reportable conditions identified not  
 considered to be material weaknesses  Yes  None reported

Noncompliance material to financial statements noted  Yes  No

Federal Awards

Internal control over major programs:  
 Material weaknesses identified  Yes  No  
 Reportable conditions identified not  
 considered to be material weaknesses  Yes  None reported

Type of auditor's report issued on compliance  
 for major programs: *unqualified*

Any audit findings disclosed that are required to be  
 reported in accordance with Section .510(a) of  
 OMB Circular A-133  Yes  No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
12.xxx	U.S. Department of Defense - Department of the Army U.S. Army Corp of Engineers - HTRW Center of Expertise Environmental Services Coop Agreement

Dollar threshold used to distinguish  
 Between Type A and Type B programs \$300,000

Auditee qualifies as low-risk auditee:  Yes  No

**FORT ORD REUSE AUTHORITY  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2007**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Current Year**

None

**Prior Year**

None

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Current Year**

None

**Prior Year**

None