FORT ORD REUSE AUTHORITY
Marina, California

Annual Financial Report
June 30, 2011

Board of Directors

Voting Members	Representing	Title
Supervisor Potter	County of Monterey	Chair
Mayor Edelen	City of Del Rey Oaks	1st Vice Chair
Mayor Pro Tem O'Connell	City of Marina	2nd Vice Chair
Supervisor Parker	County of Monterey	Director
Supervisor Calcagno	County of Monterey	Director
Mayor Bachofner	City of Seaside	Director
Mayor McCloud	City of Carmel-by-the-Sea	Director
Mayor Pro Tem Kampe	City of Pacific Grove	Director
Mayor Donohue	City of Salinas	Director
Council Member Selfridge	City of Monterey	Director
Council Member Oglesby	City of Seaside	Director
Council Member Brown	City of Marina	Director/Member at Large
Mayor Pendergrass	City of Sand City	Director/Member at Large

Appointed Official

Michael A. Houlemard, Jr.
Executive Officer

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

MARCELLO & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

2701 Cottage Way, Suite 30 / Sacramento, California 95825 / 916.979.9079

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fort Ord Reuse Authority
Marina, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ford Ord Reuse Authority, as of and for the year ended June 30, 2011, which collectively comprise the Fort Ord Reuse Authority's 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 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 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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, 2011, and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2011, on our consideration of the Fort Ord Reuse Authority's internal control over financial reporting and on 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Fort Ord Reuse Authority
Marina, California

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, and schedule of funding progress and budgetary comparison information on pages 29 through 30, be presented to supplement the basic financial statements. Such information, although not 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 historic 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, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fort Ord Reuse Authority's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate 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

Marcello & Company

Certified Public Accountants
Sacramento, California
October 7, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fort Ord Reuse Authority
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FORT ORD REUSE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

Beginning July 1, 2003, the Fort Ord Reuse Authority (FORA) implemented 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 FORA financial performance for the fiscal year ended June 30, 2011.

FINANCIAL HIGHLIGHTS

Despite significant ongoing challenges from the national/regional economic downturn, FORA accomplished several projects during FY 10-11, these include:

- Accomplished significant munitions and explosives removal process in Parker Flats and County North areas under a U.S. Army funded contract.
- Completed $5.6 million in capital improvements; the major project was the construction of General Jim Moore Blvd (GJMB) and Eucalyptus Road, the first part of a two-phase economic stimulus grant.
- Completed a $400K infrastructure and planning contract for the California Central Coast Veterans Cemetery, funded by a U. S. Office of Economic Adjustment (OEA) grant.
- Finalized a Capital Improvement Program Developer Fee review process, resulting in a 27% Fee reduction/adjustment for most future projects.
- Collected $1.7 million in property tax increment fees (including $233K of unreported, delinquent tax increment revenue from surrounding municipalities), $1.2 million in land sale proceeds, and $210K in development fees.
- Demolished a concrete building in Seaside Surplus II to make way for future use.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1) The *government-wide financial statements* provide both long-term and short-term information about FORA's overall financial status and inform how FORA's general government services were financed in the short term as well as what remains for future spending. 2) The *fund financial statements* focus on individual parts of FORA's governmental funds and report FORA's operations in more detail than the government-wide statements. 3) The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

Government-wide Financial Statements

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

The *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 revenue and expenses are reported in the statement of activities regardless of when cash is received or paid. The focus of the government-wide statement of activities is on the net cost of governmental activities provided by a governmental entity.

FORA was engaged in the following types of activities:

Governmental Activities: During the FY 10-11 FORA employed federal grants, loan proceeds, tax increment receipts, land sale/lease proceeds, development fees and membership dues to finance:

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

The government-wide financial statements 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 appropriation. FORA maintains 7 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 are required to 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 in the Statement of Activities on page 9 show FORA governmental activities improved from negative $6.3 million to negative $5.8 million. The negative balance in net assets means that all liabilities (including long-term debt not due at the end of the fiscal year) exceed all assets FORA had at the fiscal year end (including long-term receivables and non-liquid assets). In addition, the unspent balance in the ESCA grant fund at June 30, 2011 of $5.9 million is classified as revenue collected in advance of the earnings process and recorded as deferred revenue, a liability account, for financial statement purposes. It will be recognized as revenue when it is earned.

Revenue

FORA annual revenue increased from $9.4 million to $11.7 million, attributable to: (1) the EDA grant revenue being collected for construction activities, (2) land sale/lease proceeds, (3) property tax increment, and (4) increased development fees as compared to the previous fiscal year. Other revenue sources did not vary significantly.

Revenue sources were provided from the following:

- Federal funding - 35%
- Land sale/lease proceeds - 23%
- Property tax increment - 15%
- Development fees – 2%
- Membership dues and franchise fees - 4%
- Other revenue sources - 21%

Expenditures

The FY 10-11 cost of FORA programs was $11.1 million. GJMB/Eucalyptus road construction was the FY 10-11 capital improvement program's (CIP) major project

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

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

A fund is a group of related accounts used to maintain resource control and is segregated for specific activities or objectives. Reporting standards require that a major governmental fund be presented in a separate column in the fund financial statements. In accordance with GASB Stmt. No. 34, paragraph 76, FORA has elected to report all its special revenue funds as major funds as these funds are important to financial statement users. The General Fund is always considered a major fund and therefore presented in a separate column. The fund financial statements focus on FORA's individual parts.

The segregated governmental funds provide information on near-term inflows, outflows and balances of expendable resource balance. As FORA completed the fiscal year, its governmental funds reported a combined fund balance of $14.1 million; this decrease of $.6 million from FY 09-10 is a net effect of loan proceeds spent on construction activities and budget savings for the year.

$10.5 million of the $14.1 million ending fund balance is either use restricted or specifically designated, such as federal grant funds designated for environmental cleanup and roadway construction, loan proceeds for grant matching, or developer impact fees/land sale proceeds for the CIP projects. Approximately $3.6 million is undesignated and available for Board expenditure and designation.

Ending Fund Balances

Fiscal Year	General Fund	Land Sale/Leases	Developer Fees	Pollution Liability	Federal Grants	TOTALS
2009-2010	7,661,589	208,747	3,898,829	2,982,174	-	14,751,339
2010-2011	5,788,628	1,335,178	4,300,803	2,686,094	-	14,110,703
Change + (-)	(1,872,961)	1,126,431	401,974	(296,080)	-	(640,636)

BUDGETARY HIGHLIGHTS

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

The FORA Board approved the FY 10-11 budget on June 11, 2010 and the mid-year budget update on February 11, 2011. Despite recessionary economic conditions slowing the former Fort Ord redevelopment activities, FORA Board policies have sustained financial stability. The financial stability was aided by the EDA grant enabling uninterrupted CIP activities.

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

Revenue: $889,835 increase

FORA federal grant revenue decreased and other funding slightly increased, as follows:

- $222,268 revenue increase from property tax increment attributable to collection of underpaid tax revenue from previous fiscal years;
- $256,023 in insurance reimbursements; financial statements are presented and an accrual basis and include receivables, the mid-year budget reported actual collections;
- $411,544 revenue increase from other funding sources (such as franchise fees, development fees and investments).

Expenditures: $257,565 increase

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

- $106,502 increase in salaries and benefits; mid-year budget assumed one position on long-term disability leave, the employee resumed work for a portion of the FY 10-11, vacation cash-out provision approved by the Board late in the fiscal year (June 2011) could not have been included in the mid-year budget;
- $110,607 decrease (deferral to FY 11-12 and budget savings) in administrative categories due cost saving measures and deferred moving expenses (FORA relocation to Imjin Office Park building completed in August 2011);
- $269,700 capital project decrease; deferral to FY 11-12 due to capital projects timing;
- $600,000 adjustment in amortization; FORA does not include amortization expenses (non-cash expenses) in the operating budget.

The budgetary comparison information schedule can be found on page 30 of this report.

LONG-TERM DEBT

FORA employs real property assets and lease revenue (such as Preston Park Housing) to amortize or collateralize long-term indebtedness. Current asset valuation is in the range of $100 - $150 million, of which FORA is entitled to a 50% share. Please refer to *pages 17-18, Note 1-J* for more information regarding capital assets. As of June 30, 2011, FORA had about $19.87 million in long-term debt consisting of:

- $18.7 million - Preston Park loan; *
- $0.85 million - PLL Insurance loan; ** and
- $0.32 million - capital lease equipment purchase obligation. ***

* In March 2010, FORA borrowed $19 million (Preston Park Loan) from Rabobank. The FORA Board authorized the loan to 1) provide stimulus grant local matching funds and 2) retire certain existing debts (Revenue Bonds and Line of Credit). The loan (interest and principal) is financed by FORA's share of Preston Park net lease revenue. The loan must be paid off in 2014.

** The PLL insurance loan is financed by a 7-year Rabobank loan. Participating jurisdictions/agencies reimburse FORA for their portions of the premium and financing costs. FORA collected only a partial payment from the City of Del Rey Oaks for FY 09-10 and no payment for FY 10-11 and used its own resources to cover the missing payments. The PLL loan will be repaid in January 2012.

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

More detailed information about FORA's total long-term debts is presented on *pages 22-23, Notes 6-9* to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

FORA anticipates accumulating a small revenue surplus by 2014. The surplus will come predominantly from property transaction proceeds. Even though FORA does not foresee rapid change in economic conditions, 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 2011-2012 fiscal year. Those are:

- Uncertainty in the underlying market for all forms of real property development;
- Still unknown cost figures for habitat conservation;
- Capital needs for augmenting current water supply; and
- Completed review by independent consultant of the FORA CIP.

FORA is implementing ESCA grant terms, which include reimbursement of oversight and administrative costs to FORA. In concert with this agreement, the U.S. Army transferred the remaining 3,300 acres of Economic Development Conveyance (EDC) property to FORA, allowing FORA's capital needs and habitat costs to become more definitive. FORA is coordinating with MCWD modifications of the capital improvement program schedule for completing water resource augmentation infrastructure needs and working with member jurisdictions to better define future capital requirements and objectives.

CONTACTING FORA'S FINANCIAL MANAGEMENT

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

Michael A. Houlemard, Jr.
Executive Officer

FINANCIAL STATEMENTS

FORT ORD REUSE AUTHORITY
Statement of Net Assets
Year Ended June 30, 2011

	Governmental Activities
ASSETS	
Cash and investments	$ 16,892,501
Accounts receivable:	
Due within one year	1,114,313
Due in more than one year	131,033
Notes receivable	77,816
Interest receivable	79,522
Grants receivable	63,903
Prepaid expenses	15,930
Prepaid insurance, net	2,100,000
Capital assets (see note 1-J, page 17)	64,722
Total Assets	20,539,740
LIABILITIES	
Accounts payable	421,312
Interest payable	60,040
Deferred revenue	5,882,963
Long-term debt and obligations:	
Due within one year	1,245,368
Due in more than one year	18,700,425
Total Liabilities	26,310,108
NET ASSETS	
Investment in capital assets (see note 1-J, page 17)	64,722
Restricted	2,383,157
Unrestricted	(8,218,247)
Total Net Assets	$ (5,770,368)

See accompanying notes to financial statements

FORT ORD REUSE AUTHORITY

Statement of Activities

Year Ended June 30, 2011

Functions/Programs	Program Expenses	Program Revenues Grants and Fees	Net (Expense) Revenue Governmental Activities
Governmental Activities			
General government	$ 1,533,718	$ 77,050	$ (1,456,668)
Capital improvements	6,605,193	3,809,585	(2,795,608)
Environmental cleanup	730,187	730,187	-
Reuse planning/EDC transfers & environmental	1,024,695	4,113,499	3,088,804
subtotal - capital improvement program	8,360,075	8,653,271	293,196
Interest on long-term debt and short-term debt	1,203,820	-	(1,203,820)
Total governmental activities	11,097,613	8,730,321	(2,367,292)
General revenue			
Property tax revenue			1,722,268
Membership dues			261,000
Franchise fees			240,786
Investment earnings			708,031
Total general revenues			2,932,085
Change in net assets			564,793
Net assets, beginning			(6,335,161)
Net assets, end of year			$ (5,770,368)

See accompanying notes to financial statements

Fund Financial Statements

FORT ORD REUSE AUTHORITY

Balance Sheet

Year Ended June 30, 2011

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	EDA Grant ARRA	OEA Grant VC	Army Grant ET/ESCA	Total Governmental Funds
ASSETS								
Cash and investments	$ 5,039,650	$ 1,325,174	$ 4,316,728	$ 148,784	$ -	$ (63,903)	$ 6,126,068	$ 16,892,501
Accounts receivable - due within one year	667,769	7,647	-	438,897	-	-	-	1,114,313
Account receivable - due after one year	50,457	-	80,576	-	-	-	-	131,033
Notes receivable	-	77,816	-	-	-	-	-	77,816
Interest receivable	72,939	-	-	6,583	-	-	-	79,522
Grants receivable	-	-	-	-	-	63,903	-	63,903
Prepaid expenses	15,102	-	828	-	-	-	-	15,930
Prepaid insurance, net	-	-	-	2,100,000	-	-	-	2,100,000
Total Assets	$ 5,845,917	$ 1,410,637	$ 4,398,132	$ 2,694,264	$ -	$ -	$ 6,126,068	$ 20,475,018
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	$ 57,289	$ 18,589	$ 97,329	$ -	$ -	$ -	$ 248,105	$ 421,312
Interest payable	-	56,870	-	3,170	-	-	-	60,040
Deferred revenue (see note 12-B, page 25)	-	-	-	5,000	-	-	5,877,963	5,882,963
Total Liabilities	57,289	75,459	97,329	8,170	-	-	6,126,068	6,364,315
Fund Balances (see note 13, page 25)								
Non-spendable	65,559	77,816	-	2,538,897	-	-	-	2,682,272
Commited				147,197				147,197
Assigned	2,105,770	1,257,362	4,300,803		-	-	-	7,663,935
Unassigned	3,617,299	-	-	-	-	-	-	3,617,299
Total Fund Balances	5,788,628	1,335,178	4,300,803	2,686,094	-	-	-	14,110,703
Total Liabilities and Fund Balances	$ 5,845,917	$ 1,410,637	$ 4,398,132	$ 2,694,264	$ -	$ -	$ 6,126,068	$ 20,475,018

See accompanying notes to financial statements

FORT ORD REUSE AUTHORITY

Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets Year Ended June 30, 2011

Total Fund Balances - Governmental Funds (page 10)		$ 14,110,703
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		64,722
Long-term Debt Obligations		
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	$ (316,847)	
PLL Loan payable	(857,143)	
Preston Park Loan Payable	(18,706,523)	
Compensated absences	(65,280)	(19,945,793)
Net Assets - Governmental Activities (page 8)		$ (5,770,368)

See accompanying notes to financial statements

FORT ORD REUSE AUTHORITY
Statement of Revenue, Expenditures, and Change in Fund Balances
Year Ended June 30, 2011

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	EDA Grant ARRA	OEA Grant VC	Army Grant ET/ESCA	Governmental Funds
REVENUE								
Membership dues	$ 261,000	$ -	$ -	$ -	$ -	$ -	$ -	$ 261,000
Franchise fees	240,786	-	-	-	-	-	-	240,786
Property tax increment	1,722,268	-	-	-	-	-	-	1,722,268
Federal grants	-	-	-	-	2,949,826	404,759	730,187	4,084,772
Developer fees	-	-	210,427	-	-	-	-	210,427
Planning reimbursements	-	-	-	-	-	-	-	-
Construction reimbursements	146,312	-	-	-	-	-	-	146,312
Insurance reimbursements	-	-	-	983,657	-	-	-	983,657
Lease/Rental income	76,165	1,519,998	-	-	-	-	-	1,596,163
Real estate sales	-	1,200,000	-	-	-	-	-	1,200,000
CSU mitigation fees	-	-	500,000	-	-	-	-	500,000
Investment/Interest earnings	411,539	-	261,696	34,796	-	-	-	708,031
Other revenue	885	85	3,020	5,000	-	-	-	8,990
Total Revenue	2,858,955	2,720,083	975,143	1,023,453	2,949,826	404,759	730,187	11,662,406
EXPENDITURES								
Salaries and benefits	1,173,767	-	162,546	-	107,542	-	259,376	1,703,231
Supplies and services	141,307	5,417	47,850	380	-	-	14,689	209,643
Contractual services	208,814	23,354	138,304	4,100	2,950	404,759	456,122	1,238,404
Capital improvements	(91,798)	-	458,469	-	5,789,160	-	-	6,155,830
Amortization	-	-	-	600,000	-	-	-	600,000
Total Expenditures	1,432,090	28,771	807,169	604,480	5,899,652	404,759	730,187	9,907,108
Revenue over (under) Expenditures	1,426,865	2,691,312	167,974	418,973	(2,949,826)	-	-	1,755,298
Other Financing Sources (Uses)								
Debt service - Interest	-	(1,125,927)	(19,983)	(57,910)	-	-	-	(1,203,820)
Debt service - Principal	-	(238,954)	(96,017)	(857,143)	-	-	-	(1,192,114)
Operating transfers in	-	-	350,000	200,000	2,949,826	-	-	3,499,826
Operating transfers (out)	(3,299,826)	(200,000)	-	-	-	-	-	(3,499,826)
Total Other Sources (Uses)	(3,299,826)	(1,564,881)	234,000	(715,053)	2,949,826	-	-	(2,395,934)
CHANGE IN FUND BALANCES	(1,872,961)	1,126,431	401,974	(296,080)	-	-	-	(640,636)
Fund Balances - beginning	7,661,589	208,747	3,898,829	2,982,174	-	-	-	14,751,339
Fund Balances - end of year	$ 5,788,628	$ 1,335,178	$ 4,300,803	$ 2,686,094	$ -	$ -	$ -	$ 14,110,703

See accompanying notes to financial statements

FORT ORD REUSE AUTHORITY

Reconciliation of the Governmental Funds Statement of Revenue, Expenditures, and Change in Fund Balances to the Government-wide Statement of Activities
Year Ended June 30, 2011

Change in Fund Balances - Governmental Funds (page 12)		$ (640,636)
Amounts reported in the governmental activities column in the statement of activates 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	$ 96,017	
Repayment of bonds	-	
Repayment of loans	1,096,097	1,192,114
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 CIP projects		-
Capital Assets and Compensated Absences		
Capital assets and compensated liability affect net assets but are not included in governmental funds assets and liabilities.		
Change in capital assets	32,068	
Change in compensated absences liability	(18,753)	13,315
Change in Net Assets - Governmental Activities (page 9)		$ 564,793

See accompanying notes to financial statements

NOTES TO THE FINANCIAL STATEMENTS

FORT ORD REUSE AUTHORITY
Notes to Financial Statements
June 30, 2011

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 - Equipment and Furniture

Note 4 - Defined Benefit Pension Plan

Note 5 - Deferred Compensation Plan

Note 6 - Long-Term Debt Obligations

Note 7 - Capitalized Lease Obligation

Note 8 - Loans Payable

Note 9 - Compensated Absences

Note 10 - Health Care Plan

Note 11 - Commitments and Contingencies

Note 12 - Fund Balance Definitions

Note 13 - Property Sales and Lease Income

Note 14 - Contingent Receivables

Note 15 - US Army Environmental Services Cooperative Agreement Grant

Note 16 - New Pronouncements

Note 17 - Office Lease

Note 18 - Subsequent Events

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The Fort Ord Reuse Authority (Authority) was created under Title 7.85 of the California Government Code, Chapters 1-7, signed into law on May 10, 1994. The Authority was incorporated in the State of California as an instrumentality and is considered a quasi-governmental regional agency. The Authority has specific powers in State Law to prepare, adopt, finance and implement a plan for the future use and development of the territory formerly operated by the U.S. Army as the Fort Ord Military Reservation in Monterey County, California.

The Authority is governed by a 13-voting member board, which consists of various Monterey County's Board of Supervisors, City Mayors and/or Council Members from surrounding jurisdictions. The Authority Board has 12 non-voting ex-officio members. There are no component units, as defined in the Governmental Accounting Standards Board Statement (GASB) No. 14, that are included in the Authority's reporting entity.

The Authority receives funding from local, state and federal governmental sources and must comply with the accompanying requirements of these funding source entities. However, the Board is not included in any other governmental reporting entity as defined by the Governmental Accounting Standards Board pronouncement. The Board has the authority to levy taxes, the power to designate management and the ability to significantly influence operations and primary accountability for fiscal matters.

Title 7.85 of California Government Code specifies that its terms and provisions would become inoperative when the board determines that 80% of the territory of Fort Ord (that is designated for development or reuse in the plan prepared pursuant to the bill) has been developed or reused in a manner consistent with the plan, or June 30, 2014, whichever occurs first, and would be repealed on January 1, 2015.

B. Accounting Policies

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

C. Basis of Presentation

The financial statement presentation, required by GASB Statements No. 34, 37, and 38 provides a comprehensive, entity-wide perspective of the Authority's assets, liabilities, and expands the fund-group perspective previously required.

Government-wide Financial Statements
Government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on overall financial status and activities of the Authority.

Fund Financial Statements
The fund financial statements (i.e., the balance sheet and the statement of revenue, expenditures and change in fund balances) focus on the short-term look at the Authority's fiscal accountability and provide detailed information about individual funds.

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, revenue 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. They are as follows:

Governmental Funds

a. *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.

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 revenue 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.

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenue is 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 revenue 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.

The fund financial statements are reported using the modified accrual basis of accounting. Revenue is 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. The Authority 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 (revenue 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 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 revenue and expenditures during the reporting period. Actual results could differ from those estimates.

H. Cash and Investments

Cash and cash equivalents held by the Authority are reported as cash and investments. Funds can spend cash at any time without prior notice or penalty. Investments are stated at fair value.

I. Receivables and Payables

The major components of receivables (i.e., revenue earned but not collected) as of June 30, 2011, were as follows:

	Development Fees	Tax Increment	Insurance Reimbursements	Construction Reimbursements	Other Receivables	Total Receivables
Accounts receivable	$ 80,576	$ 609,694	$ 438,897	$ 50,457	$ 65,722	$ 1,245,346
Notes receivable	-	-	-	-	77,816	77,816
Interest Receivable	-	-	-	-	79,522	79,522
Grants receivable	$ -	$ -	$ -	$ -	$ 63,903	$ 63,903

The major components of payables (i.e., liabilities incurred but not paid) as of June 30, 2011, were as follows:

	Construction Activities	Environmental Cleanup	Reuse Planning/HCP	Debt Service	Other Payables	Total Receivables
Accounts payable	$ 97,329	$ 248,105	$ 37,810	$ -	38,068	$ 421,312
Interest payable	$ -	$ -	$ -	$ 60,040		$ 60,040

J. 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 year. Capital assets are depreciated over their estimated useful lives. The year end net balance in equipment and furniture was $64,722. 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. In addition, depreciation is not recorded on these capital assets.

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

During the reporting period the Authority did not receive or transfer any real property. Real property assets have been transferred from the United States Government under an agreement dated June 23, 2000. These transfers included land, buildings, and infrastructure within the Cities of Marina, Del Rey Oaks, Monterey, Seaside and the County of Monterey. As of June 30, 2011, the Authority owned approximately 3,450 acres of former Fort Ord Army Base land which included the following parcels:

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

Real property assets are not recorded on the Authority's books since the Authority, as trustee, is a short-term real property holding entity. The Authority transfers property to underlying jurisdictions for disposal/development, retaining 50% interest in any future sale or leasing proceeds from any of these properties transferred for private development or for public non-institutional purposes. The ESCA Grant properties are undergoing munitions and explosives of concern remediation with covenants restricting use of these properties ("CRUPS") and have limited value until the CRUPS are lifted at the completion of remediation.

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

K. Net Assets

The Authority's net assets are classified as follows:

- Investment 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 Statement No. 34, paragraph 76, the Authority has elected to report all its special revenue funds as major funds because they believe these funds are particularly important to financial statement users, as follows:
General Fund: This is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Special Revenue Funds
Lease and Sale Proceeds Fund: Accounts for revenue from the sale/lease of real estate on the former Fort Ord.
Developer Fee Fund: Accounts for moneys received from fees levied on developers or other agencies as a condition of approving development on the former Fort Ord.
Pollution Legal Liability Fund: Accounts for resources and payments made for principal and interest on long-term debt associated with the purchase of Pollution Legal liability insurance.
Federal Grant Funds: Account for revenue and projects funded by the federal government.

Note 2 - Cash and Investments

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	$ 16,892,501

Cash and investments as of June 30, 2011 consist of the following:

Deposits with financial institutions in:	
Checking accounts	$ 331,089
Money Market accounts	8,799,014
Certificates of deposit	7,762,398
Total cash and investments	$ 16,892,501

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 Authorized by the Authority's Board of Directors
Investments are managed in compliance with the revised Investment Policy adopted by the Authority's Board of Directors in February 2009. Such investment policies authorized the Authority to invest in:

- Obligations of the U.S. Treasury
- Obligations guaranteed by the U.S. Government
- Obligations of U.S. Federal Agencies
- Obligations of Government Sponsored Enterprises
- Bank Obligations registered with the Securities and Exchange Commission and that are consistent with FDIC insurance
- Savings and Money Market Accounts
- Money Market funds and other funds whose portfolios consist of any allowed instrument as specified in the policy
- State of California's Local Agency Investment Fund

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

		Maturity Date
Money market mutual funds	8,799,014	Due on demand
Certificates of deposit	7,762,398	12-24 months

On August 18, 2010 the Authority sold its entire portfolio of mutual funds, in the amount of $4.2 million, and reinvested those funds in certificates of deposit.

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.

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 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 - Equipment and Furniture

Capital asset activity for the year ended June 30, 2011, was as follows:

Depreciable Assets	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Equipment and furniture	$ 328,682	$ 51,698	$ -	$ 380,380
Accumulated depreciation	(306,929)	-	(8,729)	(315,658)
Total capital assets, net	$ 21,753	$ 51,698	$ (8,729)	$ 64,722

Depreciation expense was $8,729 for the year ending June 30, 2011, and charged to the general government function.

Note 4 - Defined Benefit Pension Plan

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

Funding Status and Progress
Participants are required to contribute 7% of their annual covered salary. The Authority makes the contributions required of its employees on their behalf and for their account. The Authority's required contribution is based upon an actuarially determined rate. The current 2010-11 fiscal year employer rate was 12.053% of annual covered payroll. The projected 2011-2012 fiscal year employer rate is 13.019% of annual covered payroll. The contribution requirements of plan members, and the Authority, are established and may be amended by CalPERS.

Annual Pension Cost
The Authority's total annual pension cost of $213,578 to CalPERS was equal to the Authority's required and actual employer contributions of $135,110 and the employee share of $78,468. The required contribution was determined as part of the June 30, 2008 actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions included:

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

The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). The Schedule of Funding Progress on page 29 shows that the plan was underfunded as of June 30, 2010. Information for the year ending June 30, 2011 has not been released by the Plan Actuary.

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

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

pay benefits when due.

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2009	$ 252,930	100%	$ -0-
6/30/2010	$ 209,320	100%	$ -0-
6/30/2011	$ 213,588	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 $16,500; this amount increases to $22,000 for employees 50 years and older. Assets are not available to participants for disbursement until termination, retirement, death, or an emergency.

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

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 6 - Long-Term Debt Obligations

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

	Beginning Balance	Additions	Principal Reductions	Ending Balance	Due Within One Year
Capital lease	$ 412,863	$ -	$ 96,017	$ 316,846	$ 100,665
PLL Insurance loan	1,714,286	-	857,143	857,143	857,143
Preston Park loan	18,934,578	-	238,954	18,695,624	261,448
Compensated absences	46,527	18,753	-	65,280	26,112
Totals	$ 21,108,254	$ 18,753	$ 1,192,114	$ 19,934,893	$ 1,245,368

The Authority paid $1,192,114 interest expense for the year ending June 30, 2011.

Note 7 - Capitalized Lease Obligation

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

<u>Scheduled Payments</u>
Future minimum lease payments are as follows:

Year Ending June 30,	
2012	$ 116,000
2013	116,000
2014	116,000
Total gross lease payments	348,000
Less amount representing interest	31,153
Net minimum lease payments	$ 316,847

Note 8 - 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. Funding to the Authority to repay the loans is being provided by member municipalities that benefit from legal liability protection of the insurance policy.

Scheduled Payments
Future annual principal and interest requirements are estimated as follows:

Year Ending June 30,	Principal	Interest	Total
2012	$ 857,143	$ 23,846	$ 880,989

The total cost of the insurance policy in the amount of $6,000,000 is being amortized over the term of the coverage, which is 10 years. At June 30, 2011, the amount of outstanding principal was $857,143.

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

The new loan has a fixed interest rate of 5.98% for five years and matures in June 2014. The monthly debt service (principal and interest) of $113,740 is being funded by the Authority's 50% share of Preston Park lease revenue. It is anticipated that the Authority's 50% ownership in Preston Park will be sold by June 2012 and the loan either repaid or assumed during the sale transaction.

As of June 30, 2011, the amount of outstanding principal was $18,695,624.

Note 9 - 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. In the event of separation of employment, an employee is reimbursed for any unused vacation leave, and a portion of their unused sick leave (limited to 174 hours). Reimbursement is based on the employee's regular salary rate at the date of termination or resignation. Vacation leave becomes vested immediately and sick leave becomes vested after 5 years of continuous service. Effective July 1, 2006, the Authority management employees are provided 5 days of management leave per year. There is no cash pay-off for unused management leave time.

The Authority's liability for accrued vacation pay at June 30, 2011 was $65,280.

Note 10 - Health Care Plan

During the year ended June 30, 2011, employees of the Authority were covered by a third party medical insurance plan, the California Public Employees Retirement System (CalPERS) Medical Benefits Program, and by the Principal Financial Group for dental, vision, and life insurance. The Authority contributes to the employee medical premium and to eligible dependents medical premiums up to $1,323 per month per family. In addition, employees receive monthly cash allowances of $145 per employee to be applied towards premiums of the optional dental, vision, and life insurance benefits under an Internal Revenue Code Section 125 Flexible Benefit Plan.

Note 11 - Commitments and Contingencies

A. Litigation

As of June 30, 2011, the Authority was not involved in litigation.

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.

B. Grant Payments

The Authority participates in federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivables may be impaired. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies. Current year grant information is as follows:

1. Environmental Remediation Project
   The $99.3 million federal grant was paid to the Authority in three phases: $40 million in FY 06-07, $30 million in FY 07-08, and $27.7 million in FY 08-09. The Army provided their payments ahead of schedule and secured a $1.6 million credit for early payments. With the last payment received in December 2008, the grant paid for all contracted expenditures through the end of the remediation project (June 2014).

   - Deferred Revenue
     The Authority's share of unspent, unearned Army grant revenue at June 30, 2011 is classified as revenue collected in advance of the earnings process and is recorded as deferred revenue, a liability account, for financial statement purposes. It will be recognized as revenue when earned.

2. Road Construction and the Veteran Cemetery Projects
   The Authority collects payments for these two projects on a cost reimbursement basis, therefore, there is no deferred revenue liability recorded, and grant expenditures are reported as grants receivable on the financial statements.

Note 12 - Fund Balance Definitions

The GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," issued in March 2009, distinguishes fund balance between amounts that are considered non-spendable, such as fund balance associated with long-term notes receivable, prepaid expenses or inventory, and other amounts that are classified as spendable based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, spendable fund balance amounts will be reported in the following classifications:

- Restricted - Amounts that can be spent only for the *specific purposes* stipulated by constitution, external resource providers, or through enabling legislation.
- Committed - Amounts that can be used only for the *specific purposes* determined by a formal action of the government's highest level of decision-making authority.
- Assigned - Amounts intended to be used by the government for *specific purposes* but do not meet the criteria to be classified as restricted or committed.
- Unassigned - The residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

Note 13 - 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. FORA's share of property sale and lease income activity for the year was as follows:

Land sale proceeds	
Salinas Valley Memorial Hospital	$ 1,200,000
Lease income	
Preston Park Housing	$ 1,519,998

Note 14 - Contingent Receivables

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

1. **$132,500** - The City of Marina (Marina)

   Marina holds a $265,000 promissory note from a former Fort Ord real estate sale. The terms provide that the note may be forgiven if certain affordable housing criteria are met during the note term, which matures in 2012. State law requires Marina to distribute one-half of the sale proceeds *($132,500)* to the Authority. Since Marina is not authorized to forgive the 50% portion of the note that it is legally required to pay the Authority, they must make provision to compensate the Authority if it chooses to forgive repayment of the note. This transaction was not submitted to the Authority for approval.

2. **$51,707** - 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 $*51,707* 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.

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 these land sale revenue was due to FORA under State law and the terms of the FORA/County 2001 Implementation Agreement. As a consequence, the Authority did not collect the deferred $4.1M in land sale revenue and issued debt of the same amount to fund its ongoing building removal responsibilities. EGP, County and FORA entered into a Memorandum of Understanding (MOU), which required EGP to: a) pay FORA monthly interest payments on the $4.1M loan that FORA 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. UCP continues making the interest payments, but questions their responsibility for the principal repayment.

Note 15 - US Army Environmental Services Cooperative Agreement Grant

Removal of munitions and explosives of concern (MEC) at the former Fort Ord has been in progress by the U.S. Army since 1992. Several areas formerly used for military training at the former base have been cleared over the years, but approximately 3,340 acres must still undergo specific MEC removal activities before they can be reused for key elements of the Fort Ord Base Reuse Plan. In the spring of 2005 the U.S. Army and Authority entered into negotiations to execute an Army funded Environmental Services Cooperative Agreement (ESCA) leading to the transfer of former Fort Ord 3,340 acres prior to regulatory environmental sign-off. In early 2007, the Army awarded the Authority $99.3 million to perform munitions cleanup on the ESCA parcels. Authority also entered into an Administrative Order on Consent (AOC) with U.S. Environmental Protection Agency (EPA) and California Department of Toxic Substance Control (DTSC), defining conditions under which the Authority assumes responsibility for the Army remediation of the ESCA parcels. In order to complete the AOC defined work; the Authority entered into a Remediation Services Agreement (RSA) with Arcadis, Inc. to provide MEC remediation services and executed a Cost-Cap insurance policy for this remediation work trough the American International Insurance Group (AIG).

The ESCA Remediation Program (RP) has been underway for approximately 4.5 years. The ESCA property was transferred to FORA ownership on May 8, 2009. The FY 2011 ESCA RP field work focused in the Parker Flats, future East Garrison and interim action ranges areas of the former Fort Ord.

On December 17, 2008 FORA received the fourth and final ESCA Grant fund payment of approximately $28.6 million. Per the AOC, the majority of these funds have been transferred to AIG (now "Chartis" company) for payment to LFR, Inc. under the terms of the insurance policies and related agreements. The Authority's administrative costs and oversight responsibility, including third-party quality assurance work, are also funded by the ESCA grant.

Note 16 - New Pronouncements

The Governmental Accounting Standards Board Statement No. 62
The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations.
- Accounting Principles Board Opinions.
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This effort brings the authoritative accounting and financial reporting literature together in one place, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users. It will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

Note 17 - Office Lease

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

Note 18 - Subsequent Events

The Authority management has reviewed the results of operations for the period from June 30, 2011 through November 16, 2011, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

The management, however, feels that it is important to disclose the following information as it may affect the Authority's financial position as of June 30, 2011, and cause prior period adjustments in its financial statements, as follows:

- Several significant receivables are under collection by the Authority. If not collected, year end fund balances may be reduced.
- The Authority continued negotiations with the City of Marina regarding the sale of Preston Park through mediation sessions conducted on August 2 and October 6, 2011. No decision has been reached as of the date of this report. This issue may result in litigation with two possible outcomes: 1) the Authority sells Preston Park and retains half of the proceeds, or 2) the Authority retains a 50%

share of Preston Park annual revenue.

- There are two pending litigations as of November 2011:
  1. Keep Fort Ord Wild v Fort Ord Reuse Authority concerning Eastside Parkway environmental review (limited financial liability).
  2. Builder's Exchange v Fort Ord Reuse Authority threatened suit, seeking contribution to settlement by Builder's Exchange with Ausonio Construction (liability unknown).

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
- Budgetary Comparison Information

FORT ORD REUSE AUTHORITY
Schedule of Funding Progress
Defined Benefit Pension Plan
Year Ended June 30, 2011

Pooled Report Format

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

	Actuarial Valuation Date - Year Ended		
Miscellaneous Plan - 2% at 55 Risk Pool	June 30, 2008	June 30, 2009	June 30, 2010
Accrued Liabilities (AL)	$ 2,780,280,768	$ 3,104,798,222	$ 3,309,064,934
Actuarial Value of Assets (AVA)	$ 2,547,323,278	$ 2,758,511,101	$ 2,946,408,106
Unfunded Liabilities (UL)	$ 232,957,490	$ 346,287,121	$ 362,656,828
Funded Ratio (AVA/AL)	91.6%	88.9%	89.0%
Annual Covered Payroll	$ 688,606,681	$ 742,981,488	$ 748,401,352
UL as a Percentage of Payroll	33.8%	46.6%	48.5%

Note - Details of the defined benefit pension plan can be found in Note 4 of the financial statements. Information for the year ended June 30, 2011 has not been released by the Plan Actuary.

FORT ORD REUSE AUTHORITY
Budgetary Comparison Information
Budget and Actual - All Funds
Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Resources (Inflows)				
Membership dues	$ 261,000	$ 261,000	$ 261,000	$ -
Franchise fees	195,000	195,000	240,786	45,786
Property tax increment	1,033,600	1,500,000	1,722,268	222,268
Federal grants	6,228,936	4,157,945	4,084,772	(73,173)
Developer fees	118,000	93,000	210,427	117,427
Planning reimbursements	-	-	-	-
Construction reimbursements	544,000	146,000	146,312	312
Insurance reimbursements	983,657	727,634	983,657	256,023
Lease/Rental income	1,547,562	1,599,992	1,596,163	(3,829)
Real estate sales	218,916	1,200,000	1,200,000	-
CSU mitigation fees	500,000	500,000	500,000	-
Investments/Interest payments	419,500	392,000	708,031	316,031
Loan proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Other revenue	-	-	8,990	8,990
Amounts available for appropriation	12,050,171	10,772,571	11,662,406	889,835
Charges to Appropriations (Outflows)				
Salaries and benefits	1,733,025	1,596,729	1,703,231	(106,502)
Supplies and services	318,250	320,250	209,643	110,607
Contractual services	1,897,500	1,303,874	1,238,404	65,470
Capital improvements	9,685,362	6,425,530	6,155,830	269,700
Debt service	2,415,166	2,399,094	2,395,934	3,160
Operating transfers (out)	-	-	-	-
Amortization	-	-	600,000	(600,000)
Total charges to appropriations	16,049,303	12,045,477	12,303,042	(257,565)
Surplus (Deficit)	$ (3,999,132)	$ (1,272,906)	$ (640,636)	$ 632,270

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

SINGLE AUDIT REPORT

MARCELLO & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

2701 Cottage Way, Suite 30 / Sacramento, California 95825 / 916.979.9079

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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Ord Reuse Authority (Authority), as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 7, 2011. 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.

Internal Control over Financial Reporting
In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

This report is intended solely for the information and use of management, the board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Marcello & Company

Certified Public Accountants
Sacramento, California
October 7, 2011

MARCELLO & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

2701 Cottage Way, Suite 30 / Sacramento, California 95825 / 916.979.9079

Independent Auditor's Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On 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 Fort Ord Reuse Authority's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2011. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the 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 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. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance
Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Board of Directors
Fort Ord Reuse Authority
Marina, California

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, members of the board of directors, others within the entity, and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Marcello & Company

Certified Public Accountants
Sacramento, California
October 7, 2011

FORT ORD REUSE AUTHORITY
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Description and Program Title	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF COMMERCE		
ECONOMIC DEVELOPMENT ADMINISTRATION		
Direct Program:		
Economic Adjustment Assistance		
Project grant for new arterial road construction		
EDA Award No. 07-79-73004	ARRA 11.307	2,949,826
U.S. DEPARTMENT OF DEFENSE	Cluster	
OFFICE OF ECONOMIC ADJUSTMENT		
Direct Program:		
Community Economic Adjustment Assistance Award for Establishment, Expansion, Realignment, or Closure of a Military Installation		
Project grant for veterans cemetery master plan		
OEA Award No. CL9218-10-7	12.607	404,759
DEPARTMENT OF THE ARMY		
Direct Program:		
U.S. Army Corp of Engineers, HTRW Center of Expertise, Project grant for Environmental Services Cooperative Agreement		
Project grant for clean up of munitions and explosives of concern		
Agreement No. W9128F-07-2-0162	12.xxx	$ 730,187
Total Expenditures of Federal Awards		$ 4,084,772

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

Fort Ord Reuse Authority
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Note A - Reporting Entity Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Fort Ord Reuse Authority (the Authority) under programs of the federal government for the year ended June 30, 2011. 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.* Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position or changes in net assets of the Authority.

Note B - Summary of Significant Accounting Policies

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

(2) All federal grants were direct programs.

(3) There were no subrecipients of federal awards.

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

FORT ORD REUSE AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Reportable conditions identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Reportable conditions identified not considered to be material weaknesses?	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	No

Identification of major programs:

CFDA No.	Name of Federal Program or Cluster
11.307	Economic Adjustment Assistance
12.607	Community Economic Adjustment Assistance
12.xxx	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

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