
PRESTON PARK
SPECIAL-PURPOSE FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For the Years Ended June 30, 2011 and 2010

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**PRESTON PARK
SPECIAL-PURPOSE FINANCIAL STATEMENTS
June 30, 2011 and 2010**

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INDEPENDENT AUDITOR'S REPORT

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) as of and for the years ended June 30, 2011 and 2010 and the related special-purpose statements of activities and net assets, and cash flows for the years ended as listed in the table of contents. These special-purpose financial statements are the responsibility of the Property's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

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

The special-purpose financial statements were prepared to present the financial position of Preston Park as of June 30, 2011 and 2010, excluding land, building, improvements and equipment, and the changes in its net assets and its cash flows for the years ended June 30, 2011 and 2010, 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, liabilities, and activities.

In our opinion, the special-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Preston Park, as of June 30, 2011 and 2010, excluding land, building, improvements and equipment, and the respective changes in net assets and cash flows for the years then ended June 30, 2011 and 2010 in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the special-purpose financial statements that collectively comprise the Property's special-purpose financial statements as a whole. The schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. The schedule of operating expenses is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the special-purpose financial statements. The information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the special-purpose financial statements or to the special-purpose 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.


Sacramento, California
September 16, 2011

PRINCIPALS

Chris A. Mann, CPA, CFP ♦ John R. Urrutia, CPA ♦ Michelle O. Nelson, CPA, CFE, CVA

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**PRESTON PARK
SPECIAL-PURPOSE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010**

ASSETS	2011	2010
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 936,553	\$ 1,089,722
Tenant receivables	395	650
Prepaid expenses	86,608	85,456
Total Current Assets	1,023,556	1,175,828
NON-CURRENT ASSETS		
Cash restricted for equipment purchases (Note 2)	3,418,043	2,686,023
Property and equipment, net of accumulated depreciation (Note 3)	1,519,310	1,485,190
Total Non-Current Assets	4,937,353	4,171,213
TOTAL ASSETS	\$ 5,960,909	\$ 5,347,041
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 34,156	\$ 24,519
Deferred revenue	45,616	30,800
Total Current Liabilities	79,772	55,319
NON-CURRENT LIABILITIES		
Tenant security deposits	424,338	380,173
Total Liabilities	504,110	435,492
Net assets - unrestricted	5,456,799	4,911,549
TOTAL LIABILITIES AND NET ASSETS	\$ 5,960,909	\$ 5,347,041

See Notes to Special-Purpose Financial Statements

**PRESTON PARK
SPECIAL-PURPOSE STATEMENTS OF ACTIVITIES AND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
OPERATING REVENUES		
Rental income, net	\$ <u>5,099,711</u>	\$ <u>4,923,832</u>
OPERATING EXPENSES		
Administrative	363,882	385,380
Utilities	86,065	84,335
Operating and maintenance	472,971	420,367
Taxes and insurance	293,920	297,156
Depreciation	<u>305,117</u>	<u>256,158</u>
Total Operating Expenses	<u>1,521,955</u>	<u>1,443,396</u>
Net Operating income	<u>3,577,756</u>	<u>3,480,436</u>
OTHER INCOME		
Miscellaneous revenue	472	-
Interest income	<u>7,018</u>	<u>11,593</u>
Total Other Income	<u>7,490</u>	<u>11,593</u>
CHANGE IN NET ASSETS BEFORE DISTRIBUTIONS TO OWNER	<u>3,585,246</u>	<u>3,492,029</u>
Distributions to Owner	3,039,996	3,282,433
CHANGE IN NET ASSETS	<u>545,250</u>	<u>209,596</u>
NET ASSETS, BEGINNING OF PERIOD	4,911,549	4,603,121
Prior Period Adjustment (Note 5)	<u>-</u>	<u>98,832</u>
NET ASSETS BEGINNING OF PERIOD, RESTATED	<u>4,911,549</u>	<u>4,701,953</u>
NET ASSETS, END OF PERIOD	<u>\$ 5,456,799</u>	<u>\$ 4,911,549</u>

See Notes to Special-Purpose Financial Statements

**PRESTON PARK
SPECIAL-PURPOSE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets before distributions to owners	\$ 3,585,246	\$ 3,492,029
Adjustments to reconcile changes in net assets to net cash flows provided by operating activities:		
Depreciation	305,117	256,158
Decrease (increase) in operating assets:		
Tenant receivables	255	-
Prepaid Expenses	(1,152)	(1,778)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	9,635	(15,287)
Deferred revenue	14,816	121
Tenant security deposits	44,165	19,590
Net cash flows provided by operating activities	<u>3,958,082</u>	<u>3,750,833</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Cash restricted for equipment purchases	(732,020)	(21,858)
Purchases of property and equipment	(339,235)	(275,893)
Net cash flows used for investing activities	<u>(1,071,255)</u>	<u>(297,751)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Distributions to owners	(3,039,996)	(3,282,433)
Net cash flows used for financing activities	<u>(3,039,996)</u>	<u>(3,282,433)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(153,169)</u>	<u>170,649</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>1,089,722</u>	<u>919,073</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 936,553</u>	<u>\$ 1,089,722</u>

See Notes to Special-Purpose Financial Statements

Preston Park
Notes to Special-Purpose Financial Statements
June 30, 2011 and 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Preston Park (the Property) consists of 354 apartment units and is located at 682 Wahl Court, Marina, California. The 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 (Management Agreement) between the Fort Ord Reuse Authority, City of Marina, and Alliance Communities, Inc. dated December 7, 2007. The agreement specifies that the Property prepare special-purpose financial statements in which the activities of the housing units are presented in accordance with United States generally accepted accounting principles, excluding land, building, improvements and equipment 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 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 approximates fair value because of the short term maturities of those financial instruments.

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.

Preston Park
Notes to Special-Purpose Financial Statements
June 30, 2011 and 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

The Property adheres to the capitalization policy of Alliance Communities, Inc. Capital expenditures are defined as expenditures that constitute or create a new asset or are an improvement to an existing asset and that extend the life of that asset beyond one year and/or materially increases the value of that asset. The minimum expenditure that requires capitalization is set by owner requirements outlined in the management agreement. This standard is applied to the total cost of each "job" rather than to payments to individual vendors. Expenditures below this amount are expensed to the appropriate expense account, with the exception of all costs for carpet, vinyl and appliance purchases for residential properties, which are capitalized regardless of dollar amount if the costs relate to an on-going or scheduled property-wide replacement program. All normal and reasonable expenditures necessary to make the asset ready for its intended use are capitalized. Depreciation is calculated using the straight-line method over the following estimated useful lives:

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

Labor costs related to on-site employees are not capitalized. Repairs are defined as the restoration of a capital asset to its full productive capacity after damage, accident or prolonged use, without an increase in the asset's useful life beyond one year or a material increase in the value of the asset. Maintenance costs are defined as the expense involved with keeping an asset in operating condition. Both repairs and maintenance costs are operating costs and are expensed when incurred.

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 gross rental income and as an offset through a revenue contra account to derive the net rental income as presented in the special-purpose Statement of Activities.

Deferred Revenue

Deferred revenue consists of tenant rental prepayments. Deferred revenue totaled \$45,616 and \$30,800 as of June 30, 2011 and 2010, respectively.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense totaled \$8,417 for the year ended June 30, 2011 and \$7,335 for the year ended June 30, 2010.

Rental Units Below Market Value

In accordance with the Management Agreement, tenants may qualify for rental rates below current market values according to household size and Income. For the year ended June 30, 2011, the Property had 47 units rented below market value. For the year ending June 30, 2010, the Property had 49 units rented below market value.

Subsequent Events

The Property has evaluated subsequent events through September 16, 2011, which is the date the financial statements were available to be issued.

**Preston Park
Notes to Special-Purpose Financial Statements
June 30, 2011 and 2010**

NOTE 2: CASH AND CASH EQUIVALENTS

The Property maintains three accounts at one financial institution. As of June 30, 2011 and 2010, book balances totaled \$4,354,596 and \$3,775,745, respectively. Bank balances totaled \$4,379,883 and \$3,804,166 as of June 30, 2011 and 2010, respectively.

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 government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. As the Property's bank accounts are held by the City of Marina, collateral is pledged to cover the deposits at a margin of 110% as required.

Cash Restricted for Equipment Purchases

As required by the City of Marina and the Fort Ord Reuse Authority, the Property maintains a capital reserve cash account for future capital purchases. As of June 30, 2011 and 2010, the reserve balance was \$3,418,043 and \$2,686,023, respectively, and was included in the book and bank balances above.

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2011 and 2010:

	2011	2010
Improvements	3,792,045	3,452,810
Furniture and fixtures	435,172	435,172
Automobile	35,563	35,563
Total	4,262,780	3,923,545
Accumulated depreciation	(2,743,470)	(2,438,355)
Property and equipment, net	\$ 1,519,310	\$ 1,485,190

Depreciation expense for the years ended June 30, 2011 and 2010 totaled \$305,117 and \$256,158, respectively.

NOTE 4: MANAGEMENT AGREEMENT

As discussed in Note 1, the Property is managed under a management agreement between the Fort Ord Reuse Authority, City of Marina, and Alliance Communities, Inc. Management fees paid to Alliance Communities, Inc., for the years ended June 30, 2011 and 2010 totaled \$127,856 and 125,111, respectively.

NOTE 5: PRIOR PERIOD ADJUSTMENT

During the current year, management determined that a balance related to miscellaneous deposits was not properly substantiated. Accordingly, the deposit was removed and beginning net assets in 2010 were adjusted by \$98,832.

NOTE 6: SUBSEQUENT EVENTS

Fort Ord Reuse Authority continued negotiations with City of Marina regarding the sale of Preston Park either to the City or a third party. A mediation took place on August 2, 2011, no decision has been reached as of the date of this report.

SUPPLEMENTAL INFORMATION

**PRESTON PARK
SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Administrative		
Office salaries	\$ 59,141	\$ 59,232
Office supplies	11,962	10,775
Office support and development	23,653	13,780
Bank and credit bureau fees	5,514	7,070
Management fees	127,856	125,111
Management salaries	85,425	84,982
Management consulting fees	13,796	44,567
Legal	10,470	6,344
Audit	-	12,346
Telephone	10,913	10,486
Advertising and renting	8,417	7,335
Miscellaneous	<u>6,735</u>	<u>3,352</u>
Total Administrative	<u>363,882</u>	<u>385,380</u>
Utilities		
Electricity	16,171	17,550
Gas	1,516	1,841
Water, trash and sewer	<u>68,378</u>	<u>64,944</u>
Total Utilities	<u>86,065</u>	<u>84,335</u>
Operating and maintenance		
Janitorial services and supplies	348	1,153
Maintenance payroll	218,085	205,152
Maintenance services and supplies	105,497	59,461
Exterminating contract and supplies	5,631	5,368
Grounds contract and supplies	70,045	99,603
Security	1,630	1,631
Carpet cleaning and replacement	2,310	2,689
Other replacements	53,944	33,998
Miscellaneous	<u>15,481</u>	<u>11,312</u>
Total Operating and Maintenance	<u>472,971</u>	<u>420,367</u>
Taxes and insurance		
Payroll taxes	23,291	28,331
Property taxes	165,290	165,059
Property and liability insurance	100,038	100,011
Other insurance	<u>5,301</u>	<u>3,755</u>
Total Taxes and Insurance	<u>293,920</u>	<u>297,156</u>
Depreciation	<u>305,117</u>	<u>256,158</u>
Total Operating Expenses	<u>\$ 1,521,955</u>	<u>\$ 1,443,396</u>