FORT ORD REUSE AUTHORITY
MARINA, CALIFORNIA

Annual Financial Report

June 30, 2012

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 Burnett	City of Carmel-by-the-Sea	Director
Mayor Kampe	City of Pacific Grove	Director
Mayor Gunter	City of Salinas	Director
Council Member Selfridge	City of Monterey	Director
Mayor Pro Tem Oglesby	City of Seaside	Director
Council Member Brown	City of Marina	Director
Mayor Pendergrass	City of Sand City	Director/Member at Large
Mayor Bachofner	City of Seaside	Director/Member at Large

Appointed Official

Michael A. Houlemard, Jr.
Executive Officer

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fort Ord Reuse Authority
Marina, California

We have audited the accompanying financial statements of the governmental activities, and each major governmental fund, and the aggregate remaining governmental fund information of the Fort Ord Reuse Authority (Authority) as of and for the fiscal year ended June 30, 2012, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit 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. 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 opinions.

The financial statements of the Authority's Preston Park have not been audited, and we were not engaged to audit the Preston Park financial statement as part of our audit of the Authority's basic financial statements. Preston Park's financial activities are included in the Authority's basic financial statements as the Proprietary Fund. The assets, liabilities, net assets, revenues and expenses, and cash flows, respectively, of the Authority's business-type activities and the proprietary fund financial statement may be misstated.

The Authority was not in compliance with the Governmental Accounting Standards Board (GASB) Statement No. 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions due to the actuarial study having not been prepared. The liability of other postemployment benefits within its governmental activities and expenses related to this liability are not presented in the basic financial statements.

In our opinion, except for the effect, if any, of not having an actuarial study as required by the GASB Statement No. 45 for the governmental, in all material respects, the respective financial position of the governmental activities of the Authority as of June 30, 2012, and the respective changes in financial position thereof, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund of the Authority as of June 30, 2012, and the respective changes in financial position thereof, for the fiscal 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 a report dated February 1, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

As discussed in Note 1 of the notes to basic financial statements effective July 1, 2011, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions.*

Management has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule on page 29, and the schedule of funding progress for defined benefit pension plan on page 30, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 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 financial statements. The accompanying 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 basic financial statements as a whole.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California
February 1, 2013

Government-wide Financial Statements

FORT ORD REUSE AUTHORITY
Statement of Net Assets
June 30, 2012

	Governmental Activities	(Unaudited) Business-type Activities	Total
ASSETS			
Cash and investments	$ 16,241,211	$ 640,149	$ 16,881,360
Cash restricted for equipment purchases		3,952,699	3,952,699
Accounts receivable	883,779		883,779
Interest receivable	10,424		10,424
Grants receivable	554,094		554,094
Tenant receivables		1,420	1,420
Prepaid expenses	13,459	92,862	106,321
Prepaid insurance, net	1,500,000		1,500,000
Capital assets, net of accumulated depreciation	113,548	1,347,277	1,460,825
Total Assets	19,316,515	6,034,407	25,350,922
LIABILITIES			
Accounts payable and accrued expenses	786,028	27,685	813,713
Deferred revenue	6,114,334	31,432	6,145,766
Long-term debt and obligations:			
Due within one year	412,976		412,976
Due in more than one year	18,407,225	454,823	18,862,048
Total Liabilities	25,720,563	513,940	26,234,503
NET ASSETS			
Invested in capital assets, net of related debt	113,548	1,347,277	1,460,825
Restricted for:			
Equipment purchases		3,952,699	3,952,699
Unrestricted	(6,517,596)	220,491	(6,297,105)
Total Net Assets	$ (6,404,048)	$ 5,520,467	$ (883,581)

See accompanying notes to basic financial statements

Government-wide Financial Statements

FORT ORD REUSE AUTHORITY
Statement of Activities
For the Fiscal Year Ended June 30, 2012

		Program Revenues		Net (Expenses) Revenues and Changes in Net Assets		
Functions/Programs	**Program Expenses**	**Charges for Services**	**Capital or Operating Grants and Fees**	**Governmental Activities**	**(Unaudited) Business-type Activities**	**Total**
Governmental Activities						
General government	$ 2,217,450	$ -	$ 77,955	$ (2,139,495)	$ -	$ (2,139,495)
Capital improvements	4,778,000		4,836,932	58,932		58,932
Environmental cleanup	603,599		603,599			
Reuse planning/EDC transfers & environmental	1,099,648		2,560,928	1,461,280		1,461,280
subtotal - capital improvement program	6,481,247		8,001,459	1,520,212		1,520,212
Interest on long-term debt and short-term debt	1,093,042			(1,093,042)		(1,093,042)
Total governmental activities	9,791,739		8,079,414	(1,712,325)		(1,712,325)
Business-type Activities						
Preston Park	5,220,893	5,236,730			15,837	15,837
Total business-type activities	5,220,893	5,236,730			15,837	15,837
Total primary government	$ 15,012,632	$ 5,236,730	$ 8,079,414	(1,712,325)	15,837	(1,696,488)
		General revenues:				
		Property tax revenue		837,683		837,683
		Membership dues		261,000		261,000
		Franchise fees		248,252		248,252
		Investment earnings		340,335	7,143	347,478
		Miscellaneous		4,000	40,688	44,688
		Total general revenues		1,691,270	47,831	1,739,101
		Change in net assets		(21,055)	63,668	42,613
		Net assets (deficit) at beginning of fiscal year		(5,770,373)	5,456,799	(313,574)
		Prior period adjustments		(612,620)		(612,620)
		Net assets (deficit) at beginning of fiscal year, restated		(6,382,993)	5,456,799	(926,194)
		Net assets (deficit) at end of fiscal year		$ (6,404,048)	$ 5,520,467	$ (883,581)

See accompanying notes to basic financial statements

Fund Financial Statements

FORT ORD REUSE AUTHORITY
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	EDA Grant ARRA	Army Grant ET/ESCA	Total Governmental Funds
ASSETS							
Cash and investments	$ 3,020,459	$ 2,872,218	$ 4,854,269	$ 33,815	$ -	$ 5,460,450	$ 16,241,211
Accounts receivable	104,690	49,520	34,650	694,919			883,779
Interest receivable				10,424			10,424
Grants receivable					554,094		554,094
Due from other funds	327,147						327,147
Prepaid expenses	12,328		847			284	13,459
Prepaid insurance, net				1,500,000			1,500,000
Total Assets	$ 3,464,624	$ 2,921,738	$ 4,889,766	$ 2,239,158	$ 554,094	$ 5,460,734	$ 19,530,114
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	$ 181,712	$ 6,725	$ 184,274	$ -	$ 226,947	$ 186,370	$ 786,028
Due to other funds					327,147		327,147
Deferred revenue	50,457	49,520	34,650	705,343		5,274,364	6,114,334
Total Liabilities	232,169	56,245	218,924	705,343	554,094	5,460,734	7,227,509
Fund Balances							
Non-spendable	12,328		847	1,500,000			1,513,175
Committed			4,669,995	33,815			4,703,810
Assigned		2,865,493					2,865,493
Unassigned	3,220,127						3,220,127
Total Fund Balances	3,232,455	2,865,493	4,670,842	1,533,815			12,302,605
Total Liabilities and Fund Balances	$ 3,464,624	$ 2,921,738	$ 4,889,766	$ 2,239,158	$ 554,094	$ 5,460,734	$ 19,530,114

See accompanying notes to basic financial statements

FORT ORD REUSE AUTHORITY

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2012

Total fund balances - governmental funds			$ 12,302,605
In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.			
Capital assets at historical cost	$ 451,051		
Accumulated depreciation	(337,503)		
Net			113,548
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:			
Capital lease obligations	$ (216,182)		
Preston Park Loan Payable	(18,456,588)		
Compensated absences	(147,431)		
Total			(18,820,201)
Total net assets (deficit), governmental activities			$ (6,404,048)

See accompanying notes to basic financial statements

Fund Financial Statements

FORT ORD REUSE AUTHORITY
Statement of Revenues, Expenditures, and Change in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	EDA Grant ARRA	Army Grant ET/ESCA	Governmental Funds
REVENUE							
Membership dues	$ 261,000	$ -	$ -	$ -	$ -	$ -	$ 261,000
Franchise fees	248,252						248,252
Property tax increment	837,683						837,683
Federal grants					2,105,770	603,599	2,709,369
Developer fees			2,231,162				2,231,162
Insurance reimbursements				727,634			727,634
Lease/Rental income	77,955	1,799,998					1,877,953
Real estate sales		28,296					28,296
CSU mitigation fees			500,000				500,000
Investment/Interest earnings	306,468			33,867			340,335
Other revenue	4,000			5,000			9,000
Total Revenue	1,735,358	1,828,294	2,731,162	766,501	2,105,770	603,599	9,770,684
EXPENDITURES							
Current							
Salaries and benefits	1,307,022		257,545			279,867	1,844,434
Supplies and services	207,265	5,500	25,739			16,107	254,611
Contractual services	621,012	12,723	195,057	3,084		307,625	1,139,501
Insurance				600,000			600,000
Capital improvements			615,286		4,211,540		4,826,826
Debt service		1,307,986	116,000	876,799			2,300,785
Total Expenditures	2,135,299	1,326,209	1,209,627	1,479,883	4,211,540	603,599	10,966,157
Excess of revenues over (under) Expenditures	(399,941)	502,085	1,521,535	(713,382)	(2,105,770)		(1,195,473)
OTHER FINANCING SOURCES (USES)							
Transfers in		1,106,046			2,105,770		3,211,816
Transfers out	(2,105,770)		(1,106,046)				(3,211,816)
Total other financing sources (uses)	(2,105,770)	1,106,046	(1,106,046)		2,105,770		
Net change in net assets	(2,505,711)	1,608,131	415,489	(713,382)			(1,195,473)
Fund Balances - July 1, 2011	5,788,623	1,335,178	4,300,803	2,686,094			14,110,698
Prior Period Adjustments	(50,457)	(77,816)	(45,450)	(438,897)			(612,620)
Fund Balances, restated - July 1, 2011	5,738,166	1,257,362	4,255,353	2,247,197			13,498,078
Fund Balances - June 30, 2012	$ 3,232,455	$ 2,865,493	$ 4,670,842	$ 1,533,815	$ -	$ -	$ 12,302,605

See accompanying notes to basic financial statements

FORT ORD REUSE AUTHORITY

Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012

Total net change in fund balances - governmental funds	$	(1,195,473)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of $70,671 is greater than depreciation expense $(21,845) in the period.		48,826
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities.		1,207,743
In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:		(82,151)
Change in net assets of governmental activities	$	(21,055)

Fund Financial Statements

FORT ORD REUSE AUTHORITY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2012

	(Unaudited) Business-type Activities - Enterprise Fund
	Preston Park
ASSETS	
Current Assets:	
Cash and investments	$ 640,149
Cash restricted for equipment purchases	3,952,699
Tenant receivables	1,420
Prepaid expenses	92,862
Total current assets	4,687,130
Noncurrent Assets:	
Property and equipment, net of accumulated depreciation	1,347,277
Total noncurrent assets	1,347,277
Total assets	6,034,407
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued expenses	27,685
Deferred revenue	31,432
Total current liabilities	59,117
Noncurrent liabilities:	
Tenant security deposits	454,823
Total noncurrent liabilities	454,823
Total liabilities	513,940
NET ASSETS	
Invested in capital assets, net of related debt	1,347,277
Restricted for:	
Equipment purchases	3,952,699
Unrestricted	220,491
Total net assets	$ 5,520,467

See accompanying notes to basic financial statements

FORT ORD REUSE AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2012

	(Unaudited) Business-type Activities - Enterprise Fund
	Preston Park
Operating Revenues:	
Rental income, net	$ 5,236,730
Total operating revenues	5,236,730
Operating Expenses:	
Administrative	473,771
Utilities	90,972
Operating and maintenance	425,677
Taxes and insurance	280,285
Depreciation	350,192
Total operating expenses	1,620,897
Operating income (loss)	3,615,833
Non-Operating Revenues (Expenses):	
Interest income	7,143
Miscellaneous revenue	40,688
Total non-operating revenues (expenses)	47,831
Income (Loss) Before Distribution	3,663,664
Distribution	3,599,996
Changes in net assets	63,668
Total net assets - July 1, 2011	5,456,799
Total net assets - June 30, 2012	$ 5,520,467

FORT ORD REUSE AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2012

	(Unaudited) Business-type Activities - Enterprise Fund
	Preston Park
Cash Flows from Operating Activities:	
Cash received from tenants	$ 5,252,006
Cash paid to suppliers for goods and services	(809,659)
Cash paid to employees for services	(473,771)
Net cash provided (used) by operating activities	3,968,576
Cash Flows from Non-Capital and Related Financing Activities:	
Miscellaneous income	40,688
Distribution	(3,599,996)
Net cash provided (used) by non-capital financing activities	(3,559,308)
Cash Flows from Capital and Related Financing Activities:	
Purchases of property and equipment	(178,159)
Net cash provided (used) by capital and related financing activities	(178,159)
Cash Flows from Investing Activities:	
Interest revenue	7,143
Net cash provided by investing activities	7,143
Net increase (decrease) in cash and cash equivalents	238,252
Cash and Cash Equivalents at Beginning of Fiscal Year	4,354,596
Cash and Cash Equivalents at End of Fiscal Year	$ 4,592,848
Reconciliation to Statement of Net Assets:	
Cash and investments	$ 640,149
Cash restricted for equipment purchases	3,952,699
	$ 4,592,848

(Continued)

Fund Financial Statement

FORT ORD REUSE AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2012
(Continued)

	(Unaudited) Business-type Activities - Enterprise Fund
	Preston Park
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	$ 3,615,833
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	350,192
(Increase) decrease in tenant receivables	(1,025)
(Increase) decrease in prepaid expenses	(6,254)
Increase (decrease) in accounts payable and accrued expenses	(6,471)
Increase (decrease) in tenant security deposits	30,485
Increase (decrease) in deferred revenue	(14,184)
Total adjustments	352,743
Net cash provided (used) by operating activities	$ 3,968,576

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

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

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 (GASB) Statement No. 14 or 39 as amended, 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 Authority 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
The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Authority.

The government-wide statements are prepared using the economic resources measurement focus. Government-wide statements differ from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Authority's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The Authority does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Authority, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Authority.

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Fund Financial Statements
Fund financial statements report detailed information about the Authority. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets for proprietary funds present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The statement of cash flows provides information about how the Authority meets the cash flow needs of proprietary activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items.

D. Fund Accounting

The accounts of the Authority are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or net assets, revenues, and expenditures or expenses, as appropriate. Authority resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Authority's accounts are organized into major funds and a proprietary fund as follows:

Major Governmental Funds

General fund is the general operating fund of the Authority and accounts for all revenue and expenditures of the Authority not encompassed within other funds. All general revenue and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

In accordance with GASB Statement No. 34, paragraph 76, the Authority has elected to report all its special revenue funds as major funds because they believe these funds are particularly important to financial statement users, as follows:

Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund. The Authority maintains five major special revenue funds:

1. Lease and Sale Proceeds Fund is used to account for revenue from the sale/lease of real estate on the former Fort Ord.

2. Developer Fees Fund is used to account for moneys received from fees levied on developers or other agencies as a condition of approving development on the former Fort Ord.

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

3. Pollution Legal Liability Fund is used to account for resources and payments made for principal and interest on long-term debt associated with the purchase of Pollution Legal liability insurance.

4. EDA Grant AARA Fund is used to account for revenue and projects funded by the U.S. Department of Commerce Economic Development Administration for the new arterial road construction.

5. Army Grant ET/ESCA Fund is used to account for revenue and projects funded by the U.S. Department of the Army for cleanup of munitions and explosives of concern.

Proprietary Fund

Preston Park Fund is used to account for the revenues and expenses of the 354 apartment units that are located at 682 Wahl Court, Marina, California.

E. Budgetary Data

The Authority is not required by state law to adopt annual budgets for the general and special revenue funds. An annual budget is however prepared, adopted by the Authority's Board, and included as a part of the general accounting record and 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.

F. Use of Estimates

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

G. Cash and Investments

Cash and cash equivalents held by the Authority are reported as cash and investments. Funds can spend cash at any time without prior notice or penalty. Investments are stated at fair value. Fair value is the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

H. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables (i.e., the current portion of interfund loans) or advances to/from other funds (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as interfund receivables or interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances.

Note 1 - Summary of Significant Accounting Policies (Continued)

I. Capital Assets

The land and buildings that have been rehabilitated by the Fort Ord Redevelopment Project are owned by either the Authority or the City of Marina and are not included as part of the building improvements. The building improvements included herein are those associated with the rehabilitation. Repairs occurring during the rehabilitation period were expensed unless they added additional life to the building improvements. The last available appraised value of the land and buildings as of June 30, 2010, was $57,320,000.

Equipment and furniture are stated on the actual cost basis. Capitalization level for capital assets is $500 per unit (including installation cost). Contributed capital assets are recorded at their estimated fair value at the time received. There were no contributed capital assets during the fiscal year. Capital assets are depreciated over their estimated useful lives. In accordance with the option provided by Governmental Accounting Principles Generally Accepted in the United States of America (GASB Statement No. 34), 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. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Leasehold improvements	5-20 years
Furniture and fixtures	3-7 years
Automobiles	5 years

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

During the reporting period the Authority did not receive or transfer any real property. 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, 2012, the Authority owned approximately 3,450 acres of former Fort Ord Army Base land which included the following parcels:

- Preston Park Housing area
- 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 fiscal 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

J. 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.

K. Long -Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, long-term debt is not reported.

L. Fund Balance Reserves and Designations

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the governing board is the highest level of decision-making authority for the Authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the governing board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Authority's adopted policy, only the governing board or director may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balance are available, the Authority considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

M. Statement of Cash Flows

For the purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents.

Note 1 - Summary of Significant Accounting Policies (Continued)

N. New Accounting Pronouncements

GASB Statement No. 64 – Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53

For the fiscal year ended June 30, 2012, the Authority implemented GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53". The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement set forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this Statement did not have an effect on these financial statements.

Note 2 - Cash and Investments

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	$ 16,881,360
Cash restricted for equipment purchases	3,952,699
Total cash and investments	$ 20,834,059

Cash and investments as of June 30, 2012 consist of the following:

Cash on hand	$ 199
Deposits with financial institutions	7,303,922
Investments	13,529,938
Total cash and investments	$ 20,834,059

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

Authorized Investments Type	Maximum Percentages	Maximum Maturity
U.S. Treasury Obligations	per approval	12 months
Other Obligations guaranteed by the U.S. Government	per approval	12 months
Obligations of U.S. Federal Agencies	per approval	12 months
Certificates of Deposit	per approval	12 months
Deposit Notes	per approval	12 months
Repurchase Obligations	per approval	30 days
Bankers Acceptances	per approval	12 months
Savings and Money Market Accounts	per approval	N/A
Money Market Mutual Funds	per approval	N/A
Local Agency Investment Fund (LAIF)	per approval	N/A

Note 2 - Cash and Investments (Continued)

The Executive Officer shall consult with the Finance Committee Chair for any investment transaction exceeding 5% of the Authority's total portfolio; the Finance Committee will be routinely informed of these transactions.

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

		Maturity Date
Money market mutual funds	$ 5,076,582	Due on demand
Certificates of deposit	$ 8,453,356	12 months

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

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

				Rating as of Fiscal Year End			
Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	AAA	AA	A	Not Rated
Money market mutual funds	$ 5,076,582	N/A	$ -	$ 5,076,582	$ -	$ -	$ -
Certificates of deposit	8,453,356						8,453,356
	$ 13,529,938		$ -	$ 5,076,582	$ -	$ -	$ 8,453,356

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

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

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

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

Note 2 - Cash and Investments (Continued)

Custodial Credit Risk (Continued)

As of June 30, 2012, $2,587,814 of the Authority's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts

Cash Restricted for Equipment Purchases
As required by the City of Marina and the Fort Ord Reuse Authority, the Preston Park's Property maintains a capital reserve cash account for future capital purchases. As of June 30, 2012, the reserve balance was $3,952,699.

Note 3 – Interfund Activity

Due To/From Other Funds
Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

	Due From	Due To
Major Governmental Funds:		
General Fund	$ 327,147	$ -
EDA Grant ARRA Special Revenue Fund		327,147
Totals	327,147	327,147

Interfund Transfers
Interfund transfers consist of transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the 2011-2012 fiscal year are as follows:

	Transfers In	Transfers Out
Major Governmental Funds:		
Lease and Sale Proceeds Special Revenue Fund	$ 1,106,046	$ -
EDA Grant ARRA Special Revenue Fund	2,105,770	
General Fund		2,105,770
Developer Fees Special Revenue Fund		1,106,046
Totals	$ 3,211,816	$ 3,211,816

Note 4 - Capital Assets

Capital asset activity, for the fiscal year ended June 30, 2012, was as follows:

Governmental Activities

Capital assets, being depreciated:	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012
Equipment and furniture	$ 380,380	$ 70,671	$ -	$ 451,051
Less - accumulated depreciation	(315,658)		(21,845)	(337,503)
Total capital assets, net	$ 64,722	$ 70,671	$ (21,845)	$ 113,548

Depreciation expense was $21,845 for the fiscal year ending June 30, 2012, and charged to the general government function.

Note 4 - Capital Assets (Continued)

Business-type Activities

Preston Park Capital assets, being depreciated:	(Unaudited) Balance at July 1, 2011	(Unaudited) Additions	(Unaudited) Deletions	(Unaudited) Balance at June 30, 2012
Improvements	$ 3,792,045	$ 178,159	$ -	$ 3,970,204
Furniture and fixtures	435,172			435,172
Automobile	35,563			35,563
Less - accumulated depreciation	(2,743,470)		(350,192)	(3,093,662)
Total capital assets, net	$ 1,519,310	$ 178,159	$ (350,192)	$ 1,347,277

Depreciation expense was $350,192 for the fiscal year ending June 30, 2012, and charged to functions/programs of the Authority's business-type activities as Preston Park.

Note 5 - 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 2011-12 fiscal year employer rate was 13.019% of annual covered payroll. The projected 2012-2013 fiscal year employer rate is 13.5% 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 $244,182 to CalPERS was equal to the Authority's required and actual employer contributions of $158,799 and the employee share of $85,383. The required contribution was determined as part of the June 30, 2009 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 34 shows that the plan was underfunded as of June 30, 2011. Information for the fiscal year ending June 30, 2012 has not been released by the Plan Actuary.

Note 5 - Defined Benefit Pension Plan (Continued)

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
6/30/2010	$ 132,215	100%	$ -0-
6/30/2011	$ 135,110	100%	$ -0-
6/30/2012	$ 158,799	100%	$ -0-

Note 6 - Deferred Compensation Plan

The Authority offers its full-time employees a deferred compensation plan in accordance with Internal Revenue Code §457. The plan permits the employee to defer until future years up to 25% of annual gross earnings not to exceed $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 7 - Long-Term Debt Obligations

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

	July 1, 2011 Balance	Additions	Reductions	June 30, 2012 Balance	Due Within One Year
Capital lease	$ 316,847	$ -	$ 100,665	$ 216,182	$ 105,537
PLL Insurance loan	857,143		857,143		
Preston Park loan	18,706,523		249,935	18,456,588	268,382
Compensated absences	65,280	108,263	26,112	147,431	39,057
Totals	$ 19,945,793	$ 108,263	$ 1,233,855	$ 18,820,201	$ 412,976

Note 8 - 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.

Scheduled Payments
Future minimum lease payments are as follows:

Fiscal Year Ending June 30,	
2013	$ 116,000
2014	116,000
Total gross lease payments	232,000
Less amount representing interest	15,818
Net minimum lease payments	$ 216,182

Note 9 - 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 and at 3.5% on the COD secured loan, and is paid monthly. Funding to the Authority to repay the loans is being provided by member municipalities that benefit from legal liability protection of the insurance policy.

During the fiscal year, the Authority paid off the outstanding balance of $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.

As of June 30, 2012, the amount of outstanding principal was $18,456,588.

Note 10 - Compensated Absences

The leave policy was revised in June 2011 to limit vacation accrual and include a vacation cash out provision. Authority employees are allowed to accrue up to 10 days of sick leave and up to 20 days of vacation per year, depending on length of employment. Employees are permitted to accrue an unlimited amount of sick leave; vacation accrual is limited to 240 hours. Employees may elect to cash out up to 80 hours of accrued vacation one time during a fiscal year. 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 and sick pay at June 30, 2012 was $147,431.

Note 11 - Health Care Plan

During the year ended June 30, 2012, 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 12 - Commitments and Contingencies

A. Litigation

As of June 30, 2012 the Authority was involved in several potential litigations.

Appropriate insurance policies protect the Authority from most potential litigation effects. In addition, the Authority requires indemnification and contract provisions with its vendors and contractors that also guard against, and redirect, litigation costs and potential impact to the Authority's assets. The Authority retains authority and special counsel to defend any such actions.

B. Grant Payments

The Authority participates in federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent 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).

   o Deferred Revenue
     The Authority's share of unspent, unearned Army grant revenue at June 30, 2012 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 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. The Authority's share of property sale and lease income activity for the fiscal year was as follows:

Lease income	
Preston Park Housing	$ 1,877,953

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. **$50,457** - The City of Del Rey Oaks (DRO)
   In 2002, DRO participated in a construction project funded by the EDA grant and local matching funds. On April 23, 2002, the DRO Council affirmed the City's commitment to provide the 25% local match or $*50,457* to pave a portion of South Boundary Road within the DRO city limits. DRO never paid this obligation citing insufficient resources. The Authority reports this debt as a long-term receivable on its financial statements and intends to collect payment as a deduction from the future land sale proceeds of DRO real property. The amount of $50,457 is recorded as deferred revenue.

2. **$4.1 million** – East Garrison Partners (EGP)
   Monterey County (County) approved the EGP project in 2005, postponing land sale revenues to future years. A portion of these land sale revenue was due to the Authority under State law and the terms of the Authority/County 2001 Implementation Agreement. As a consequence, the Authority did not collect the deferred $4.1M in land sale revenue and issued debt of the same amount to fund its ongoing building removal responsibilities. EGP, County and the Authority entered into a Memorandum of Understanding (MOU), which required EGP to: a) pay the Authority monthly interest payments on the $4.1M loan that Authority acquired in lieu of the land sale proceeds and b) repay the $4.1M principal due in 2011 or upon termination of the MOU. In 2009, EGP defaulted on the project. A new developer, Union Community Partners (UCP) purchased the rights and property associated with the project. UCP retired interest obligations in December 2011; the principal repayment is still outstanding.

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 the Authority entered into negotiations to execute an Army funded Environmental Services Cooperative Agreement (ESCA) leading to the transfer of former Fort Ord 3,340 acres prior to regulatory environmental sign-off. In early 2007, the Army awarded the Authority $99.3 million to perform munitions cleanup on the ESCA parcels. The Authority also entered into an Administrative Order on Consent (AOC) with U.S. Environmental Protection Agency (EPA) and California Department of Toxic Substance Control (DTSC), defining conditions under which the Authority assumes responsibility for the Army remediation of the ESCA parcels. In order to complete the AOC defined work; the Authority entered into a Remediation Services Agreement (RSA) with Arcadis, Inc. to provide MEC remediation services and executed a Cost-Cap insurance policy for this remediation work through the American International Insurance Group (AIG).

The ESCA Remediation Program (RP) has been underway for approximately 4.5 years. The ESCA property was transferred to Authority 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, the Authority received the fourth and final ESCA Grant fund payment of approximately $28.6 million. Per the AOC, the majority of these funds have been transferred to AIG (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 - Office Lease

On July 2, 2009, the Authority entered into a lease agreement for office space, with occupancy to commence on the date that a certificate of occupancy for the premises is delivered to the Authority, and shall terminate on midnight of the last day of the fifty-seventh (57^{th}) 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 17 – Prior Period Adjustments

Government-wide and fund financial statements

Fund	Reason for adjustment	Amount
General Fund	Understatement of deferred revenue	$ 50,457
Lease and Sale Proceeds Special Revenue Fund	Understatement of deferred revenue	77,816
Developer Fees Special Revenue Fund	Understatement of deferred revenue	45,450
Pollution Legal Liability Special Revenue Fund	Understatement of deferred revenue	438,897
		$ 612,620

Note 18- Subsequent Events

The Authority management has reviewed the results of operations for the period from June 30, 2012 through February 1 2013, 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, 2012, 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.
- There are three pending litigations as of February 1, 2013:
  1. Keep Fort Ord Wild v Fort Ord Reuse Authority concerning Eastside Parkway environmental review (limited financial liability).
  2. Keep Fort Ord Wild v Fort Ord Reuse Authority concerning Conflict of Interest (limited financial liability).
  3. City of Marina v Fort Ord Reuse Authority regarding ownership of Preston Park Housing Complex (liability unknown).

REQUIRED SUPPLEMENTARY INFORMATION

FORT ORD REUSE AUTHORITY

Budgetary Comparison Information

Budget and Actual - All Funds

For the Fiscal Year Ended June 30, 2012

	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	248,252	53,252
Property tax increment	1,500,000	779,250	837,683	58,433
Federal grants	3,073,639	3,007,468	2,709,369	(298,099)
Developer fees	34,000	2,224,200	2,231,162	6,962
Planning reimbursements	12,500	12,500		(12,500)
Interest payments	287,000	287,000		(287,000)
Insurance reimbursements	727,634	727,634	727,634	
Lease/Rental income	1,592,858	1,872,858	1,877,953	5,095
Real estate sales			28,296	28,296
CSU mitigation fees	500,000	500,000	500,000	
Investments/Interest earnings	62,500	104,195	340,335	236,140
Other revenue			9,000	9,000
Amounts available for appropriation	8,246,131	9,971,105	9,770,684	(200,421)
Charges to Appropriations (Outflows)				
Salaries and benefits	1,902,101	1,767,040	1,844,434	(77,394)
Supplies and services	227,550	276,219	254,611	21,608
Contractual services	1,493,250	1,670,650	1,139,501	531,149
Capital improvements	5,081,208	5,628,759	4,826,826	801,933
Debt service	2,360,423	2,360,423	2,300,785	59,638
Insurance			600,000	(600,000)
Total charges to appropriations	11,064,532	11,703,091	10,966,157	736,934
Surplus (Deficit)	$ (2,818,401)	$ (1,731,986)	$ (1,195,473)	$ 536,513

FORT ORD REUSE AUTHORITY
Schedule of Funding Progress
Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2012

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 - Fiscal Year Ended		
Miscellaneous Plan - 2% at 55 Risk Pool	June 30, 2009	June 30, 2010	June 30, 2011
Accrued Liabilities (AL)	$ 3,104,798,222	$ 3,309,064,934	$ 3,619,835,876
Actuarial Value of Assets (AVA)	$ 2,758,511,101	$ 2,946,408,106	$ 3,203,214,899
Unfunded Liabilities (UL)	$ 346,287,121	$ 362,656,828	$ 416,620,977
Funded Ratio (AVA/AL)	88.9%	89.0%	88.5%
Annual Covered Payroll	$ 742,981,488	$ 748,401,352	$ 759,263,518
UL as a Percentage of Payroll	46.6%	48.5%	54.9%

Note - Details of the defined benefit pension plan can be found in Note 5 of the basic financial statements. Information for the fiscal year ended June 30, 2012 has not been released by the Plan Actuary.

FORT ORD REUSE AUTHORITY

SINGLE AUDIT REPORT

JUNE 30, 2012

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Fort Ord Reuse Authority
Marina, California

We have audited the financial statements of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the Fort Ord Reuse Authority (Authority) as of and for the fiscal year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 1, 2013. 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We noted no deficiencies that we considered to be material weaknesses.

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. However, we identified certain deficiencies in internal control over financial reporting, as described in the accompanying schedule of findings and questioned costs, as items 2012-01 through 2012-03 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Authority in a separate letter February 1, 2013.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, member agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
February 1, 2013

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

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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 (Authority) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the fiscal year ended June 30, 2012. 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 on 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 fiscal year ended June 30, 2012.

Internal Control over Compliance

The management of the 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 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, 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.

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 the Board of Directors, management, federal awarding agencies, member agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim, LLP
Culver City, California
February 1, 2013

FORT ORD REUSE AUTHORITY
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2012

Description and Program Title	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF COMMERCE		
ECONOMIC DEVELOPMENT ADMINISTRATION		
Direct Program:		
ARRA - Economic Adjustment Assistance		
Project grant for new arterial road construction		
EDA Award No. 07-79-73004	11.307	$ 2,105,770
U.S. DEPARTMENT OF THE ARMY		
Direct Program:		
U.S. Army Corp of Engineers, HTRW Center of Expertise,		
Project grant for Environmental Services Cooperative Agreement		
Project grant for clean up of munitions and explosives of concern		
Agreement No. W9128F-07-2-0162	12.000	603,599
Total Expenditures of Federal Awards		$ 2,709,369

See accompanying notes to the schedule of expenditures of federal awards

FORD ORD REUSE AUTHORITY
Notes to Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2012

Note 1 – Basis of Presentation

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

Note 2 – Summary of Significant Accounting Policies

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

2. All federal grants were direct programs.

3. There were no subrecipients of federal awards.

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

FORD ORD REUSE AUTHORITY
Single Audit Report
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	**Qualified**			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified not considered to be material weaknesses?	X	Yes		None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified not considered to be material weaknesses?		Yes	X	None Reported
Type of auditor's report issued on compliance for major programs:	**Unqualified**			
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510 (a)		Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program Cluster
11.307	ARRA-Economic Adjustment Assistance

Dollar threshold used to distinguish between Type A and Type B programs:	**$300,000**			
Auditee qualified as low-risk auditee:	X	Yes		No

Section II – Findings – Financial Statement Audit

Significant Deficiencies

2012-01 Finding – Bank reconciliations are not prepared on a monthly basis:

During our fieldwork, we noted that bank reconciliations are prepared quarterly instead of monthly.

Effect:

With the lack of frequency in preparing reconciliations, there is an increased risk of misappropriation of funds because management cannot determine as frequently if cash in the bank matches the general ledger.

Recommendation:

We recommend bank reconciliations are prepared on a monthly basis for the bank accounts that issue checks, specifically, the General checking and On-line checking accounts.

Management's Response:

Management agrees with the auditor.

2012-02 Finding – Deficiencies in expense authorization requests:

During our test of expenditures, we noted that the Executive Officer approves his/her own purchase authorization request.

Effect:

With the lack of review of expense authorization requests, there is a serious weakness of the system of internal controls and this opens the way for the possibility of not only unapproved but also fraudulent purchases.

Recommendation:

We recommend that all purchase authorization requests are approved by the proper authority.

Management's Response:

Management agrees with the auditor. This is being addressed with the revised Business Expense Reimbursement policy which has been provided to the auditor.

2012-03 Finding – Noncompliance with GASB 45:

During our audit, we noted that the Authority has not performed a Governmental Accounting Standards Board (GASB 45) actuarial study for Other Postemployment Benefits.

Effect:

The liability for other post-employment benefits is not presented in the basic financial statements.

Recommendation:

We recommend the Authority conduct a GASB statement No. 45 valuation study by using the Alternative Measurement Method.

Management's Response:

Management has already discussed with the Auditor that FORA will obtain the OPEB valuation in fiscal year 2012-13.

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

None

FORT ORD REUSE AUTHORITY
Single Audit Report
Status of Prior Fiscal Year Findings
For the Fiscal Year Ended June 30, 2012

Prior Fiscal Year's Findings – Financial Statement Audit

None

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

None