



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
INSTALLATIONS ENERGY AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON, DC 20310-0110

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 line 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)				
	<u>EDC</u> <u>(Operating</u> <u>Fund of</u> <u>Authority)</u>	<u>Other</u> <u>(*)</u>	<u>Grants</u>	<u>Total</u>
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				

Framework for Financial Statements (Cont'd)

Statement of Revenues and Expenses

Reuse Authority Statement of Revenues and Expenses For the Period Ended [Date] (<u>\$</u> in Thousands)				
<u>Revenue</u>	<u>EDC</u> <u>(Operating</u> <u>Fund of</u> <u>Authority)</u>	<u>Other (*)</u>	<u>Grants</u>	<u>Total</u>
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.				

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] (<i>\$ in Thousands</i>)					
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	<u>EDC (Operating</u> <u>Fund of</u> <u>Authority)</u>	<u>Other</u> <u>([*])</u>	<u>Grants</u>	<u>Total</u>	
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.					

Framework for Financial Statements (Cont'd)

Statement of Cash Flows

Reuse Authority Statement of Cash Flows For the Period Ended [Date] (<i>\$ in Thousands</i>)				
	<u>EDC (Operating Fund of Authority)</u>	<u>Other (*)</u>	<u>Grants</u>	<u>Total</u>
Cash at Beginning of Year	<u>XXX</u>			<u>XXX</u>
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	<u>XXX</u>			<u>XXX</u>
Cash at End of Year	<u>XXX</u>			<u>XXX</u>
(*) 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.				

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. Center	Print Plant Bldg.18	Bldg 650	Bldg. 65 & 66
Date orig. created	5/22/10	7/18/10	1/26/11	7/15/11
Contract Amount	\$250K	\$625K	\$1,150K	\$1,450K
<u>Adjustment to Contract</u>		\$25K		\$35K
Collected in FY 2010	(\$150K)	(\$50K)		
<u>Collected in FY 2011</u>	\$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