Bruce Steadman

Executive Director

Fort Monmouth Economic Revitalization Authority

2-12 Corbett Way, Suite C

Eatontown, New Jersey 07724

Dear Mr. Steadman:

The purpose of this letter is to emphasize the requirements of preparing and submitting annual financial statements in accordance with current Economic Development Conveyance (EDC) legislation, as well as in accordance with Article 5 of the Agreement between the Army and the Fort Monmouth Economic Revitalization Authority (FMERA) for the conveyance of the Phase 2 Parcels at Fort Monmouth.. The National Defense Authorization Act for FY 2010 provides for the transfer of real and personal property to a local redevelopment authority (LRA), below estimated fair market value in consideration for a share of revenues that the LRA receives from third party buyers and/or lessee of the conveyed property. This legislation also requires all EDC recipients to reinvest proceeds received from the sale, lease or equivalent use of former military base assets into job-generation and economic redevelopment activities at or related to the former military installation. These activities include reinvestment into 12 allowable categories. A listing of these categories is at Enclosure 1. In addition, activities that are performed on or to the conveyed property that directly relate to the 12 categories are also considered appropriate and allowable uses of proceeds.

For approved EDCs , the Department of Defense and the Army require that the FMERA submit annual financial statements, certified by an independent Certified Public Accountant (CPA) that account for the reinvestment of proceeds generated from the EDC property into one or more of the allowable categories. The Army also requires a U.S. Army Audit Agency review and report on the annual statements. In order for the Army to fully evaluate whether the proceeds were properly invested, the Army requires the following from the FMERA:

* Submit financial statements certified by an independent certified public accounting firm. The CPA’s audit report should express an opinion on the FMERA’s financial position, results of its operations, and whether the financial statements were presented fairly in all material respects, in conformity with generally accepted accounting principles (GAAP).
* Include in the statements (or as supplemental statements) a breakdown of the revenues and expenditures generated from the EDC parcel. Expenditures need to be broken down into the 12 categories to show where the proceeds were reinvested. In addition, the Army requires the notes to the financial statements and supplemental schedules to provide explanations of the sources of revenues and expenditures and its future plans for redeveloping the discounted EDC property.

For your consideration, Enclosure 2 is a framework for financial statements that the Army finds acceptable. These examples are intended to provide only a framework for the minimum amount of data required for preparing financial statements. Enclosure 3 is an example of notes to the financial statement explaining revenues, expenses, and future plans for the discounted EDC property. Enclosure 4 is an example of a supplemental schedule detailing sources of revenues. Enclosure 5 contains the mailing addresses for the annual financial statements.

Your accounting reports must also factor the definitions of “Gross Sales Revenues” and “Gross Lease Revenues” as defined in the Army-FMERA “Agreement” and include accurate statements of gross revenues for Army review and verification of income as related to our revenue sharing agreement. The Army will review your annual reports to include monthly totals of gross income for each source of income being shared by the Army. Annual Reports need to include certified copies of each Promissory Note and/or Security Interest applicable to the real property sales of the Property. Each source of revenue must be reported separately, i.e. agricultural leases, real property sales, land and building lease revenues, etc. in line with the revenue sharing sources of income. These reports must be supported by transactional details that would be made available if requested by the Army. The Army will require these annual reports of gross income until the time that all revenue sharing obligations are paid to the Army. This reporting of gross revenues by source of income can be inclusive in the reporting required to show reinvestment of revenues and expenditures under the EDC legislation as discussed in the prior paragraphs above but must include the required detail to support annual payments to the Army.

The Army requests your timely submission of all appropriate financial statements. If you have any questions or concerns, please contact James Briggs in the Army BRAC Division, 703-545-2513.

Sincerely,

Paul Cramer

Acting Deputy Assistant Secretary of the Army

(Installations, Housing, and Partnerships)

**Enclosure 1 - Listing of 12 Allowable Categories**

Allowable activities include reinvestment in the following 12 Categories:

1. Road construction.
2. Transportation management facilities.
3. Storm and sanitary sewer construction.
4. Police and fire protection facilities and other public facilities.
5. Utility construction.
6. Building rehabilitation.
7. Historic property preservation.
8. Pollution prevention equipment or facilities.
9. Demolition.
10. Disposal of hazardous materials generated by demolition.
11. Landscaping, grading, and other site or public improvements.
12. Planning for or the marketing of the development and reuse of the installation.

**Enclosure 2 – Framework for Financial Statements**

Below are examples of a Balance Sheet, Statement of Revenues and Expenditures, Changes in Fund Equity, and Statement of Cash Flows. These examples are intended to provide only a framework for the minimum amount of data required for preparing the financial statements. The lines items listed are not and were not intended to be all inclusive of the line items required for the statements. Local authorities are in a better position to know what line items they should include to ensure the financial statements reasonably present, without material misstatement, their operations and financial position. DoD and the Army require certified statements to ensure local authorities comply with the 2010 National Defense Authorization Act.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Reuse Authority**  **Balance Sheet**  **Date**  **($ in thousands)** | | | | |
| **Assets**  Cash  Accounts receivable (Net of Allowance for Doubtful Accounts)  Inventory  Property, Plant and Equipment (Net of Depreciation)  Other Assets  **Total Assets**  **Liabilities and Fund Equity**  **Liabilities**  Accounts Payable  Contracts Payable  Accrued Liabilities  Deferred Revenue  Other Liabilities  **Total Liabilities**  **Fund Equity**  Investment in General Fixed Assets  Unrestricted/Undesignated Equity  Restricted/Designated Equity  **Total Fund Equity**  **Total Liabilities and Fund Equity**  **(\*)** Other includes sales and/or any other source of revenues, expenditures, and/or benefits that are derived from the disposal and/or other use of transferred Federal property, such as, subleases.  **The accompanying notes are an integral part of the financial statements. Notes should include, at a minimum, information about the methods used to calculate allowance for bad debts and depreciation and identify what or how parcels, if property was transferred in phases, are included in the statement** | **EDC (Operating Fund of Authority)** | **Other**  **(\*)** | **Grants** | **Total** |

**Framework for Financial Statements (Cont’d)**

**Statement of Revenues and Expenses**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Reuse Authority**  **Statement of Revenues and Expenses**  **For the Period Ended [Date]**  **($ in Thousands)** | | | | |
| **Revenue**  Sales Income Rent/Lease Income  Utility Income  Housing Income  Income from Sale of Property  Interest Income  Other Income  **Total Revenue**  **Expenditures**  Road Construction  Transportation management facilities  Storm and sanitary sewer construction  Police and fire protection facilities  Utility construction  Building rehabilitation  Historic property preservation  Pollution prevention equipment/facilities  Demolition  Disposal of hazardous materials  Landscaping and other site improvements  Planning and marketing  **Total Expenditures**  **Net Revenues Less Expenditures**  (\*) Other includes sales and/or any other source of revenues, expenditures, and/or benefits that are derived from the disposal and/or other use of transferred Federal property, such as, subleases.  **The accompanying notes are an integral part of the financial statements. Notes should include, at minimum, information about the methods used to calculate allowance for bad debts and depreciation and identify what or how parcels, if property was transferred in phases, are included in the statements.** | **EDC (Operating Fund of Authority)** | **Other (\*)** | **Grants** | **Total** |

**Framework for Financial Statements (Cont’d)**

**Statement of Changes in Fund Equity**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Reuse Authority**  **Statement of Changes in Fund Equity**  **For the Period Ended [Date]**  **($ in Thousands)** | | | | |
| **Net Revenues Less Expenditures**  **Other Financing Sources (Uses)**  Transfers in  Transfers out  **Total Other Financing Sources (Uses) Net of Revenues and Other Sources Less Expenditures**  **Changes in Fund Equity**  **Fund Equity at Beginning of Period Fund Equity at End of Period**  (\*) Other includes sales and/or any other source of revenues, expenditures, and/or benefits that are derived from the disposal and/or other use of transferred Federal property, such as, subleases.  **The accompanying notes are an integral part of the financial statements. Notes should include, at a minimum, information about the methods used to calculate allowance for bad debts and depreciation and identify what or how parcels, if property was transferred in phases, are included in the statements.** | **EDC (Operating Fund of Authority)** | **Other**  **(\*)** | **Grants** | **Total** |

**Framework for Financial Statements (Cont’d)**

**Statement of Cash Flows**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Reuse Authority**  **Statement of Cash Flows**  **For the Period Ended [Date]**  **($ in Thousands)** | | | | |
| **Cash at Beginning of Year**  **Cash Flows from Operating Activities**  Cash received from:  Leases  Developer Fees  Other  Cash paid for:  Wages  Costs of Providing Services  **Net Cash Flow From Operations**  **Cash Flows from Investing Activities**  Cash received from:  Sale of Property or Equipment  Deposits received from developers  Collection of Principal on Loans  Cash paid for:  Purchase of Property and Equipment  Making loans to other entities  **Net Cash Flow from Investing Activities**    **Cash Flows from Financing Activities**  Cash received from:  Bond Proceeds  Borrowing  Cash paid for:  Repayment of Loans  **Net Cash Flows from Financing Activities**  **Net Increase in Cash**  **Cash at End of Year**  (\*) Other includes sales and/or any other source of revenues, expenditures, and/or benefits that are derived from the disposal and/or other use of transferred Federal property, such as, subleases.  **The accompanying notes are an integral part of the financial statements. Notes should include, at a minimum, information about the methods used to calculate allowance for bad debts and depreciation and identify what or how parcels, if property was transferred in phases, are included in the statements.** | **EDC (Operating Fund of Authority)**  **XXX**  **XXX**  **XXX** | **Other**  **(\*)** | **Grants** | **Total**  **XXX**  **XXX**  **XXX** |

**Enclosure 3 – Example of Explanations Included in Notes to Financial Statements**

NOTE X - ARMY LESS THAN FAIR MARKET VALUE ECONOMIC DEVELOPMENT CONVEYANCE PROPERTY

The Reuse Authority received XX acres of the former for $XXX on XX Month 2011 in a less than fair market value economic development conveyance.

For the year ended XXXXX, the Reuse Authority earned $XX million in revenue from the use of the property conveyed to the authority at less than fair market value by the Army. A breakdown of the revenue earned is:

$XX million net proceeds from the sale of one parcel of property to XXXXX Company which plans to lease these buildings to industrial and office tenants.

$XX million deferred revenue from a deposit made by XXXXX Company on another parcel of property, which plans to develop a retail shopping center on the site.

$XX million net proceeds from an auction of personal and real property left by the Army as part of the property conveyed to the authority.

For the year ended XXXXX, the Reuse Authority incurred expenditures for:

Extending an interstate to provide access road.

Snow removal and grass cutting.

Advertising with XXXX newspaper or real estate firm.

Municipal services.

Salary and wages.

The Reuse Authority also issued a bond [or obtained a loan] of $XX on XX month 2011 that has a 5-year term at 5 percent interest, compounded annually. Proceeds of this bond [loan] were used for XXX and will be used for XXX.

The Reuse Authority plans to redevelop the property conveyed to them at less than fair market value by the Army by building an industrial park. As of the XXXXXX, the authority has sold (or leased) one of the parcel(s) and is in entering into agreements of sale for the other two parcels. The Reuse Authority has executed XXXX Promissory Notes/ Security Interest to the Army noting an obligation to pay the Army XXXX.

**Enclosure 4 – Example of a Supplemental Schedule Detailing Sources of Revenue**

**Sale of Real Property**

xxx Authority Years Ended

Fort Anywhere, Texas June 2010 and 2011

ABC College XYZ Publishing WE Mfg EFG Mfg

(1)

Gen Prop Description Child Dev. Print Plant Bldg 650 Bldg. 65 & 66

Center Bldg.18

Date orig. created 5/22/10 7/18/10 1/26/11 7/15/11

Contract Amount $250K $625K $1,150K $1,450K

Adjustment to Contract $25K $35K

Collected in FY 2010 ($150K) ($50K)

Collected in FY 2011 $0 ($600K) ($1,150K) ($1,000K)

Uncollected Balance $100K $485K

Due to Authority

FY 2012 $100K $285K

FY 2013 $0 $0 $0 $200K

Add any Notes Here

1. Collection of future amounts could be accelerated

**Enclosure 5 – Mailing Addresses for Annual Financial Statements**

The NECDRA should mail its annual financial statements to the following.

To Army:

Office of Assistant Chief of Staff for Installation Management

ATTN: BRAC Division (DAIM-ODB)

600 Army Pentagon

Washington, DC 20310-0600

With a copy to:

U.S. Army Corps of Engineers

New York District

Chief, Real Estate Division (CENAN-RE-M)

26 Federal Plaza, Room 2007

New York, NY 10278