FORT ORD REUSE AUTHORITY
MARINA, CALIFORNIA

Annual Financial Report

June 30, 2014

Board of Directors

Voting Members	Representing	Title
Mayor Jerry Edelen	City of Del Rey Oaks	Chair
Mayor Pro Tem Frank O'Connell	City of Marina	1st Vice Chair
Mayor Ralph Rubio	City of Seaside	Director
Mayor Pro Tem Victoria Beach	City of Carmel-by-the-Sea	Director
Council Member Gail Morton	City of Marina	Director
Supervisor Dave Potter	County of Monterey	Director
Supervisor Jane Parker	County of Monterey	Director
Supervisor Lou Calcagno	County of Monterey	Director
Council Member Nancy Selfridge	City of Monterey	Director
Mayor David Pendergrass	City of Sand City	Director
Mayor Joe Gunter	City of Salinas	Director
Mayor Pro Tem Ian Oglesby	City of Seaside	Director
Council Member Casey Lucius	City of Pacific Grove	Director

Appointed Official

Michael A. Houlemard, Jr.
Executive Officer

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fort Ord Reuse Authority
Marina, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Fort Ord Reuse Authority (Authority), California, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion on Proprietary Fund and Business-type Activities

The Authority has not recorded the value of land and buildings, and accurate record of other capital assets listed in Note 4 and related depreciation expenses are not being maintained by the Authority within its business-type activities (Preston Park). Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the business-type activities (Preston Park). These amounts are not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Proprietary Fund and Business-type Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Proprietary Fund of the Authority, as of June 30, 2014, and the changes in financial position and, where applicable, cash flow thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major governmental fund of the Fort Ord Reuse Authority, California, as of June 30, 2014, and the respective changes in financial position, for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 of the notes to the basic financial statements, effective July 1, 2013, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, Items Previously Reported as Assets and Liabilities, Statement No. 66, Technical Correction-2012, Statement No. 67, Financial Reporting for Pension Plans, and Statement No. 70, Accounting and Financial Reporting for Non-exchange Financial Guarantees. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, the budgetary comparison schedule on page 37, the schedule of funding progress for defined benefit pension plan on page 38, and the schedule of funding progress for post-employment benefits other than pensions on page 39, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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 of the Authority.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2014 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California
December 5, 2014

FORT ORD REUSE AUTHORITY

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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

This Fort Ord Reuse Authority's (FORA) financial statement section presents FORA's financial performance analysis of fiscal year ended June 30, 2014, presented in conjunction with the basic financial statements and related notes, that follow this section.

This is management's discussion and analysis (MD&A) of FORA financial performance for the fiscal year ended June 30, 2014.

FINANCIAL HIGHLIGHTS

The 2006-20012 national and state economic downturn/recession significantly slowed Fort Ord reuse and economic recovery. Consequently, FORA Community Facilities District (CFD) Tax/developer fee and land sale revenues were deferred/reduced during those years. However, the past three fiscal years reflect change as building permit issuances and new projects have emerged. During the FY 13-14, FORA:

- Continued essential and significant munitions and explosives of concern ("MEC") cleanup for approximately 3300 acres of former Fort Ord Land. The field work has been completed under the U.S. Army ESCA contract and about 25% of these properties have now been transferred to the County of Monterey and State of California for reuse activities and habitat conservation.

- Secured $350,000 loan and $100,000 grant from the David and Lucille Packard Foundation to help close the funding gap between the federal funding and the State of California's estimated initial development costs of the California Central Coast Veterans Cemetery (CCCVC). Federal funding was announced in September 2014 and the CCCVC construction is scheduled to begin in February 2015.

- Completed $122,000 in the Habitat Conservation Plan (HCP) toward completion of a screen check draft HCP and related Environmental Impact Report/Environmental Impact Statement documents. These draft documents will be completed by consultants and reviewed by Wildlife Agencies in November 2014.

- Completed a third phase of Capital Improvement Program CFD/Developer Fee review process, resulting in an additional fee reduction/adjustment for most future projects.

- Collected $4 million in redevelopment revenues, including $1.6 million in development fees, $1.1 million in land sales, and $1.3 million in property tax payments. Additional land sales, developer fee and tax revenue is expected in FY 14-15.

- Completed a co-hosted [California State University Monterey Bay (CSUMB)] 2-day Fort Ord Colloquium with expert presentations on completing Base Reuse Plan Economic Recovery, Blight Removal, Urban Design, Conservation and Ecotourism programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A serves as an introduction to the FORA's basic financial statements and includes 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 components 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 government-wide financial statements include Preston Park Housing project information, reported in business-type of activities.

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

The *statement of activities* presents information showing how the FORA's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, all the current 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 13-14 FORA employed federal grants, property tax receipts, lease proceeds, development fees, franchise fees and membership dues to finance:

- MEC remediation investigation, processing, documentation, and removals;
- Infrastructure planning, design, and construction;
- General governmental operations administration and planning;
- Base Reuse Plan implementation, consistency determinations, and review;
- Two ballot measure election and related legal cost in fall 2013;
- Legal expenses for ongoing litigation and multiple contracts;
- Property surveys and transfers;
- Habitat conservation planning;

- Water augmentation planning;
- Insurance policy and pollution legal liability protection issues;
- Real property development and planning review; and
- Preston Park Housing management.

The government-wide financial statements can be found on *pages 10-11* 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*:* 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 fiscal year-end that are available for appropriation. FORA maintains 5 individual governmental funds the General Fund and 4 Special Revenue Funds.

The General Fund: The general operating 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.

Special Revenue Funds: In FY 13-14 FORA maintained 4 Special Revenue Funds: 1) Lease/Land Sale Proceeds Fund - land sale proceeds are designated to finance the FORA CIP (building removal), lease proceeds are designated to debt financing (Preston Park Loan); 2) Developer Fees Fund – CFD/developer fees are designated to finance the FORA CIP (CEQA mitigations); 3) Pollution Legal Liability (PLL) Fund – revenue is designated to finance the PLL coverage; and 4) Army Grant ET/ESCA – grant funds are designated to finance the munitions and explosives cleanup activities.

Proprietary Fund*:* Preston Park Housing Revenues and expenses are reported in this fund.

The fund financial statements can be found on *pages 12-19* 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.

Net position in the Statement of Activities on *page 10* of this report show FORA governmental activities improved from negative $3.8 million to negative $2.2 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, 2014 of $3.7 million is classified as revenue collected in advance of the earnings process and recorded as unearned revenue, a liability account, for financial statement purposes. It will be recognized as revenue when it is earned. The business-type activities (Preston Park) also show an increase in net assets from $5.9 million to $6.2 million.

Revenue

FORA annual revenue decreased from $14.5 million to $13.4 million; due to decreased CFD/development fees (as compared to the previous fiscal year) but other revenue sources did not vary significantly.

Revenue sources in FY 13-14 were provided from the following:

- Lease proceeds (Preston Park) - 56%
- Development fees – 12%
- Property tax - 10%
- Land sale proceeds – 8%
- Federal funding (ESCA) - 6%
- Membership dues and franchise fees - 4%
- Other revenue sources (loans and grants [Packard], interest) - 4%

Expenditures

The FY 13-14 cost of FORA programs was $12.3 million. The cost of governmental programs was about $6.9 million and business-type activities (Preston Park) about $5.4 million. The major governmental programs were the Environmental cleanup, Fort Ord Base Reuse Plan reassessment/implementation, and the Capital Improvement Program (CIP).

The government-wide financial statement showing the net cost of FORA's major projects can be found on *pages 10-11* 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 $15.5 million; an increase of about $0.5 million from FY 13-14.

$9.5 million of the $15.5 million ending fund balance is either non-spendable, committed, or assigned for specific use, such as federal grant funds assigned for munitions cleanup, CFD/developer fees and land sale proceeds assigned for CIP projects and non-spendable funds such pre-paid insurance. Approximately $6 million is available for administration, operations and reserves.

Ending Fund Balances

Fiscal Year	General Fund	Land Sale/Leases	Developer Fees	Pollution Liability	Federal Grants	TOTALS
2013-2014	2,556,202	4,091,215	7,374,669	964,070	-	14,986,156
2014-2015	6,025,549	2,725,714	6,401,253	364,035	-	15,516,551
Change + (-)	3,469,347	(1,365,501)	(973,416)	(600,035)	-	530,395

BUDGETARY HIGHLIGHTS

A budget is a financial operations plan that provides a basis for planning, controlling, and evaluating governmental activities. Governmental funds generally use a fixed budget, which reflects a specific estimate for revenue and expenditures. Once expenditures and revenue are incorporated into the budget, the total estimated expenditure appropriation amount becomes a limit for current expenditures, and the estimated revenue amount becomes the basis for comparison to actual revenue. Even though 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 13-14 budget on June 21, 2013 and the mid-year budget update on March 14, 2014. Despite ongoing recessionary economic conditions slowing the former Fort Ord reuse, FORA Board policies have sustained financial stability.

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

<u>Revenue: $14.4 million decrease</u>

Revenue projections did not significantly vary from the mid-year budget, excepting CIP revenues. Beginning FY 13-14, the CIP revenue (CFD fees and land sale proceeds) are approved with the CIP budget and carried over to the annual budget. The most significant revenue variances were:

- $9 million CFD/developer fee decrease as compared to CIP budget projections;
- $5 million land sale revenue decrease as compared to CIP budget projections;
- $450K revenue increase from other funding sources (the Packard Foundation grant and loan – not included in the annual budget).

<u>Expenditures: $3.2 million decrease</u>

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

- $105,000 decrease in salaries and benefits; due to a) savings in several approved items such as temporary help/vacation cash out/additional pay-stipends, b) two staff positions replacement timing, and c) salary step increases timing.
- $629,000 decrease in consulting services mainly attributable to savings in legal/litigation fees and Base Reuse implementation consulting (due to project timing);
- $3 million capital project decrease due to CFD fee collection/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 *<u>page 37</u>* 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 *page 24, Note 1-I* for more information regarding capital assets. As of June 30, 2014, FORA had about $18.5 million in long-term debt consisting of:

a. $18 million - Preston Park loan; and
b. $0.5 million – compensated absences and retirement funding obligations.

a) 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 maturity date was extended 6 months from June 15, 2014 to December 15, 2014.

b) This amount represents FORA's liability for compensated absences (vacation and sick leave), post-employment benefit cost and the Public Employees Retirement System (PERS) side fund at June 30, 2014.

More detailed information about FORA's total long-term debts is presented on *pages 31-33, Notes 7-12* to the financial statements.

INTERFUND TRANSFERS

By June 30, 2014, the following interfund (between FORA funds) transfers were made to provide an accurate accounting of funds available for CIP program and uniformity with the annual and CIP budgets as well as other binding documents. Such entries are now a part of and reported in annual budgets.

1) $2,670,393 transfer from the Land Sale/Leases Fund to the General Fund of any remaining lease proceeds (after Preston Park debt service and other budgeted costs) leaving only Land Sale proceeds in the LS fund, thus providing an accurate balance of the funds available for building removal and other CIP projects.

2) $1,579,172 transfer from the CFD/Developer Fee Fund to the General Fund to partially repay the $7.9 million borrowed and as budgeted in the CIP program.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In FY 13-14 major economic revitalization projects were approved, initiated, or approved for occupancy, including: VA General Gourly Health Care Center, California Central Coast Veterans Cemetery, South County Housing University Villages Apartments, the Cinemax Theatre Complex, Promontory Student Housing, and East Garrison For Sale Housing. These major projects are supported by FORA's processing of significant CIP program items such as habitat conservation and the conclusion of much of the remaining field work under the U.S. Army ESCA contract.

Despite these successes, the past fiscal year has reinforced the need to emphasize blight removal, finalize 2012 Reassessment Report items, complete the Regional Urban Design Guidelines, and secure approval of the Habitat Conservation Plan – significant remaining goals to the reuse effort.

In coming years, FORA will need to confirm/access land sales/leasing revenue to continue support for blight removal and assure collection of developer fees/taxes to complete its State Law mandated obligations.

As 1) underlying economic factors have rebounded from the 2007-20012 recession and 2) FORA sunsets in 2020, it is important that FORA secures these revenue sources in a reserve that assures its obligations (programmatic and ministerial) may be met by a successor in interest.

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

FORT ORD REUSE AUTHORITY
Statement of Net Position
June 30, 2014

ASSETS	**Governmental Activities**	**Business-type Activities**	**Total**
Cash and investments	$ 13,519,222	$ 827,606	$ 14,346,828
Cash restricted for equipment purchases		3,465,882	3,465,882
Cash and investments restricted for Habitat	6,331,927		6,331,927
Accounts receivable	808,438		808,438
Interest receivable	20,848		20,848
Tenant receivables		3,864	3,864
Prepaid expenses		99,276	99,276
Prepaid insurance	311,333		311,333
Capital assets, net of accumulated depreciation	57,145	2,882,500	2,939,645
Total Assets	21,048,913	7,279,128	28,328,041
LIABILITIES			
Accounts payable and accrued expenses	989,194	523,489	1,512,683
Unearned revenue	3,706,748	37,270	3,744,018
Long-term debt and obligations:			
Due within one year	18,015,135		18,015,135
Due in more than one year	523,143	476,292	999,435
Total Liabilities	23,234,220	1,037,051	24,271,271
NET POSITION			
Net investment in capital assets	57,145	2,882,500	2,939,645
Restricted for:			
Capital purchases and projects		3,465,882	3,465,882
Unrestricted	(2,242,452)	(106,305)	(2,348,757)
Total Net Position (Deficit)	$ (2,185,307)	$ 6,242,077	$ 4,056,770

Government-wide Financial Statements

FORT ORD REUSE AUTHORITY
Statement of Activities
For the Fiscal Year Ended June 30, 2014

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
Functions/Programs	**Program Expenses**	**Charges for Services**	**Operating Grants and Fees**	**Governmental Activities**	**Business-type Activities**	**Total**
Governmental Activities						
General government	$ 3,259,601	$ -	$ 73,089	$ (3,186,512)	$ -	$ (3,186,512)
Capital improvements	667,979		1,636,432	968,453		968,453
Environmental cleanup	739,870		739,870			
Reuse planning/EDC transfers & environmental	1,102,303		2,877,487	1,775,184		1,775,184
subtotal - capital improvement program	2,510,152		5,253,789	2,743,637		2,743,637
Interest on long-term debt and short-term debt	1,086,729			(1,086,729)		(1,086,729)
Total governmental activities	6,856,482		5,326,878	(1,529,604)		(1,529,604)
Business-type Activities						
Preston Park	5,425,514	5,661,940			236,426	236,426
Total business-type activities	5,425,514	5,661,940			236,426	236,426
Total primary government	$ 12,281,996	$ 5,661,940	$ 5,326,878	(1,529,604)	236,426	(1,293,178)
General revenues:						
Property tax revenue				1,293,586		1,293,586
Membership dues				261,000		261,000
Franchise fees				241,249		241,249
Investment earnings				133,866	7,634	141,500
Miscellaneous				453,623	60,696	514,319
Total general revenues				2,383,324	68,330	2,451,654
Change in net position				853,720	304,756	1,158,476
Net position at beginning of fiscal year				(3,824,121)	5,937,321	2,113,200
Prior period adjustments				69,326		69,326
Net position at beginning of fiscal year, restated				(3,754,795)	5,937,321	2,182,526
Net position (deficit) at end of fiscal year				$ (2,901,075)	$ 6,242,077	$ 3,341,002

See accompanying notes to basic financial statements

Fund Financial Statements

FORT ORD REUSE AUTHORITY
Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	Army Grant ET/ESCA	Total Governmental Funds
ASSETS						
Cash and investments	$ 6,679,910	$ 2,767,373	$ 94,268	$ 64,035	$ 3,913,636	$ 13,519,222
Cash and investments restricted for Habitat			6,331,927			6,331,927
Accounts receivable	100,468		13,050	694,920		808,438
Interest receivable				20,848		20,848
Prepaid insurance	11,333			300,000		311,333
Total Assets	$ 6,791,711	$ 2,767,373	$ 6,439,245	$ 1,079,803	$ 3,913,636	$ 20,991,768
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities						
Accounts payable	$ 715,705	$ 41,659	$ 24,942	$ -	$ 206,888	$ 989,194
Unearned revenue					3,706,748	3,706,748
Total Liabilities	715,705	41,659	24,942		3,913,636	4,695,942
Deferred Inflows of Resources:						
Deferred revenue - local contribution	50,457					50,457
Deferred revenue - insurance reimbursements				715,768		715,768
Deferred revenue - developer fees			13,050			13,050
Total deferred inflows of resources	50,457		13,050	715,768		779,275
Fund Balances (Note 1L, page 25)						
Non-spendable	11,333			300,000		311,333
Committed				64,035		64,035
Assigned		2,725,714	6,401,253			9,126,967
Unassigned	6,014,216					6,014,216
Total Fund Balances	6,025,549	2,725,714	6,401,253	364,035		15,516,551
Total Liabilities, deferred inflow of resources, and Fund Balances	$ 6,791,711	$ 2,767,373	$ 6,439,245	$ 1,079,803	$ 3,913,636	$ 20,991,768

See accompanying notes to basic financial statements

FORT ORD REUSE AUTHORITY

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2014

Total fund balances - governmental funds			$	15,516,551
In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.				
Capital assets at historical cost	$	168,298		
Accumulated depreciation		(111,153)		
Net				57,145
The focus of governmental funds is on short-term financing, therefore, some assets will not be available to pay for current-period expenditures. Those assets are offset by deferred outflows in the governmental funds and not included in fund balance. Deferred revenue associated with these assets is not included in the statement of net position.				63,507
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:				
PERS Side fund	$	(239,766)		
OPEB		(228,256)		
Preston Park Loan Payable		(17,926,021)		
Compensated absences		(144,235)		
Total				(18,538,278)
Total net position, governmental activities			$	(2,901,075)

FORT ORD REUSE AUTHORITY
Statement of Revenue, Expenditures, and Change in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	General Fund	Lease and Sale Proceeds	Developer Fees	Pollution Legal Liability	Army Grant ET/ESCA	Governmental Funds
REVENUE						
Membership dues	$ 261,000	$ -	$ -	$ -	$ -	$ 261,000
Franchise fees	241,249					241,249
Property taxes	1,293,586					1,293,586
Federal grants					739,870	739,870
Developer fees			1,623,382			1,623,382
Lease/Rental income	73,089	1,737,006				1,810,095
Real estate sales		1,090,024				1,090,024
Investment/Interest earnings	69,042		64,824			133,866
Other revenue	453,623					453,623
Total Revenue	2,391,589	2,827,030	1,688,206		739,870	7,646,695
EXPENDITURES						
Salaries and benefits	1,432,998		230,523		338,791	2,002,312
Supplies and services	105,174		10,080		10,577	125,831
Contractual services	1,632,264	179,951	81,714	35	390,502	2,284,466
Capital improvements			644,133			644,133
Insurance amortization				600,000		600,000
Debt service	1,371	1,342,187	116,000			1,459,558
Total Expenditures	3,171,807	1,522,138	1,082,450	600,035	739,870	7,116,300
Excess of revenues over (under) Expenditures	(780,218)	1,304,892	605,756	(600,035)		530,395
OTHER FINANCING SOURCES (USES)						
Transfers in	4,249,565					4,249,565
Transfers out		(2,670,393)	(1,579,172)			(4,249,565)
Total other financing sources (uses)	4,249,565	(2,670,393)	(1,579,172)			
Net change in fund balances	3,469,347	(1,365,501)	(973,416)	(600,035)		530,395
Fund Balances - July 1, 2013	2,556,202	4,091,215	7,305,343	964,070		14,916,830
Prior Period Adjustment			69,326			69,326
Fund Balances, restated - July 1, 2013	2,556,202	4,091,215	7,374,669	964,070		14,986,156
Fund Balances - June 30, 2014	$ 6,025,549	$ 2,725,714	$ 6,401,253	$ 364,035	$ -	$ 15,516,551

See accompanying notes to basic financial statements

FORT ORD REUSE AUTHORITY

Reconciliation of the Statement of Revenue, Expenditures, and Change in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2014

Total net change in fund balances - governmental funds	$	530,395
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 $9,155 is less than depreciation expense $(33,001) in the period.		(23,846)
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.		372,829
In the statement of activities, postemployment benefits are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, amounts earned were less than amounts paid by.		(114,330)
Amortization of the CalPERS Side fund is an expenditure in the government-wide statement of activities. Also accrued interest on the Side fund asset is recognized as a revenue in the government-wide statement of activities. This is the amount by which the amortization ($44,645) exceeds the earnings ($18,313).		26,332
The focus of governmental funds is on short-term financing, therefore, some assets are offset by unearned revenue or deferred inflows. Loans and notes issued during the year are reported as expenditures in the governmental funds when paid. Collections of loans and notes are reported as revenues in the governmental funds when received. The annual activity for loans and notes is not reported as revenues and expenses in the statement of activities. Net activity including establishment of an allowance.		63,507
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:		(1,167)
Change in net position of governmental activities	$	853,720

See accompanying notes to basic financial statements

FORT ORD REUSE AUTHORITY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2014

	Business-type Activities - Enterprise Fund
	Preston Park
ASSETS	
Current Assets:	
Cash and investments	$ 827,606
Cash restricted for capital purchases and projects	3,465,882
Tenant receivables	3,864
Prepaid expenses	99,276
Total current assets	4,396,628
Noncurrent Assets:	
Property and equipment, net of accumulated depreciation	2,882,500
Total noncurrent assets	2,882,500
Total assets	7,279,128
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued expenses	523,489
Unearned revenue	37,270
Total current liabilities	560,759
Noncurrent liabilities:	
Tenant security deposits	476,292
Total noncurrent liabilities	476,292
Total liabilities	1,037,051
NET POSITION	
Net investment in capital assets	2,882,500
Restricted for:	
Captial purchases and projects	3,465,882
Unrestricted	(106,305)
Total net position	$ 6,242,077

Fund Financial Statements

FORT ORD REUSE AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2014

	Business-type Activities - Enterprise Fund
	Preston Park
Operating Revenues:	
Rental income, net	$ 5,661,940
Total operating revenues	5,661,940
Operating Expenses:	
Administrative	618,619
Utilities	98,737
Operating and maintenance	504,146
Taxes and insurance	304,280
Depreciation	425,720
Total operating expenses	1,951,502
Operating income (loss)	3,710,438
Non-Operating Revenues (Expenses):	
Interest income	7,634
Miscellaneous revenue	60,696
Total non-operating revenues (expenses)	68,330
Income Before Distribution to Owners	3,778,768
Distribution to owners	3,474,012
Change in net position	304,756
Total net position - July 1, 2013	5,937,321
Total net position - June 30, 2014	$ 6,242,077

See accompanying notes to basic financial statements

FORT ORD REUSE AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2014

	Business-type Activities - Enterprise Fund
	Preston Park
Cash Flows from Operating Activities:	
Cash received from tenants	$ 5,669,989
Cash paid to suppliers for goods and services	(443,306)
Cash paid to employees for services	(618,619)
Net cash provided (used) by operating activities	4,608,064
Cash Flows from Non-Capital and Related Financing Activities:	
Miscellaneous income	60,696
Distribution to owners	(3,474,012)
Net cash provided (used) by non-capital financing activities	(3,413,316)
Cash Flows from Capital and Related Financing Activities:	
Cash received from disposal of capital assets	700
Purchases of property and equipment	(2,045,098)
Net cash provided (used) by capital and related financing activities	(2,044,398)
Cash Flows from Investing Activities:	
Interest revenue	7,634
Net cash provided by investing activities	7,634
Net increase (decrease) in cash and cash equivalents	(842,016)
Cash and Cash Equivalents at Beginning of Fiscal Year	5,135,504
Cash and Cash Equivalents at End of Fiscal Year	$ 4,293,488
Reconciliation to Statement of Net Position:	
Cash and investments	$ 827,606
Cash restricted for capital purchases and projects	3,465,882
	$ 4,293,488

(Continued)

FORT ORD REUSE AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2014
(Continued)

	Business-type Activities - Enterprise Fund
	Preston Park
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	$ 3,710,438
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	425,720
(Increase) decrease in tenant receivables	(1,116)
(Increase) decrease in prepaid expenses	(2,052)
Increase (decrease) in accounts payable and accrued expenses	465,909
Increase (decrease) in tenant security deposits	1,957
Increase (decrease) in unearned revenue	7,208
Total adjustments	897,626
Net cash provided (used) by operating activities	$ 4,608,064

FORT ORD REUSE AUTHORITY
Notes to Basic Financial Statements
June 30, 2014

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 Statement (GASB) No. 14 that are included in the Authority's reporting entity.

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

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

In 2012, the Assembly Bill (AB) 1614 to extend the Authority's statutory sunset date of June 30, 2014. Such extension would permit the completion of remaining ongoing and fixed term obligations on Fort Ord. The legislature and the Monterey Bay Region demonstrated broad support for AB 1614 and it was signed into law by Governor Brown in September 2012, effectively extending the Authority's sunset date to June 30, 2020.

B. Accounting Policies

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

C. Basis of Presentation

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

Government-wide Financial Statements
The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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

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

All proprietary fund types are accounted for on a flow of economic resources measurement focus and the full accrual basis of accounting. 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 Position. The Statement of Revenues, Expenses, and Changes in Net Position 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. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the internal service fund is charges to other funds for self-insurance costs. Operating expenses for the internal service fund include the costs of insurance premiums and claims related to self-insurance.

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 position, revenues, and expenditures or expenses, as appropriate. Authority resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Authority's accounts are organized into major funds 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:

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

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

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

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

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

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

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 be expended at any time without prior notice or penalty. Investments are stated at fair value. Fair Value is the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquation sale.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

I. Capital Assets

The land and buildings that have been rehabilitated by the Fort Ord Reuse Authority (Preston Park) are owned by the Authority 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. As of June 30, 2010 (the last appraisal report before the fiscal year ended), the appraisal value of the land and buildings 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 market value at the time received. There were no contributed capital assets during the fiscal year. Capital assets are depreciated over their estimated useful lives. In accordance with the option provided by Government Accounting Principles Generally Accepted in the United States of America, infrastructure assets such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting are not recorded on the Statement of Net Position. Management has determined that the purpose of stewardship for capital expenses is satisfied without recording these assets. In addition, depreciation is not recorded on these capital assets. Depreciation is calculated using the straight-line method over the following estimated useful lives:

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

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

During the reporting period, the Authority did not receive or transfer any real property. 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, 2014, 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 all Authority owned properties to be in the range of $100-$150 million, of which the Authority is entitled to a 50% share of leasing or land sales proceeds.

Note 1 - Summary of Significant Accounting Policies (Continued)

J. Net Position

GASB Statement No. 63 adds the concept of Net Position, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

Net Position is divided into three captions under GASB Statement No. 63. These captions apply only to Net Position as determined at the government-wide level, and are described below:

- Net investment in capital assets - This represents the Authority's total investment in capital assets.

- Restricted net position - Restricted net position include resources that the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties or regulatory agencies that direct usage, or other impositions by contract or adopted covenants.

- Unrestricted net position - Unrestricted net position represent resources derived from franchise fees and membership dues. These resources are used for transactions relating the general operations of the Authority, and may be used at the discretion of the governing board to meet current expenses for any purpose.

K. Long -Term Obligations

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

L. Fund Balance

As of June 30, 2014, fund balances of the governmental funds are classified as follows:

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

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

Committed – amounts that can be used only for specific purposes determined by a formal action of the 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 (ET/ESCA grant and PLL insurance funds).

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Authority's adopted policy, only the governing board or director may assign amounts for specific purposes (CFD/Developer fees and land sale proceeds – assigned to the Authority CIP program).

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

N. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority does not have any deferred outflows to report.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Authority has deferred inflow of resources on the deferred revenue – local contributions, insurance reimbursements and developer fees on the fund financial statements.

O. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 65

For the fiscal year June 30, 2014, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of the GASB Statement No. 65 did have an impact on the Authority's financial statements for the fiscal year ended June 30, 2014. Items previously reported as assets and liabilities are now reported as deferred inflows or outflows of resources, see Note 1.N for more details.

Governmental Accounting Standards Board Statement No. 66

For the fiscal year ended June 30, 2014, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 66, "Technical Correction - 2012." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement No. 54 and Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement No. 62 and Statements No. 13, Accounting for Operating Leases with Scheduled Rent Increases, regarding the reporting of certain operating lease transactions, and No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. Implementation of the GASB Statement No. 66 did not have an impact on the Authority's financial statements for the fiscal year ended June 30, 2014.

Note 1 - Summary of Significant Accounting Policies (Continued)

O. New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 67

For the fiscal year ended June 30, 2014, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 67, "Financial Reporting for Pension Plans." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No.25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and No. 50 "Pension Disclosures" as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. Implementation of the GASB Statement No. 67 did not have an impact on the Authority's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 70

For the fiscal year ended June 30, 2014, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are non-exchange transactions. Implementation of the GASB Statement No. 70 did not have an impact on the Authority’s financial statements for the fiscal year ended June 30, 2014.

Note 2 - Cash and Investments

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position	
Cash and investments	$ 14,346,828
Cash restricted for capital purchases and projects	3,465,882
Cash and investments restricted for Habitat	6,331,927
Total cash and investments	$ 24,144,637

Cash and investments as of June 30, 2014 consist of the following:

Cash on hand	$ 200
Deposits with financial institutions	617,924
Investments	23,526,513
Total cash and investments	$ 24,144,637

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.

Note 2 - Cash and Investments (Continued)

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	12 months
Money Market Mutual Funds	per approval	12 months
Local Agency Investment Fund (LAIF)	per approval	12 months

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

Disclosures Relating to Interest Rate Risk

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

		Maturity Date
Money market mutual funds	$ 13,577,046	Due on demand
Certificates of deposit	$ 9,949,467	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	$ 13,577,046	N/A	$ -	$ -	$ -	$ -	$ 13,577,046
Certificates of deposit	9,949,467						9,949,467
	$ 23,526,513		$ -	$ -	$ -	$ -	$ 23,526,513

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:

Note 2 - Cash and Investments (Continued)

Custodial Credit Risk (Continued)

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

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

As of June 30, 2014, $696,911 of the Authority's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

Cash Restricted for Capital Purchases and Projects
As required by the City of Marina and the Fort Ord Reuse Authority, the Preston Park Property maintains a capital reserve cash account for future capital purchases. As of June 30, 2014, the reserve balance was $3,465,882.

Note 3 – Interfund Activity

Interfund Transfers
Interfund transfers consist of transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the 2013-2014 fiscal year are as follows:

	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	$ 4,249,565	$ -
Lease and Sale Proceeds Special Revenue Fund		2,670,393
Developer Fees Special Revenue Fund		1,579,172
Totals	$ 4,249,565	$ 4,249,565

Note 4 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

Governmental Activities

Capital assets, being depreciated:	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Equipment and furniture	$ 159,584	$ 9,155	$ (441)	$ 168,298
Less - accumulated depreciation	(78,593)	(33,001)	441	(111,153)
Total capital assets, net	$ 80,991	$ (23,846)	$ -	$ 57,145

Depreciation expense was $33,001 for the fiscal year ended June 30, 2014, and charged to the general government function.

Note 4 - Capital Assets (Continued)

Business-type Activities

Preston Park

Capital assets, being depreciated:	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Improvements	$ 4,232,193	$ 2,044,156	$ -	$ 6,276,349
Furniture and fixtures	437,772	942		438,714
Automobile	47,406		(700)	46,706
Less - accumulated depreciation	(3,453,549)	(425,720)		(3,879,269)
Total capital assets, net	$ 1,263,822	$ 1,619,378	$ (700)	$ 2,882,500

Depreciation expense was $425,720 for the fiscal year ended June 30, 2014, 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 provisions 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 2013-14 fiscal year employer rate was 14.057% of annual covered payroll. The 2014-2015 fiscal year employer rate is 14.888% 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 $281,556 to CalPERS was equal to the Authority's required and actual employer contributions of $181,622 and the employee share of $99,934. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions included:

- a 7.50% investment rate of return (net of administrative expenses).
- projected annual salary increases of 3.30% to 14.20% depending on age, service and type of employment.
- an inflation rate of 2.75%.
- a payroll growth rate of 3.0%.
- individual salary growth merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% 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 38 shows that the plan was underfunded as of June 30, 2012. Information for the fiscal year ended June 30, 2014 has not been released by the Plan Actuary.

Note 5 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost (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
6/30/2012	$ 158,799	100%	$ -0-
6/30/2013	$ 273,143	100%	$ -0-
6/30/2014	$ 281,556	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 $17,500; this amount increases to $23,000 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:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Capital lease	$ 110,645	$ -	$ 110,645	$ -	$ -
PERS Side fund	266,098	18,313	44,645	239,766	45,984
OPEB	113,926	126,380	12,050	228,256	
Preston Park loan	18,188,205		262,184	17,926,021	17,926,021
Compensated absences	143,068	101,637	100,470	144,235	43,130
Totals	$ 18,821,942	$ 246,330	$ 529,994	$ 18,538,278	$ 18,015,135

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. During the fiscal year ended June 30, 2014, the Authority paid off the lease obligation in the amount of $116,000, including $5,355 interest.

Note 9 - Loans Payable

Preston Park Loan
In March 2010, the Authority borrowed $19 million from Rabobank Inc. 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.

In June 2014, the Authority reached the Loan Modification Agreement with the RaboBank Inc. to extend the loan maturity date for another six months, with an interest rate of 5.98%. The maturity date of the extended loan would be December 15, 2014.

As of June 30, 2014, the amount of outstanding principal was $17,926,021. See Note 20 for further details.

Note 10 – Public Employees Retirement System Side Fund

During the fiscal year 2005-2006, the Authority was required to participate in the Public Employees Retirement System (PERS) risk pool. As a result, a side fund was created to account for the difference between the funded status of the pool and the funded status of the Authority's plan, in addition to the existing unfunded liability. The outstanding balance at June 30, 2014 was $239,766.

Note 11 - Compensated Absences

The leave policy was revised in June 2011 to limit vacation accrual and include a vacation cash out provision. Authority employees are allowed to accrue up to 10 days of sick leave and up to 20 days of vacation per year, depending on length of employment. Employees are permitted to accrue an unlimited amount of sick leave; vacation accrual is limited to 240 hours. Employees may elect to cash out up to 80 hours of accrued vacation one time during a fiscal year, which makes up the due within one year ($43,130) of the Authority's liability for compensate absences. In the event of separation of employment, an employee is reimbursed for any unused vacation leave, and a portion of their unused sick leave (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, 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, 2014 was $144,235. Of this amount, the Authority's management estimate $43,130 will be due in next fiscal year.

Note 12 - Post Employment Benefits Other than Pensions

Plan Description
The Authority administers a single employer defined benefit healthcare plan (Plan).

The Authority provides post employment healthcare benefits to all qualified employees who met the Authority's Public Employees Retirement System (PERS) current plan requirements. For regular Authority employees hired prior to January 1, 2013, five years of full time continuous employment with the Authority is required. The employee must be at least 50 years of age and has participated in the PERS plan for at least five years for health care benefits. For regular Authority employees hired on or after January 1, 2013, five years of full time continuous employment with the Authority is required. The employee must be at least 52 years of age and has participated in the PERS plan for at least five years for health care benefits.

The Authority pays a fixed sum that is not to exceed 100% of the medical plan premium from the date of retirement for the life of the retired employee. Depending on the PERS payment plan chosen by the employees for spousal coverage after the death of an employee, the Authority would also cover the spouse for life under the same plan.

Note 12 - Post Employment Benefits Other than Pensions (Continued)

Funding Policy
The contribution requirement of plan members and the Authority are established and may be amended by the Authority. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Authority. In the fiscal year 2013 - 2014, the Authority contributed $12,050 to the Plan.

Annual OPEB and Net OPEB Obligation
The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation.

Annual required contribution	$ 125,037
Interest on net OPEB obligation	5,696
Adjustment to annual required contribution	(4,353)
Annual OPEB cost (expense)	126,380
Contributions made	(12,050)
Increase in net OPEB obligation (asset)	114,330
Net OPEB obligation - beginning of the fiscal year	113,926
Net OPEB obligation - end of the fiscal year	$ 228,256

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended 2013 and 2014 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	Net OPEB Obligation (asset)
6/30/2013	$ 125,037	9%	$ 113,926
6/30/2014	126,380	10%	228,256

Funded Status and Funding Progress
As of July 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $986,915, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $986,915.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions
Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note 12 - Post Employment Benefits Other than Pensions (Continued)

Actuarial Methods and Assumptions (Continued)
As of July 1, 2012, the actuarial cost method used is the Projected Unit Credit with service proration. The actuarial assumptions included a 4.0 percent investment rate of return with an annual healthcare cost trend rate of 7.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after five years.

The method of determining the actuarial value of assets is not applicable. The UAAL is being amortized on a level dollar basis over thirty years.

Note 13 – Health Care Plan

During the fiscal year ending June 30, 2014, 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 $1,481 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 14 - Commitments and Contingencies

A. Litigation
As of June 30, 2014, the Authority was involved in three litigation matters.

1. Marina v. FORA; regarding the ownership of the Preston Park Housing complex (liability unknown, but potentially significant)
2. Bogan v. Houlemard; regarding terms related to initiative to restrict development in certain areas of the former Fort Ord (limited financial liability)
3. Keep Fort Ord Wild v. FORA/Monterey County; concerning Eastside Parkway environmental review (limited financial liability)

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

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

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

o Unearned Revenue
The Authority's share of unspent, unearned Army grant revenue at June 30, 2014 is classified as advance of earnings revenue and is recorded as unearned revenue, for financial statement purposes. It will be recognized as revenue when earned.

Note 15 - 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	$1,737,006

Note 16 - Contingent Receivables

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

1. **$50,457** - The City of Del Rey Oaks (DRO)
   In 2002, DRO participated in a construction project funded by the EDA grant and local matching funds. On April 23, 2002, the DRO Council affirmed the City's commitment to provide the 25% local match or $50,457 to pave a portion of South Boundary Road within the DRO city limits. DRO never paid this obligation citing insufficient resources. The Authority reports this debt as a long-term receivable on its financial statements and intends to collect payment as a deduction from the future land sale proceeds of DRO real property. The amount of $50,457 is recorded as deferred revenue.

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 this land sale revenue was due to the Authority under State law and the terms of the Authority/County 2001 Implementation Agreement. As a consequence, the Authority did not collect the deferred $4.1M in land sale revenue and issued debt of the same amount to fund its ongoing building removal responsibilities. EGP, County and FORA entered into a Memorandum of Understanding (MOU), which required EGP to: a) pay the Authority monthly interest payments on the $4.1M loan that the Authority acquired in lieu of the land sale proceeds and b) repay the $4.1M principal due in 2011 or upon termination of the MOU. In 2009, EGP defaulted on the project. A new developer, Union Community Partners (UCP) purchased the rights and property associated with the project and questions their responsibility for the principal repayments.

Note 17 - US Army Environmental Services Cooperative Agreement Grant

Removal of munitions and explosives of concern (MEC) by the U.S. Army at the former Fort Ord has been in progress since 1992. Several areas formerly used for military training at the former base have been cleared over the years, but approximately 3,340 acres 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. The Authority also entered into an Administrative Order on Consent (AOC) with the U.S. Environmental Protection Agency (EPA) and California Department of Toxic Substance Control (DTSC), defining conditions under which the Authority assumes responsibility for the Army remediation of the ESCA parcels. In order to complete the AOC defined work; the Authority entered into a Remediation Services Agreement (RSA) with Arcadis, Inc. to provide MEC remediation services and executed a Cost-Cap insurance policy for this remediation work through the American International Insurance Group (AIG).

The ESCA Remediation Program (RP) has been underway for approximately 5.5 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 18 - 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 lease term, as determined by a current, independent appraisal, shall be one dollar seventy cents ($1.70) per square foot, per month, for a total of $988,000 over the 57 month period. The transaction is part of an exchange agreement whereby the Authority is exchanging land, with a value of $988,000, as determined by an independent appraisal, for rent and tenant improvements. The Authority is responsible for a pro-rata share of the common area maintenance. The office lease agreement is scheduled to terminate with the sunset provisions of the Authority.

Note 19 – Prior Period Adjustments

The accompanying financial statements include adjustments that resulted in the restatement of beginning fund balance. The following summarizes the effect of the prior period adjustment to beginning fund balance as of July 1, 2013:

	Developer Fees Special Revenue Fund	
Fund balance - beginning of fiscal year	$	(7,305,343)
To adjust prior year overstated accounts payable		(69,326)
Fund balance - beginning of fiscal year, restated	$	(7,374,669)

Note 20 - Subsequent Events

Authority management has reviewed the results of operations for the period from June 30, 2014 through December 5, 2014, 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.

Management, however, feels it is important to disclose the following information as it may affect the Authority's financial position as of June 30, 2014, and cause prior period adjustments in its financial statements, as follows:

- Several significant receivables are under collection by the Authority. As of December 5, 2014, the date the financial statements were available to be issued, the following significant receivables have not been collected:
  a. $50,457 from the City of Del Rey Oaks regarding matching funds for South-Boundary Road improvements. Owed since 2002.
  b. $715,768 from the City of Del Rey Oaks regarding unpaid premium for Pollution Legal Liability insurance. Owed since 2011.
- On November 10, 2014, the City of Marina decided to settle pending litigation and offered $35 million to the Authority for the Preston Park Housing complex. The details of the settlement and contract will be incorporated in a Purchase Agreement that will address the projected transfer.

REQUIRED SUPPLEMENTARY INFORMATION

FORT ORD REUSE AUTHORITY

Budgetary Comparison Information

Budget and Actual - All Funds

For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Resources (Inflows)				
Membership dues	$ 261,000	$ 261,000	$ 261,000	$ -
Franchise fees	245,000	245,000	241,249	(3,751)
Property taxes	1,300,000	1,300,000	1,293,586	(6,414)
Federal grants	970,325	970,325	739,870	(230,455)
Developer fees	11,090,443	11,090,443	1,623,382	(9,467,061)
Lease/Rental income	1,758,380	1,758,380	1,810,095	51,715
Real estate sales	6,291,800	6,291,800	1,090,024	(5,201,776)
Investments/Interest earnings	110,000	110,000	133,866	23,866
Other revenue			453,623	453,623
Amounts available for appropriation	22,026,948	22,026,948	7,646,695	(14,380,253)
Charges to Appropriations (Outflows)				
Salaries and benefits	2,106,975	2,106,975	2,002,312	104,663
Supplies and services	144,750	144,750	125,831	18,919
Contractual services	2,865,344	2,913,844	2,284,466	629,378
Capital improvements	3,717,641	3,717,641	644,133	3,073,508
Debt service	1,480,880	1,480,880	1,459,558	21,322
Insurance amortization			600,000	(600,000)
Total charges to appropriations	10,315,590	10,364,090	7,116,300	3,247,790
Surplus (Deficit)	$ 11,711,358	$ 11,662,858	$ 530,395	$ (11,132,463)

FORT ORD REUSE AUTHORITY
Schedule of Funding Progress
Defined Benefit Pension Plan
For the Fiscal Year Ended June 30, 2014

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, 2010	June 30, 2011	June 30, 2012
Accrued Liabilities (AL)	$ 3,309,064,934	$ 3,619,835,876	$ 4,175,139,166
Actuarial Value of Assets (AVA)	$ 2,946,408,106	$ 3,203,214,899	$ 3,686,598,343
Unfunded Liabilities (UL)	$ 362,656,828	$ 416,620,977	$ 488,540,823
Funded Ratio (AVA/AL)	89.0%	88.5%	88.3%
Annual Covered Payroll	$ 748,401,352	$ 759,263,518	$ 757,045,663
UL as a Percentage of Payroll	48.5%	54.9%	64.5%

Note - Details of the defined benefit pension plan can be found in Note 5 of the basic financial statements. Information for the years ended June 30, 2013 and 2014 have not been released by the Plan Actuary.

Schedule of Funding Progress for
Retiree Health Plan

Actuarial Valuation Date	Projected Unit Credit Cost Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL as of % of Payroll
7/1/2012	$ 986,915	$ -	$ 986,915	0%	$ 1,274,140	77%

FORT ORD REUSE AUTHORITY

SINGLE AUDIT REPORT

JUNE 30, 2014

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

Board of Directors
Fort Ord Reuse Authority
Marina, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business type activities, and each major fund of the Fort Ord Reuse Authority (Authority) as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 5, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as item 2014-01, that we consider to be a material weakness.

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs, as item 2014-02, that we consider to be a significant deficiency.

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Compliance and Other Matters

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

Fort Ord Reuse Authority's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, Levy & Hartzheim, LLP
Culver City, California
December 5, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Fort Ord Reuse Authority
Marina, California

Report on Compliance for Each Major Federal Program

We have audited the Fort Ord Reuse Authority's (Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the fiscal year ended June 30, 2014. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and 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 on compliance for the Authority's major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the fiscal year ended June 30, 2014.

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Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify and deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
December 5, 2014

FORT ORD REUSE AUTHORITY
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014

Description and Program Title	Federal CFDA Number	Federal Expenditures
DEPARTMENT OF THE ARMY		
Direct Program:		
U.S. Army Corp of Engineers, HTRW Center of Expertise, Project grant for Environmental Services Cooperative Agreement		
Project grant for clean up of munitions and explosives of concern Agreement No. W9128F-07-2-0162	12.000	$ 739,870
Total Expenditures of Federal Awards		$ 739,870

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, 2014

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 Schedules 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.

FORD ORD REUSE AUTHORITY
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	**Unmodified – governmental activities and governmental funds** **Modified – business-type activities and proprietary fund**
Internal control over financial reporting:	
Material weakness(es) identified?	_X_ Yes ____ 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:	**Unmodified**
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**
12.000	U.S. Army Corp of Engineers, HTRW Center of Expertise, Project Grant for Environmental Services Cooperative Agreement

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

Section II – Findings – Financial Statement Audit

Material Weaknesses

2014-01 Finding – Deficiencies in internal control over Preston Park (Third Party Management Company):

During our audit, we noted the following issues:

1. There were many capital asset additions replacing older appliances and other equipment. However, we did not see any older assets removed from the asset listing. Thus, these assets may still be depreciating, if not already fully depreciated.
2. Lack of reconciliations between physical assets and the capital asset listings.

Effect:
Preston Park does not have a current and accurate inventory of capital assets, which could result in overstatement or understatement of capital asset valuation.

Recommendation:
We recommend that Preston Park implement procedures to accurately record assets and reconcile assets on a periodic basis.

Third Party Management's Response:

1. We do not do asset disposal through FAS so there are most likely fully depreciated assets on the books, however no further depreciation would be calculated for those assets so depreciation is not being overstated.
2. A procedure has not yet been implemented to address reconciling the assets.

Significant Deficiencies

2014-02 Finding – Deficiencies in internal control over Preston Park (Third Party Management Company):

During our audit, we noted the following issues:

1. Payroll allocation calculated for the pay period ending 6/20/14 for one employee did not agree with the standard payroll allocation.
2. Competitive bids for one out of three projects reviewed were not retained.

Effect:

1. Payroll expense is overstated.
2. Preston Park is not in compliance with the procurement requirements of Fort Ord Reuse Authority.

Recommendation:
We recommend that Preston Park implement procedures to accurately record and report expense. We also recommend that Preston Park retain procurement documents for review.

Third Party Management's Response:

1. The payroll split for one associate did not match the records on file. Further investigation will take place by management
2. Records pertaining to the selection of the Concrete Grinding vendor were unavailable as bids were obtained during a previous fiscal year.

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, 2014

Prior Fiscal Year's Findings – Financial Statement Audit

2013-01 Finding – Deficiencies in internal control over Preston Park (Third Party Management Company):

During our audit, we noted the following issues:

1. There was a deposit that had already been deposited into the bank. However, it was not recorded in the general ledger.
2. Capital asset additions for the fiscal year 2012-2013 were not entered into the capital asset tracking module for depreciation, resulting in understatement of depreciation expense and accumulated depreciation.
3. There were many capital asset additions replacing older appliances and other equipment. However, we did not see any older assets removed from the asset listing. Thus, these assets may still be depreciating, if not already fully depreciated.
4. Lack of reconciliations between physical assets and capital asset listing.
5. The liability for tenant security deposits did not agree to the security deposit cash account.

Effect:

1. The general ledger does not reflect the actual balance as of year-end.
2. Depreciation for current year capital asset additions is not reflected in depreciation expense and accumulated depreciation.
3. Preston Park does not have a current and accurate inventory of capital assets, which could result in overstatement or understatement of capital asset valuation.
4. If the liability does not agree to the security deposits received, the difference could lead to overstatement of revenue.

Recommendation:
We recommend that Preston Park implement procedures to accurately record and report cash, assets, and liabilities.

Status:
Partially implemented, see finding 2014-01.

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

None