

PRESTON PARK

SPECIAL-PURPOSE FINANCIAL STATEMENTS

For the Year Ended June 30, 2009 and
For the Six Months Ended June 30, 2008



Mayer Hoffman McCann P.C.

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INDEPENDENT AUDITORS' REPORT

City Council
City of Marina, California

Board of Directors
Fort Ord Reuse Authority

PRESTON PARK

We have audited the special-purpose statements of financial position of Preston Park (the Property) as of June 30, 2009 and 2008 and the related special-purpose statements of activities and net assets, and cash flows for the year ended June 30, 2009 and for the six months ended June 30, 2008. These financial statements are the responsibility of the Property's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

The special-purpose financial statements were prepared to present the financial positions of Preston Park as of June 30, 2009 and 2008, and the changes in its net assets, and its cash flows for the year ended June 30, 2009 and for the six months ended June 30, 2008, excluding certain land and building, for the purpose of complying with the management agreement dated December 7, 2007 between Alliance Communities, Inc., the City of Marina and the Fort Ord Reuse Authority (see Note 1) and are not intended to be a complete presentation of the Property's assets and liabilities.

In our opinion, the special-purpose financial statements referred to above present fairly in all material respects the financial positions of Preston Park as of June 30, 2009 and 2008, excluding certain land and building, and the changes in its net assets, and its cash flows for the year ended June 30, 2009 and for the six months ended June 30, 2008 in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated January 6, 2010 on our consideration of Preston Park's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

San Jose, California
January 6, 2010

PRESTON PARK

SPECIAL-PURPOSE STATEMENTS OF FINANCIAL POSITION

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 919,073	\$ 647,657
Tenant receivables	650	13,309
Prepaid expenses	83,678	112,810
TOTAL CURRENT ASSETS	<u>1,003,401</u>	<u>773,776</u>
 CASH RESTRICTED FOR EQUIPMENT PURCHASES	 2,664,165	 2,039,081
 PROPERTY AND EQUIPMENT, net	 <u>1,465,455</u>	 <u>1,524,141</u>
 TOTAL ASSETS	 <u>\$ 5,133,021</u>	 <u>\$ 4,336,998</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 138,638	\$ 179,386
Deferred revenue	30,679	15,592
TOTAL CURRENT LIABILITIES	<u>169,317</u>	<u>194,978</u>
 TENANT SECURITY DEPOSITS	 <u>360,583</u>	 <u>335,530</u>
 TOTAL LIABILITIES	 529,900	 530,508
 NET ASSETS - UNRESTRICTED	 <u>4,603,121</u>	 <u>3,806,490</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 5,133,021</u>	 <u>\$ 4,336,998</u>

See Notes to Special-Purpose Financial Statements

PRESTON PARK

SPECIAL-PURPOSE STATEMENTS OF ACTIVITIES AND NET ASSETS

For the Year Ended June 30, 2009 and
For the Six Months Ended June 30, 2008

	2009	2008
RENTAL INCOME, net	\$ 4,761,385	\$ 2,319,158
OPERATING EXPENSES		
Administrative	453,455	200,075
Utilities	89,765	63,765
Operating and maintenance	481,093	321,802
Taxes and insurance	304,713	146,565
Depreciation and amortization	201,812	87,979
TOTAL OPERATING EXPENSES	1,530,838	820,186
OPERATING INCOME	3,230,547	1,498,972
OTHER INCOME		
Miscellaneous revenue	38,923	20
Interest income	30,307	11,559
TOTAL OTHER INCOME	69,230	11,579
CHANGE IN NET ASSETS BEFORE DISTRIBUTIONS TO OWNERS	3,299,777	1,510,551
DISTRIBUTIONS TO OWNERS	2,503,146	1,303,147
CHANGE IN NET ASSETS	796,631	207,404
NET ASSETS, BEGINNING OF PERIOD	3,806,490	3,599,086
NET ASSETS, END OF PERIOD	\$ 4,603,121	\$ 3,806,490

See Notes to Special-Purpose Financial Statements

PRESTON PARK

SPECIAL-PURPOSE STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2009 and
For the Six Months Ended June 30, 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets before distributions to owners	\$ 3,299,777	\$ 1,510,551
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	201,812	87,979
Decrease (increase) in operating assets:		
Tenant receivables	12,659	2,346
Prepaid expenses	29,132	(34,228)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(40,748)	47,737
Deferred revenue	15,087	2,917
Tenant security deposits	25,053	(108)
NET CASH FLOWS FROM OPERATING ACTIVITIES	3,542,772	1,617,194
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash restricted for equipment purchases	(625,084)	(558,694)
Investment in property and equipment	(143,126)	(84,804)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(768,210)	(643,498)
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to owners	(2,503,146)	(1,303,147)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(2,503,146)	(1,303,147)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	271,416	(329,451)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	647,657	977,108
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 919,073	\$ 647,657

See Notes to Special-Purpose Financial Statements

PRESTON PARK

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Nature of operations – Preston Park consists of 354 housing units and is located at 682 Wahl Court, Marina, California. This complex is owned by the Fort Ord Reuse Authority (FORA) who has a management agreement with the City of Marina and Alliance Communities, Inc.

Basis of Accounting – The Property has prepared the accompanying special-purpose financial statements to present the assets, liabilities, activities and cash flows of Preston Park pursuant to the management agreement between the City of Marina and Alliance Communities, Inc. dated December 7, 2007 and the management agreement between the FORA and Alliance Communities, Inc. dated December 7, 2007. The agreements specify that the Property prepare special-purpose financial statements in which the activities of the housing units are presented in accordance with U.S. generally accepted accounting principles, excluding land and buildings used by the Property.

Use of estimates - The preparation of these special-purpose financial statements in conformity with the basis of accounting described above requires management to make 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 revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents consist of highly liquid investments with an initial maturity of three months or less. The carrying value of cash and cash equivalents approximate their fair value because of the short term maturities of those financial instruments.

Cash restricted for equipment purchases – As required by the City of Marina, the Property maintains a capital reserve cash account for future capital purchases. As of June 30, 2009 and 2008, the reserve balance was \$2,664,165 and \$2,039,081, respectively.

Concentration of credit risk – Financial instruments that potentially subject the Property to concentrations of credit risk consist of cash and cash equivalents, to the extent they exceed federal insurance limits. The Property mitigates risks to its cash and cash equivalents by banking with creditworthy financial institutions.

Revenue recognition – Rental income is recorded at maximum gross potential. Vacancy loss is recorded as a reduction in rental income. Rental units occupied by employees are included in rental income and as an expense of operations.

PRESTON PARK

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Advertising costs - Advertising costs are charged to operations when incurred. Advertising expense was \$4,339 for the year ended June 30, 2009 and \$3,069 for the six months ended June 30, 2008.

Depreciation and amortization - Depreciation and amortization is computed on the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Lives</u>
Leasehold improvements	5 - 20 years
Furniture and fixtures	7 years
Automobiles	5 years

Rental units below market value – In accordance with the management agreement between the City of Marina, FORA and Alliance Communities, Inc., tenants may qualify for rental rates below current market values according to household size and income. For the year ended June 30, 2009 the Property had 43 units rented below market value. For the six month period ending June 30, 2008 the Property had 47 units rented below market value.

Impairment of long-lived assets - The Property evaluates its long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If the comparison indicates such assets are impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The fair value of the assets is determined by discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

PRESTON PARK

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS

(2) Property and equipment, net

	June 30,	
	2009	2008
Cost		
Leasehold improvements	\$ 3,176,917	\$ 3,033,792
Furniture and fixtures	435,172	435,172
Automobile	35,563	35,563
	3,647,652	3,504,527
Accumulated depreciation and amortization	(2,182,197)	(1,980,386)
	\$ 1,465,455	\$ 1,524,141

Depreciation and amortization expense amounted to \$201,812 for the year ended June 30, 2009 and \$87,979 for the six months ended June 30, 2008.

(3) Management agreement

As discussed in Note 1, the Property is managed under a management agreement between the City of Marina, FORA and Alliance Communities, Inc. Management fees paid to Alliance Communities, Inc. for the year ended June 30, 2009 and for the six months ended June 30, 2008 were \$118,885 and \$57,163, respectively.

(4) Subsequent events

The Property has evaluated subsequent events through January 6, 2010, which is the date the financial statements were available to be issued. In December 2009, the City of Marina and FORA settled a legal matter with a local developer for reimbursement of developer funds for the California Avenue Extension. Settlement of this legal matter resulted in payment by the Property in the amount of \$392,107.

ADDITIONAL INFORMATION



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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

City Council
City of Marina, California

Board of Directors
Fort Ord Reuse Authority

PRESTON PARK

Our report on our audits of the basic special-purpose financial statements of Preston Park for the year ended June 30, 2009 and for the six months ended June 30, 2008 appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic special-purpose financial statements taken as a whole. The schedules of operating expenses are presented for purposes of additional analysis and are not a required part of the basic special-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mayer Hoffman McCann P.C.

San Jose, California
January 6, 2010

PRESTON PARK

SCHEDULES OF OPERATING EXPENSES

For the Year Ended June 30, 2009 and
For the Six Months Ended June 30, 2008

	<u>2009</u>	<u>2008</u>
Administrative		
Office salaries	\$ 90,205	\$ 17,354
Office supplies	27,992	11,200
Office support and development	22,519	17,834
Bank and credit bureau fees	6,295	804
Management fees	118,855	57,163
Management salaries	91,079	30,339
Management consulting fees	15,324	6,301
Legal	348	474
Audit	4,112	-
Telephone	13,586	4,876
Marketing and renting	10,290	4,970
Miscellaneous	52,850	48,760
Total administrative	<u>453,455</u>	<u>200,075</u>
Utilities		
Electricity	11,742	10,065
Gas	2,370	2,029
Water, trash and sewer	75,653	51,671
Total utilities	<u>89,765</u>	<u>63,765</u>
Operating and maintenance		
Janitorial services and supplies	5,715	193
Maintenance payroll	205,701	160,338
Maintenance services and supplies	71,068	37,025
Exterminating contract and supplies	3,782	16
Grounds contract and supplies	121,044	59,470
Security	1,671	761
Carpet cleaning and replacement	14,218	344
Other replacements	48,253	26,964
Miscellaneous	9,641	36,691
Total operating and maintenance	<u>481,093</u>	<u>321,802</u>
Taxes and insurance		
Payroll taxes	34,773	11,753
Property taxes	165,618	83,978
Property and liability insurance	91,350	48,246
Other taxes	6,719	-
Other insurance	6,253	2,588
Total taxes and insurance	<u>304,713</u>	<u>146,565</u>
Depreciation and amortization	<u>201,812</u>	<u>87,979</u>
	<u>\$ 1,530,838</u>	<u>\$ 820,186</u>



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**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**

City Council
City of Marina, California

Board of Directors
Fort Ord Reuse Authority

PRESTON PARK

We have audited the special-purpose financial statements of Preston Park (the Property) for the year ended June 30, 2009 and for the six months ended June 30, 2008, and have issued our report thereon dated January 6, 2010. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audits, we considered Preston Park's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Preston Park's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Property's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Property's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Property's financial statements that is more than inconsequential will not be prevented or detected by the Property's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Property's internal control.

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



Compliance and Other Matters

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

We noted certain matters that we reported to management of Abrams Park in a separate letter dated January 6, 2010.

Meyer Hoffman McLennan P.C.

San Jose, California
January 6, 2010