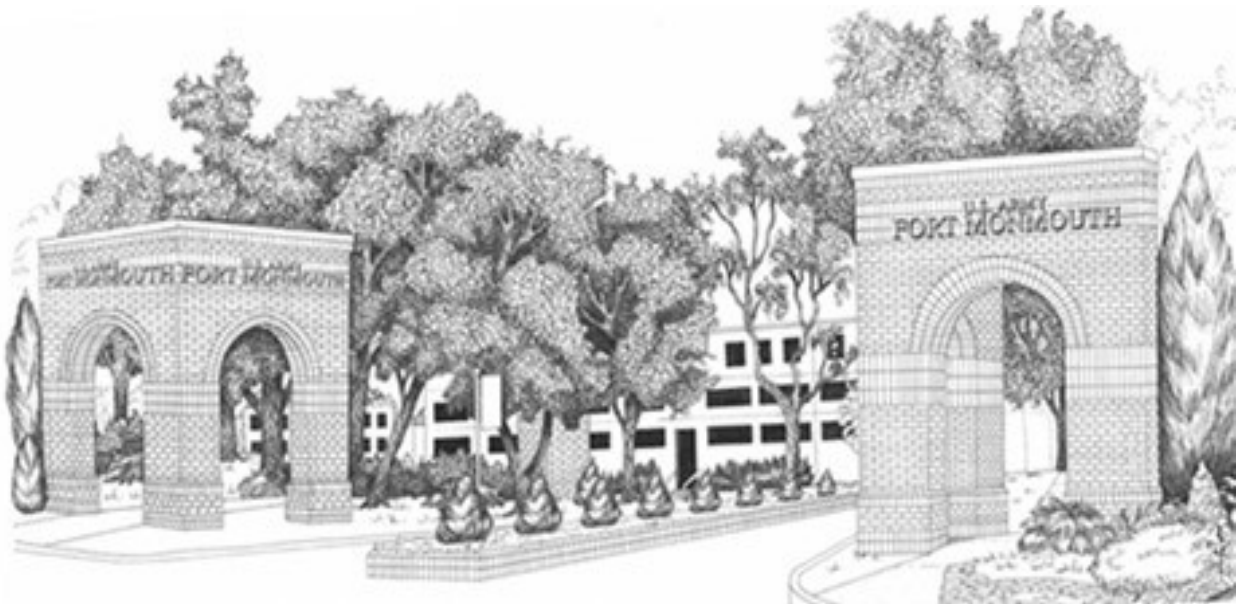




2012 Annual Report

Fort Monmouth Economic Revitalization Authority (FMERA)



**Fort Monmouth Economic Revitalization Authority
(732) 720-6350**

www.fortmonmouthredevelopment.com

Office Location

**100 Barton Avenue
Oceanport, NJ 07757**

Mailing Address

**P.O. Box 267
Oceanport, NJ 07757**

A Message from FMERA Board Chairman James V. Gorman

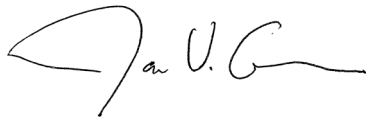
From my perspective as Chairman of the Board of the Fort Monmouth Economic Revitalization Authority (FMERA), 2012 was an exciting year as we signed the long-awaited Memorandum of Agreement with the Army to transfer the Fort property to FMERA, and took significant steps that resulted in the first sale of property at the former military installation.

The accomplishments of FMERA over the last year can be attributed to a highly dedicated staff and Board, and a community of engaged and thoughtful residents who remain an integral part of the redevelopment effort.

As we move ahead in 2013 and beyond, I am confident that our strong progress will continue towards restoring jobs and prosperity to our local communities, the County of Monmouth and the State of New Jersey.

As one of the hardest hit regions, I am particularly proud of our collective efforts during and after Superstorm Sandy. We look forward to working with Governor Chris Christie and our local partners to help rebuild our region to a quality even higher than before the storm.

I thank the members of the FMERA Board of Directors for their continued service, and offer my commendations to the FMERA team on a successful 2012.

A handwritten signature in black ink, appearing to read 'James V. Gorman', with a stylized, flowing script.

James V. Gorman
Chairman, FMERA

A Message from FMERA Executive Director Bruce Steadman

2012 marked an eventful year for FMERA as we took significant steps to attract investors, developers and employers to the 1,126-acre property.

The report that follows describes these actions and accomplishments, which reflect the hard work and dedication of a talented staff, a committed Board and a top-notch group of stakeholders, including residents, businesses and community leaders.

Our successes to date include the sale of the first property at the former Fort Monmouth, Parcel E, and the execution of a Purchase-Sale Agreement for the former Patterson Army Health Clinic. Together, these transactions will result in the private investment of more than \$100 million, and lead to the creation of hundreds of new jobs.

FMERA has also met with 25 small businesses interested in locating at the Fort, and our master broker is generating increased interest through its marketing and outreach activities, including the creation of a new website that assists prospective buyers in evaluating properties as they are brought to market.

I am pleased to announce that due to the joint efforts of federal, state and local agencies and individuals, in the aftermath of Superstorm Sandy, the Former Fort property is being used to house 100+ displaced families from the region. We remain committed to helping the State recover, rebuild and restore, and we are equally dedicated to working with all stakeholders to build on the momentum of the last year and continue to advance our mission:

“To create an atmosphere in which employers will employ and investors will invest, to maximize the jobs created and the value of the property.”

2013 will be a great year!



Bruce Steadman
Executive Director, FMERA

Background



Governor Christie signs legislation creating the Fort Monmouth Economic Revitalization Authority on August 17, 2010. Joining the Governor were (L-R): Senator Jennifer Beck, Assemblyman David Rible, Assemblyman Declan O'Scanlon, Jr., Monmouth County Freeholder Lillian Burry, Monmouth County Freeholder John Curley and Oceanport Mayor Michael Mahon.

On August 17, 2010, Governor Chris Christie signed into law Senate Bill 917, the "Fort Monmouth Economic Revitalization Authority Act," which was sponsored by Senators Jennifer Beck and Raymond Lesniak and Assembly members Declan O'Scanlon, Joseph Cryan, Albert Coutinho, Angel Fuentes, and Annette Quijano. The law created the Fort Monmouth Economic Revitalization Authority (FMERA) to provide investment, continuity and economic growth to the communities impacted by the federal government's decision to close Fort Monmouth. FMERA replaced the Fort Monmouth Economic Revitalization Planning Authority (FMERPA) and is charged with advancing that entity's plan for reuse and redevelopment of the 1,126 acres of real estate that span parts of Eatontown, Oceanport and Tinton Falls.

Fort Monmouth has been a key economic driver in Monmouth County and New Jersey since it was established in 1917 as Camp Little Silver. According to a 2008 report completed by the New Jersey Department of Labor and Workforce Development, the closing of Fort Monmouth represented the loss of 5,638 direct jobs and approximately 16,000 indirect jobs in the region. The report also found that more than one-third of the Fort's employees were engineers and scientists.

As such, the 20-year Reuse and Redevelopment Plan (Reuse Plan) for Fort Monmouth, created by FMERPA, emphasizes the expeditious creation of jobs and encourages economic growth in the region.

The plan strives to balance development with the protection and enrichment of natural resources and seeks to establish Fort Monmouth as a model for sustainable redevelopment, while also honoring the rich history of the Fort.

The mix of land uses proposed in the plan is deliberately broad to help accelerate redevelopment and provide for the creation of a diverse range of jobs and housing types in order to meet the needs of the demographically diverse population, in a competitive and changing marketplace. The inclusion of office, research and development, business services, light manufacturing, retail, residential housing, homeless accommodations, and civic space reflects the overarching commitment to provide for short-, medium-, and long-term regional implementation and economic opportunity.

In June 2011, the U.S. Department of Housing and Urban Development (HUD) approved the Reuse Plan and Housing Assistance Submission, which was completed and approved under the auspices of FMERPA and submitted to HUD in September 2008.

Pursuant to its enabling statute, FMERA is empowered to enter into a designated redevelopment agreement with the New Jersey Economic Development Authority (EDA) if and as needed, and for additional redevelopment agreements with other public or private redevelopers; adopt land use, development and design guidelines in coordination with the impacted communities; provide and maintain utilities, streets, roads and other infrastructure; undertake redevelopment activities; and, implement revenue-raising measures for the benefit of redevelopment.

FMERA's 13-member board, which includes nine voting members, consists of four members appointed by the Governor, three of whom are public, voting members and one voting, ex officio member of the Executive Branch; the mayors of Eatontown, Tinton Falls, and Oceanport; one member of the Monmouth County Board of Chosen Freeholders; and the Chair of the EDA. Non-voting members include the commissioners of the New Jersey Departments of Labor and Workforce Development, Environmental Protection, Community Affairs, and Transportation.

Local input on the Board makeup resulted in a broad representation of town, county and state interests, and the FMERA law required that five of the nine voting members be residents of Monmouth County. The general public and relevant New Jersey departments and agencies round out the collaborative effort, ensuring a process that balances the needs and interests of all affected stakeholders.

"Through the joint efforts of State, county and municipal leaders, Fort Monmouth can and will remain a driver of economic growth for both the region and the State. By creating the Fort Monmouth Economic Revitalization Authority to take action on a comprehensive and strong economic development plan, we are ensuring that the municipal, county and State resources and guidance will be employed in partnership to make certain that Fort Monmouth will be a home for job creation and economic growth."

-Governor Chris Christie

2012 in Review



Clockwise from top left: FMERA Executive Director Bruce Steadman; former EDA CEO Caren Franzini; Lt. Governor Kim Guadagno; L. Jerry Hansen, Principal Deputy Assistant Secretary of the Army for Installations, Energy, and Environment; Paul Cramer, Acting Deputy Assistant Secretary of the U.S. Army; and, FMERA Board Chairman James V. Gorman

In May, the State of New Jersey took a historic step forward in the redevelopment of Fort Monmouth with the signing of a Memorandum of Agreement (MOA) outlining the transfer process for the Fort Monmouth property from the U.S. Army to FMERA. The signing ceremony came seven years after the post was selected for closure by the Base Realignment and Closure Commission.

The essential component of the initial redevelopment effort is the transfer of property from the Army to FMERA, which takes place through the Economic Development Conveyance (EDC) agreement. The MOA signed in May and approved by the FMERA Board in April is the overarching agreement between the Army and FMERA and lays out the process by which the property will be transferred to FMERA.

FMERA led an extensive negotiation process with the Army to establish the terms of the MOA, which sets forth a two-phased process for the property transfer. Phase 1 consists of Charles Wood, and three parcels from the Main Post, to be transferred to FMERA by the end of 2013. Phase 1 parcels include the Golf Course, Howard Commons, Marina, Clinic parcel, Parcel E, Parcel F, Parcel C, Parcel C1 and Parcel B, totaling just over 600 acres. Phase 2 will include the balance of the Main Post, which will be transferred to FMERA by early 2015.

"Fort Monmouth has been an important part of the historical and economic foundation of Monmouth County and New Jersey, and today we are reclaiming it as a new source of jobs, investment and community pride. The Governor and I may not have had a say in the closing of the base, but we are committed to recreating this area as a thriving hub of innovation and job creation, and a destination for families and businesses."

-Lt. Governor Kim Guadagno at the May signing of the Memorandum of Agreement



FMERA expects to move to its new offices at the former Fort Library in the summer of 2013

Leading up to the signing of the MOA, FMERA marked significant achievements as it worked to attract investors, developers and employers to the property.

In May 2012, the FMERA Board approved a resolution awarding design-build services to Tinton Falls-based Patock Construction Co. to renovate the former Fort Library in Oceanport into FMERA's new offices. The renovation is being funded by a grant from the Office of Economic Adjustment within the Department of Defense, as well as a loan from the EDA. At other closed military bases, typically the reuse authority will establish a location within the Post's boundaries to facilitate the marketing and management of the property. When the office opens in the spring of 2013, all business and public meetings will be held at the new location.

Cushman & Wakefield/Continental Realty was chosen as the Master Broker of the former Fort Monmouth property, following the Board's June approval. Pursuant to the Request for Proposals (RFP), Cushman & Wakefield was selected to provide master broker services to help market, sell and lease the property and to increase awareness of the Fort's opportunities, maximize value, and stimulate investment and job creation. The RFP, issued in April 2012, established that contracts would be awarded to the two highest scoring firms, a primary broker, and an alternate broker to be used only in the event of a conflict of interest. As such, the Board approved Jones Lang LaSalle as the alternate broker.

At the October 2012 Board meeting, Executive Managing Director of Cushman & Wakefield, Gil Medina, provided an update on the firm's marketing effort. Medina emphasized the firm's strategy "to utilize a wide marketing and public relations campaign to introduce the first four proposed new housing/mixed use parcels and the Marina, along with the balance of the Fort, to generate a myriad of in-

"With these qualified firms on our team, we are now in a better position to advance FMERA's mission and create an atmosphere in which employers will employ and investors will invest, to maximize the jobs created and the value of the property."

-FMERA Board Chairman James V. Gorman

terested investors/developers for a variety of residential and commercial uses."

Tactics outlined by Mr. Medina included the creation of a website for dissemination of relevant materials; ongoing investor solicitation and property inspections to generate buyer interest; providing FMERA with detailed analysis of prospective investors/developers; supporting FMERA's issuance of Requests For Offers To Purchase (RFOTPs); helping to select primary and back-up offers and maintaining interest from back-up bidders; advising on the purchase and sale agreements; facilitating and monitoring the bidder's due diligence process; and, assisting FMERA's legal team throughout the contract process if/as needed.

Cushman & Wakefield subsequently established www.fort-monmouth-marketing.com to showcase the property. The site includes information that will assist prospective purchasers in evaluating Fort Monmouth properties as they are brought to market.

In June 2012, FMERA hosted a ceremony to commemorate Flag Day, a longtime tradition at the Fort Monmouth post. The event also marked the birthday of the U.S. Army, which it celebrates on the same day. FMERA staff, the Army's caretaker workforce and the New Jersey State Police located at the Fort participated in the flag-raising ceremony.

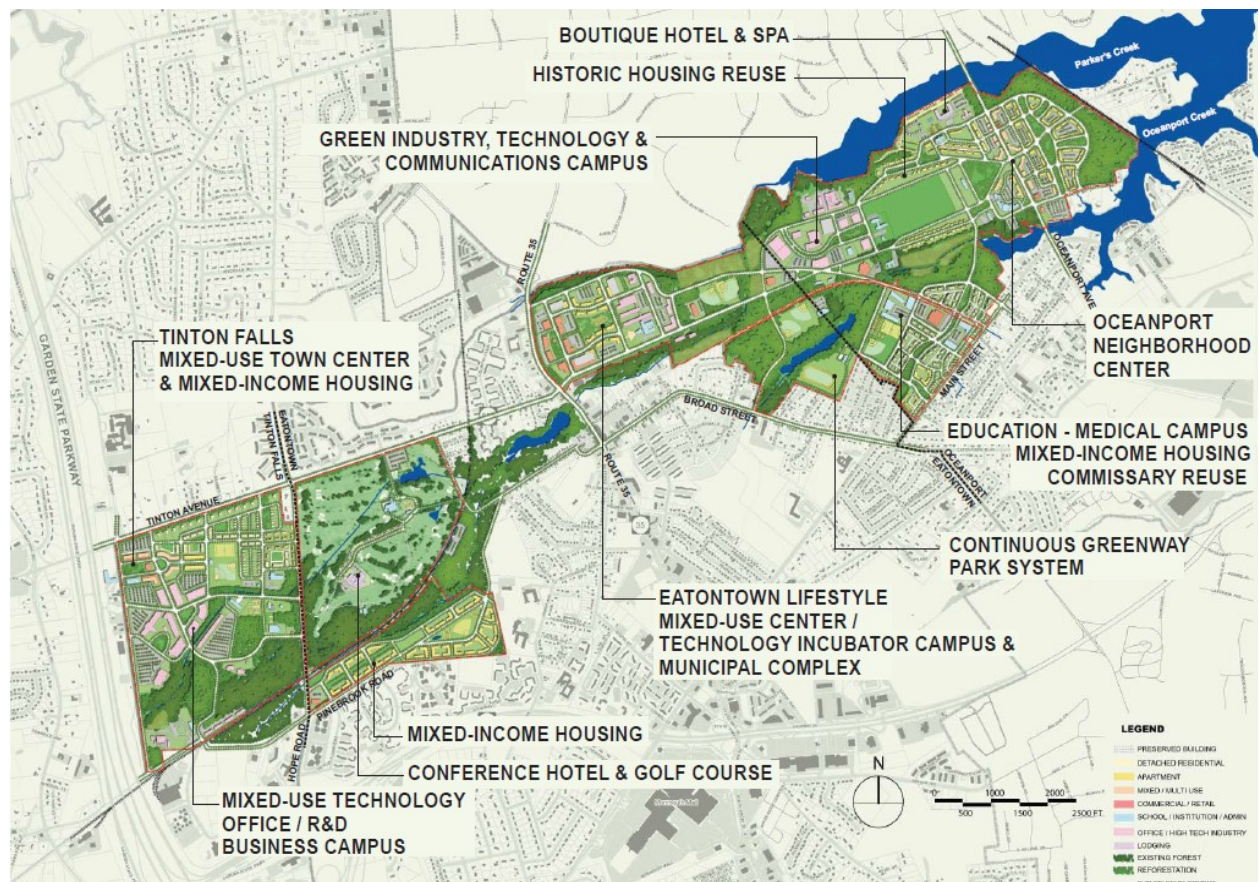


"The flag has now flown at Fort Monmouth for 95 Flag Days, covering 95 years."

*-FMERA Director of Facilities Planning
Rick Harrison*

At its October 2012 meeting, the FMERA Board approved the sublease of the Motor Pool property on the Main Post to Monmouth County. Following lengthy discussion, community input and informed dialogue, the County will look to take the next step in utilizing the site as a regional facility for the Highway Division of its Department of Public Works (DPW).

The site is roughly 10.5 acres and includes several existing buildings. Renovations planned by the County include the addition of a salt storage facility, as well as a 9-1-1 radio tower, which will be located in an area that is farthest away from neighboring properties. The County hopes to acquire the site as



The 20-Year Concept Plan for Fort Monmouth as envisioned in the Reuse and Redevelopment Plan

a permanent location for the regional facility as it has outgrown its current DPW facility. The County estimates that the acquisition of the Motor Pool property could provide approximately \$12 million in cost savings to taxpayers.

At its December 2012 meeting, the FMERA Board approved the "Fort Monmouth Land Use Regulations and Development and Design Guidelines," drafted by FMERA's planning consultant, Phillips Preiss Grygiel (PPG). FMERA must adopt regulations and guidelines in connection with the implementation and furtherance of the Reuse Plan. Consistent with the Plan, the regulations and guidelines were drafted in a way that promotes flexibility in the Plan's implementation, where appropriate, in order to focus on the creation and replacement of jobs and to return the region to economic vitality as expeditiously as possible. The regulations serve as the zoning for the property and the guidelines are not be mandatory, but rather are intended to reflect FMERA's preferred form of development and design.

In accordance with the vision of the Reuse Plan, the regulations and guidelines divide the Fort Monmouth Project Area into a series of Development Districts - Neighborhoods, Centers and Campuses. Each of the three Boroughs includes one of each of the three types of Districts:

Centers consist of a highly connected network of blocks. Buildings are intended to be placed close to the street to create an intimate, comfortable walking environment and formal open spaces are intended to serve as central gathering spaces. The widest variety of land uses is permitted in Centers, including residential and mixed-use development.

Neighborhoods are residentially-focused, with the smallest block sizes as may be appropriate for low-

and medium-density residential development. Where allowable, non-residential development within Neighborhoods is intended as a complementary use.

Campuses have a very different physical form than Centers or Neighborhoods. Campuses are characterized by large block sizes, low lot coverage limits and a focus on office/research facilities, hotels and institutional uses. Permitted uses within these districts include: residential; mixed-use; retail; hospitality/lodging; office/research; institutional/civic; and open space/recreation, as well as associated accessory uses.



Located in the Charles Wood section of Tinton Falls, Monmouth County hopes to open the teen center in the spring of 2013

At its January 2013 meeting, the Board approved the text of the land use rules, which are currently published for public comment in the New Jersey Register. The public comment period will end on April 30, 2013.

In October 2012, the FMERA Board approved the Notice of Interest (NOI) evaluation process, which includes the application of seven weighted criteria to determine what discount, if any, should be applied to the fair market appraisal of NOI properties. The seven criteria include: 1) surrounding area (neighborhood) continuity; 2) job creating use; 3) services to municipality; 4) regional fiscal impact; 5) use enhances ability to attract jobs to adjacent tracts; 6) public good, public safety, or public education; and 7) reduces FMERA infrastructure or demolition costs.

In 2007, the Federal Base Closure Community Redevelopment and Homeless Assistance Act required that FMERPA request NOIs for excess buildings and land at the former Post. The process provided an opportunity for state, county and local governments to submit NOIs for these parcels. After a lengthy screening process, the Phase I EDC Agreement included two of these NOI projects: the Child Development Center (school) parcel, which was submitted by Tinton Falls, and the Teen Center and Pool (teen center) parcel submitted by Monmouth County.

At its December meeting, the Board approved these two NOI parcels under the evaluation process. Both Tinton Falls and Monmouth County plan to provide in-kind services of approximately \$500,000 each, in return for the parcels. These services will support FMERA's efforts to facilitate the redevelopment of Parcel E, support other redevelopment projects in the Charles Wood portion of the former Fort, and defray owning and operating costs that may be incurred by FMERA.

In an effort to begin the redevelopment process, FMERA issued its first Request for Offers to Purchase (RFOTP) in October 2011 for Parcel E in Tinton Falls. Following the evaluation and selection process, the FMERA Board approved the purchase-sale agreement with CommVault Systems, Inc. in April 2012. To further encourage this leading data storage company to remain and grow in New Jersey over competing locations outside the state, the EDA approved Business Employment Incentive Program and Business Retention and Relocation Assistance Grant awards in March 2012.

Through its January 2013 closing on Parcel E, CommVault committed to remain in New Jersey and move its headquarters to Tinton Falls, marking the first sale of property at the Fort. The global technology leader plans to undertake a three-phase project on the 55-acre site in the Tinton Falls Reuse Area. The company will make a substantial investment to complete Phase I, which involves the construction of an approximately 275,000-square-foot facility to serve as its worldwide corporate headquarters. The project will result in the retention of several hundred existing jobs for New Jersey and the creation of new jobs. At full build-out, the company anticipates up to 650,000 square feet of new high-technology office/research space in one or more buildings on the site. Once the three phases of the project are completed, CommVault could create a total of up to 1,500 new jobs in the State.

“CommVault is a world-class company with an outstanding management team whose dedication and perseverance proved invaluable as we advanced the first sale of property at the Fort. Today is a truly momentous day for the region and for all of us involved in the redevelopment process as we have achieved three key goals: job retention and creation, reinvestment, and establishing an anchor that will undoubtedly enhance our ability to attract additional businesses and investors.”

-FMERA Board Chairman James V. Gorman

Building on this momentum, FMERA pursued the second sale of property at the Fort when by executing a purchase-sale agreement with AcuteCare in March 2013. In September 2012, the Board approved terms for FMERA’s sale of the 16-acre former Clinic Parcel in Oceanport to AcuteCare, which plans to reuse the property as a medical facility serving the elderly, veterans and other patients. The Board subsequently revised the sale terms in January 2013 to facilitate project financing. The company, a privately owned corporation formed in 2002 to establish and manage long term acute care hospitals, expects to make a minimum investment of \$5 million and create at least 50 new jobs.

To further bolster redevelopment efforts, the EDA Board approved a new policy in February 2012 tied to the state’s Business Employment Incentive Program. Per this new policy, BEIP applicants that are seeking to create jobs at facilities located within the Fort’s footprint will be provided bonus scoring of 15 percent under the BEIP calculation used to determine grant awards. This aligns with other recent policy enhancements to EDA programs to help support efforts at FMERA, including allowing facilities within FMERA to benefit under the state’s Economic Redevelopment and Growth (ERG) program.

With the goal of also providing support to small businesses interested in locating at the Fort property, Chairman Gorman called on FMERA to appoint a small business facilitator in 2012. FMERA tasked Marketing Specialist Katie Hodes with this new role, which serves as a liaison between companies and the various local, county and state organizations involved in business development. FMERA met with approximately 25 small businesses interested in relocating to the former Fort in 2012, with strong interest from the light manufacturing industry.

In other news, Atlantic Golf Management Inc. continues to operate the Suneagles Golf Course, which enjoyed an active and busy season. When the lease with the Army was set to expire in October 2012, FMERA requested that the lease be extended six months, and the Army agreed. As a result, FMERA's operating agreement with Atlantic Golf Management was also extended.



In the aftermath of Superstorm Sandy, the current operator of the banquet/restaurant, McLoone's, provided a Thanksgiving Day brunch to nearly 200 Sea Bright residents impacted by the storm. FMERA also worked to support the regional and statewide recovery efforts following the storm. FMERA was actively engaged with the Army, the Federal Emergency Management Agency (FEMA) and the New Jersey Department of Community Affairs to assess how Fort Monmouth's assets could be utilized to assist storm victims. As a result, FEMA retrofitted Building #365 in the Lodging Area to house approximately 45 displaced families, who ultimately moved to the temporary housing in November 2012. In early 2013, FEMA also made available units located behind the Suneagles Golf Course, as well as in Building 360 in the Oceanport section of the former Main Post, bringing the total to 115 housing units for families displaced by the storm.

In a step to provide new permanent housing stock for the region, and in accordance with the Reuse Plan, FMERA issued an RFOTP for the Howard Commons area in Eatontown in December. To further expedite the creation of new housing opportunities in the wake of Superstorm Sandy, FMERA subsequently issued an RFOTP for the Officers Housing in the Historic District in Oceanport.

"Moving these parcels into the marketplace demonstrates FMERA's commitment to providing new housing opportunities for the region, which has been adversely affected by the closing of Fort Monmouth and most recently by Sandy."

- FMERA Executive Director, Bruce Steadman

The Reuse Plan envisions 275 units of housing for the Howard Commons area, and 117 units for the Officers Housing. For both properties, FMERA must acquire title from the Army. This will be for nominal consideration (\$1.00), but the Army will participate via a percentage of the sales proceeds, per the approved EDC agreement.

Looking ahead, FMERA looks forward to continued discussions with the Army on the future transfer of the balance of the Main Post, under a Phase 2 Memorandum of Agreement. In addition, 2013 will be an active year with several new RFOTP opportunities, closings, and lease agreements. FMERA remains committed to its mission:

"To create an atmosphere in which employers will employ and investors will invest, to maximize the jobs created and the value of the property."



2012 Annual Report

Board Members

James V. Gorman, *Chairman*
Public Member

Robert Ades, *Vice Chairman*
Public Member

Dr. Robert Lucky
Public Member

Al Koeppe
Chairman
New Jersey Economic Development Authority

Regina Egea
Office of the Governor, Authorities Unit

Lillian Burry
Freeholder, County of Monmouth

Gerald Tarantolo
Mayor, Eatontown

Michael Mahon
Mayor, Oceanport

Michael Skudera
Mayor, Tinton Falls

Richard E. Constable III
Commissioner
New Jersey Department of Community Affairs

Bob Martin
Commissioner
New Jersey Department of Environmental Protection

Harold Wirths
Commissioner
New Jersey Department of Labor & Workforce Development

James Simpson
Commissioner
New Jersey Department of Transportation

Board Committees

Audit Committee

Robert Ades, *Chairman*
James V. Gorman
Al Koeppe

Real Estate Committee

James V. Gorman, *Chairman*
Freeholder Lillian Burry
Dr. Robert Lucky
Mayor Michael Mahon

Certifications Pursuant to Executive Order 37

June 19, 2013

In accordance with Executive Order No. 37, the Fort Monmouth Economic Revitalization Authority's 2012 Annual Report also serves as the comprehensive report of the Authority's operations. This report highlights the significant actions of the Authority for the year.

The report of independent auditors, Schneider & Company, dated June 19, 2013, is attached and completes FMERA's requirements concerning the preparation of a comprehensive report required by Executive Order No. 37.

I, Bruce Steadman, certify that the financial information provided to the Independent Auditor in connection with the audit is, to the best of my knowledge, accurate and that such information, to the best of my knowledge fairly represents the financial condition and operational results of the Fort Monmouth Economic Revitalization Authority for the year ended December 31, 2012.



Bruce Steadman
Executive Director

I, Beverlee Akerblom, certify that the financial information provided to the Independent Auditor in connection with the audit is, to the best of my knowledge, accurate and that such information, to the best of my knowledge fairly represents the financial condition and operational results of the Fort Monmouth Economic Revitalization Authority for the year ended December 31, 2012.



Beverlee Akerblom, CPA
Director – Finance & Administration

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

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
DECEMBER 31, 2012

AND

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND
REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133
DECEMBER 31, 2012

SCHNEIDER & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

A Professional Corporation

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

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SCHNEIDER & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

A Professional Corporation

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Parsippany, New Jersey 07054
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INDEPENDENT AUDITORS' REPORT

To the Audit Committee
Fort Monmouth Economic Revitalization Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Fort Monmouth Economic Revitalization Authority (the "Authority"), a component unit of the State of New Jersey, which comprise the balance sheets as of December 31, 2012 and 2011 and the related consolidated statements of operations and retained earnings, and cash flows for the years then ended and the related notes to the financial statements.

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 an opinion on these financial statements based on our audit. We conducted our audits 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 consolidated financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2012 and 2011 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 obtained during our audit of the basic financial statement. We do not express an opinion or provide any assurances on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming our opinion on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Additionally, the information contained in the Balance Sheet by Fund, Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) by Fund and Schedule of General and Administrative Expenses by Fund is also presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplemental information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 a report dated, June 19, 2013 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, 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* in considering the Authority's internal control over financial reporting and compliance.

Schneider & Company
SCHNEIDER & COMPANY
Certified Public Accountants, PC

Parsippany, New Jersey
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**FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

This section of the Fort Monmouth Economic Revitalization Authority's (the Authority, or FMERA) annual financial report presents management's discussion and analysis of the Authority's financial performance for the year ended December 31, 2012. Please read it in conjunction with the Authority's financial statements, accompanying notes, and supplementary information.

2012 Financial Highlights

- Recorded conveyance revenue of \$ 3,837,580 from the acquisition of Parcel E
- The Authority's total assets amount to \$7,604,388
- Total liabilities are \$4,086,718 of which \$3,646,794 are current
- The Authority's net assets increased by \$3,690,918
- Authority earned \$143,822 in Operating Fees from the professional management and maintenance agreement for operation of Suneagles Golf Course and Facilities
- Major funding sources: Federal grants and appropriations from the State of New Jersey

Overview of Annual Financial Report

This annual financial report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and supplementary information. The Authority's principal sources of funds were Federal grants and appropriations from the State of New Jersey. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, and all activities are accounted for and further discussed in the Notes to the Financial Statements. The financial statements report information about the Authority using full accrual accounting method as utilized by businesses engaged in comparable business activities in the private sector.

Financial Analysis of the Authority

Nets Assets (Deficit): The following table summarizes the changes in Net Assets (Deficit) at December 31, 2012 with comparison to prior year audited figures:

	December 31,		Dollar	Percentage
	2012	2011	Change	Change
Current Assets	\$ 7,540,302	\$ 2,252,121	\$ 5,288,181	235%
Noncurrent Assets	64,086	-	64,086	n/a
Total Assets	7,604,388	2,252,121	5,352,267	238%
Current Liabilities	3,646,794	2,107,713	1,539,081	73%
Noncurrent Liabilities	439,924	317,656	122,268	38%
Total Liabilities	4,086,718	2,425,369	1,661,349	68%
Net Assets (Deficit)	\$ 3,517,670	\$ (173,248)	\$ 3,690,918	2130%

**FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

During June 2012, a Memorandum of Agreement (MOA) between the Army and the Authority for an Economic Development Conveyance (EDC) was signed enabling the transfer of nine (9) Phase 1 parcels, totaling approximately 600 acres, subject to an agreed upon schedule and the parcels having been cleared environmentally and deemed suitable for transfer. The MOA is the overarching basis for the EDC agreement between the Army and the Authority, laying out the process by which the property will be transferred and the split of the sales proceeds for each parcel. In 2012, the Army transferred Parcel E, totaling 55 acres to the Authority resulting in conveyance revenue of \$ 3,837,580.

At December 31, 2012, the current assets increased to \$7,540,302 to account for 99% of total assets. The increase is due to the transfer of Parcel E from the United States Army, and the escrow deposit related to the purchase-sale agreement negotiated with CommVault Systems, Inc. for the parcel. The parcel transfer and escrow deposit increased current assets by \$5,900,000 and \$917,609, respectively at year end.

The non-current assets, totaling \$64,086, represent leasehold improvements to the former Library, building #502, which will be the location of FMERA's future offices. During 2012, the FMERA Board approved entering into a contract for the design-build services to retrofit and convert the Library into office space. In addition to grant funding from the Office of Economic Adjustment (OEA), the Authority secured funding for the library conversion from the New Jersey Economic Development Authority (NJEDA) to bridge the related expenses until the sale of Parcel E is completed. The renovated building is expected to be completed and staff moved in by late spring of 2013.

The increase in the current liabilities to \$3,646,794 is primarily due to the conveyance liabilities totaling \$2,062,420, the funds due to the Army and the Homeless Fund relating to Parcel E. Additionally, as stated, the signing of the Parcel E purchase-sale agreement with CommVault, resulted in the escrow deposit of \$917,609. Current liabilities also include the \$100,000 draw on the working capital loan from NJEDA. The principal and interest for this loan was paid in full during 2013.

At December 31, 2012, the Authority's net assets increased to \$3,517,670 as a result of the transfer of Parcel E to the Authority as previously discussed. The cash received in 2013 from the sale of Parcel E to CommVault will provide funds for reinvestment into Fort Monmouth job-generating and economic redevelopment efforts.

**FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

Operating Activities

The Authority was created to help provide investment, continuity and economic growth to the communities impacted by the federal government's decision to close Fort Monmouth. FMERA replaced the Fort Monmouth Economic Revitalization Planning Authority (FMERPA) and will advance that entity's Reuse and Redevelopment Plan (the "Reuse Plan") for economic development, growth and planning, with a focus on technology-based industries, for the 1,126 acres of real estate at Fort Monmouth, following the Fort's closure in September 2011. The former Fort is located within the jurisdictions of Eatontown, Oceanport and Tinton Falls, all within Monmouth County, New Jersey.

The Reuse Plan forwarded by the dissolved planning authority is a highly collaborative blueprint for action to:

- Promote, develop, encourage and maintain employment, commerce, economic development, and the public welfare;
- Conserve natural resources; and
- Advance the general prosperity and economic welfare of the people in the affected communities and throughout the state.

FMERA is committed to and fully engaged with the implementation process and its mission to: *create an atmosphere in which employers will employ and investors will invest, to maximize the jobs created and the value of the property.* The Authority has been granted many tools through its forming legislation, in order to revitalize and redevelop the former Fort Monmouth property, and implement the Reuse Plan. Among these are the ability to undertake redevelopment projects, adopt development and design guidelines, and land use regulations, in connection with the maintenance or provision of utilities, streets, roads or other infrastructure required for the Plan. The Plan and the "Homeless Assistance Submission" (HAS) were submitted to the United States Departments of Defense (DOD) and Department of Housing and Urban Development (HUD) on September 4, 2008 for their review. HUD issued its favorable determination letter on June 16, 2011 enabling the Authority to move forward with implementing the Reuse Plan.

As a recognized implementation Local Redevelopment Authority (LRA), the Authority is eligible for financial assistance through the Defense Economic Adjustment Program and the President's Economic Adjustment Committee. The OEA is the Department of Defense's primary source for assisting communities that are adversely impacted by Defense program changes such as base closures. Grant assistance is available in organizing and planning economic recovery, and the implementation of the Reuse Plan in response to the closure of military installations. This program has no statutory formula. Generally, not less than 10 percent of the project's total proposed funding is to be comprised of non-federal sources.

**FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

With the approval of the Phase 1 EDC Agreement on June 25, 2012, FMERA is poised to begin the redevelopment of the former Fort Monmouth. Accordingly, FMERA conducted substantive discussions related to the property disposition which included the execution of the purchase agreement with CommVault for the sale of Parcel E. The CommVault project is anticipated to be completed in three phases over 20 years, and consist of 250,000 up to 650,000 square feet (sf) of new high-tech office/research space in one or more buildings on the 55-acre site. The company also expects to create 250 new jobs in the first 3 years, and at full build out, the new corporate headquarters could house up to 2,500 employees upon completion of all 3 phases. FMERA closed on the Parcel E property sale to CommVault in January 2013. FMERA's proceeds from the sale will be reinvested into Fort Monmouth job-generating and economic redevelopment in accordance with the terms of the Memorandum of Agreement and the EDC Agreement with the Army.

In 2012, the FMERA Board approved the terms for the sale of the 16-acre Clinic Parcel in Oceanport, formerly the Patterson Army Hospital, to AcuteCare. The company plans to reuse the property as a medical facility serving the elderly, veterans and other patients. FMERA expects to close on the Clinic Parcel in 2013. Additionally, FMERA issued a Request For Offers To Purchase (RFOTP) for the Howard Commons Area of the former Fort in December 2012.

The following table summarizes operating and non-operating activities for the year ending December 31, 2012 with comparison to prior year audited figure:

	Year Ended		Dollar Change	Percentage Change
	December 31, 2012	2011		
Operating Revenue	\$ 5,789,191	\$ 2,251,967	\$ 3,537,224	157%
Operating Expenses	2,361,615	2,828,586	(466,971)	(17%)
Operating Revenue (Loss)	3,427,576	(576,619)	4,004,195	694%
Non-operating Revenue	263,342	263,630	(288)	-
Change in Net Assets	3,690,918	(312,989)	4,003,907	1,279%
Net Assets, Beginning of the Year	(173,248)	139,741	312,989	(224%)
Net Assets, End of the Year	\$ 3,517,670	\$ (173,248)	\$3,690,918	2,130%

**FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

Operating Revenue and Expenses

For the period ended December 31, 2012, the Authority's Operating Revenue increased by \$3,537,224 to \$5,789,191. Economic development conveyance revenue amounted to \$3,837,580 as a result of the Army's transfer of Parcel E to the Authority under the terms of the Phase 1 Economic Development Conveyance Agreement. Federal grant revenue is directly related to the reimbursement of expenses incurred during the period; therefore the grant revenue for 2012 totaled \$1,807,789, a decrease of \$429,178 in comparison to 2011. The local match required under the terms of the Federal grant was met by appropriations from the State of New Jersey in 2012.

The 2012 Operating Expenses decreased by \$466,971, compared to 2011. The 2012 Program Costs were \$494,603 less than 2011 due to fewer contracts awarded during the year. Additionally, the two contracts, the Planning, Engineering, and Architectural, and the Business Plan and Economic Development Conveyance ("EDC") Application were completed mid-2012. The business and operations plan developed by the consultant were required by the Department of Army as supporting documents to the Phase 1 EDC application.

With Federal grant funding and the Phase 1 EDC Agreement in place for 2013, the Authority is positioned to successfully continue its existing contractual engagements which include professional planning consultants and design-build Library retro-fit. In addition, the Phase 2 EDC negotiations continue through the end of 2012 into 2013. FMERA plans to submit the Phase 2 Application during 2013 to the Department of the Army for review and approval.

Contacting the Authority's Management

This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the appropriations and grants that it receives. If there are questions about the Authority's report or if additional information is needed, please contact the Executive Director of the Fort Monmouth Economic Revitalization Authority, by mail at P.O. Box 267, Oceanport, New Jersey 07757.

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

BALANCE SHEETS

	December 31,	
	2012	2011
ASSETS		
CURRENT ASSETS		
Cash	\$ 253,736	\$ 1,383,172
Escrow Deposit - Property Sale	917,609	-
Grant and Other Receivables	442,430	860,271
Land - Held for Resale	5,900,000	-
Prepaid Expenses	17,027	8,678
Loan Acquisition Fees	9,500	-
Total Current Assets	<u>7,540,302</u>	<u>2,252,121</u>
CAPITAL ASSETS		
Leasehold Improvements - In Progress	64,086	-
Total Capital Assets	<u>64,086</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 7,604,388</u>	<u>\$ 2,252,121</u>
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES		
Note Payable - NJ Economic Development Authority	\$ 100,000	\$ -
Accounts Payable and Accrued Liabilities	234,541	489,754
Deposits - Property Sales	941,156	1,357,984
Land Conveyance Liabilities	2,062,420	-
Due to NJ Economic Development Authority	308,677	259,975
Total Current Liabilities	<u>3,646,794</u>	<u>2,107,713</u>
NONCURRENT LIABILITIES		
Deferred Payment Due to NJ Economic Development Authority	439,924	317,656
Total Noncurrent Liabilities	<u>439,924</u>	<u>317,656</u>
TOTAL LIABILITIES	4,086,718	2,425,369
NET ASSETS (DEFICIT)		
Unrestricted Net Assets (Deficit)	3,628,940	(173,248)
Temporarily Restricted Net Assets (Deficit)	<u>(111,270)</u>	<u>-</u>
Total Net Assets (Deficit)	<u>3,517,670</u>	<u>(173,248)</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$ 7,604,388</u>	<u>\$ 2,252,121</u>

The accompanying notes are an integral part of these statements.

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT)

	December 31 , 2012			December 31, 2011
	Unrestricted	Temporarily Restricted	Total	Unrestricted
OPERATING REVENUES				
Federal Grants	\$ 1,807,789	\$ -	\$ 1,807,789	\$ 2,236,967
Economic Development Conveyance	3,837,580	-	3,837,580	-
Operating Fee	-	143,822	143,822	15,000
	<u>5,645,369</u>	<u>143,822</u>	<u>5,789,191</u>	<u>2,251,967</u>
Net Assets Released from Restrictions	143,822	(143,822)	-	-
Total Operating Revenue	<u>5,789,191</u>	<u>-</u>	<u>5,789,191</u>	<u>2,251,967</u>
OPERATING EXPENSES				
Direct Office Support	1,181,591	-	1,181,591	1,017,192
General and Administrative - See Schedule	370,388	-	370,388	513,435
Interest	10,967	-	10,967	4,687
Program Costs	<u>687,399</u>	<u>111,270</u>	<u>798,669</u>	<u>1,293,272</u>
Total Operating Expenses	<u>2,250,345</u>	<u>111,270</u>	<u>2,361,615</u>	<u>2,828,586</u>
OPERATING REVENUE (LOSS)	3,538,846	(111,270)	3,427,576	(576,619)
NON-OPERATING REVENUE				
State Appropriation	263,000	-	263,000	263,000
Interest Income	<u>342</u>	<u>0</u>	<u>342</u>	<u>630</u>
Total Non-Operating Revenue	<u>263,342</u>	<u>-</u>	<u>263,342</u>	<u>263,630</u>
CHANGE IN NET ASSETS	3,802,188	(111,270)	3,690,918	(312,989)
Net Assets (Deficit) - Beginning of Period	<u>(173,248)</u>	<u>-</u>	<u>(173,248)</u>	<u>139,741</u>
Net Assets (Deficit) - End of Period	<u>\$ 3,628,940</u>	<u>\$ (111,270)</u>	<u>\$ 3,517,670</u>	<u>\$ (173,248)</u>

The accompanying notes are an integral part of these statements.

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

STATEMENTS OF CASH FLOWS

	December 31	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Federal Grants	\$ 2,271,764	\$ 2,024,019
Operating Fee	97,688	15,000
Deposits (Returned) Received - Property Sales and Leases	(1,334,438)	1,357,984
Direct Office Support Expenses Paid	(1,127,288)	(1,120,109)
General and Administrative Expenses Paid	(244,998)	(263,689)
Interest Paid	(8,783)	-
Program Costs Paid	(1,073,137)	(1,275,802)
	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	(1,419,192)	737,403
CASH FLOWS FROM FINANCING ACTIVITIES		
State Appropriation	263,000	263,000
Proceeds from Note Payable	100,000	-
Cash Payment for Loan Acquisition Fees	(9,500)	-
	<hr/>	<hr/>
Net Cash Provided (Used) by Financing Activities	353,500	263,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Payments for Leasehold Improvements	(64,086)	-
Interest from Investments	342	630
	<hr/>	<hr/>
Net Cash Provided (Used) by Investing Activities	(63,744)	630
Net Increase (Decrease) in Cash	(1,129,436)	1,001,033
Cash at Beginning of Period	<hr/> 1,383,172	<hr/> 382,139
Cash at End of Period	<hr/> <u>\$ 253,736</u>	<hr/> <u>\$ 1,383,172</u>

The accompanying notes are an integral part of these statements.

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

STATEMENTS OF CASH FLOWS (CONTINUED)

	December 31	
	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES		
Operating Revenue (Loss)	\$ 3,427,576	\$ (576,619)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided in Operating Activities:		
Change in Assets and Liabilities		
Grant and Other Receivables	417,841	(212,948)
Prepaid Expenses	(8,349)	974
Land - Held for Resale	(5,900,000)	-
Accounts Payable	(118,503)	(2,875)
Accrued Liabilities	(136,709)	45,402
Deposits - Property Sales	(1,334,438)	1,357,984
Land Conveyance Liabilities	2,062,420	-
Due to State of New Jersey	-	(258,625)
Due to NJ Economic Development Authority	48,702	129,423
Deferred Payment Due to NJ Economic Development Authority	122,268	254,687
Net Cash Provided (Used) by Operating Activities	<u>\$ (1,419,192)</u>	<u>\$ 737,403</u>

The accompanying notes are an integral part of these statements.

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

1. NATURE OF THE AUTHORITY

The Fort Monmouth Economic Revitalization Authority ("Authority"), a body corporate and politic and an instrumentality and component unit of the State of New Jersey ("State"), was created by the enactment and approval of P.L.2010, c.51 ("Act") on August 17, 2010, by the State Legislature and the Governor, respectively. The purpose of the Authority is to implement the comprehensive Fort Monmouth Reuse and Redevelopment Plan ("Plan") for redevelopment and revitalization of the 1,126 acres comprising Fort Monmouth. The Plan and the "Homeless Assistance Submission" were submitted to the United States Department of Defense and Housing and Urban Development on September 4, 2008 for their review and approval. The United States Department of Housing and Urban Development issued their favorable determination letter on June 16, 2011 enabling the Authority to move forward with implementing the Fort Monmouth Reuse and Redevelopment Plan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting and Presentation

The financial statement presentation has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the standard-setting body for governmental accounting and financial reporting.

The Authority follows proprietary fund type accounting; accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Separate accounts are maintained for each fund to ensure observance of limitations and restrictions on the use of financial resources. Financial resources are classified for accounting and reporting purposes in funds established according to their nature and purpose.

Net asset revenues and expenses are classified based on the existence or absence of Economic Development Conveyance ("EDC") reinvestment restrictions. Unrestricted net assets are net assets not subject to EDC reinvestment restrictions and are therefore available to support the general operations of the Authority. Temporarily restricted net assets are assets subject to EDC reinvestment restrictions related to specific usage and the passage of time.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

b. Revenue Recognition

i. Economic Development Conveyance and Federal Grant Revenue

The Authority recognizes revenue to the extent the fair market value of property transferred to FMERA by the United States Department of the Army exceeds the aggregate of the Economic Development Conveyance contracted liabilities to the Army and the FMERA Homeless Trust for such parcel in accordance with Government Accounting Standards (GASB) Statement No. 33 “Accounting and Financial Reporting for Non-Exchange Transactions.”

In a non-exchange transaction, a government gives value without directly receiving equal value in return. Voluntary non-exchange transactions include grants and entitlements which included the Authority’s receipt of both cash and property from the Federal government and the United States Department of the Army.

The Authority recognizes grant revenue to the extent that expenses have been incurred for the purpose specified by the grantor during the period. The grant agreements allow for payment of actual costs plus an advance of expected future costs.

ii. Lease and Operating Fee Revenue

The Authority recognizes lease and operating fee revenue when earned in accordance with the provisions of the underlying lease and operating agreements.

c. Non-Operating Revenue

Non-operating revenues include appropriations from the State of New Jersey and income earned on the investment of funds.

d. Cash and Cash Equivalents

The Authority considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

Cash equivalents are stated at fair value.

e. Income Taxes

The Authority is exempt from both Federal and State income taxes.

f. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

g. Capitalization Policy

Assets conveyed by the Army are stated at their estimated fair market value at the date of transfer.

Capital assets are stated at cost.

It is the Authority's policy to expense all expenditures of an administrative nature, unless they are material. Administrative expenditures include expenses directly incurred to support office operations, such as information technology hardware and software, office furniture and equipment.

h. Depreciation Policy

Depreciation is computed when the asset is placed in service using the straight-line method over the following estimated economic life of the asset:

Leasehold improvements

Expected term of the occupancy

i. Interest Income

Interest earned on Authority grant deposits is separated into Federal and State amounts based on each entity's actual funding and share of the Authority's expenditures. State of New Jersey earned interest is used to offset the State's share of expenditures.

3. CASH BALANCES

The Authority maintains a checking account and a money market account with a financial institution in amounts which at times exceed the Federal Deposit Insurance Corporation (FDIC) insurance limitation of \$ 250,000. Cash deposits in the checking and money market accounts totaled \$ 210,888 at December 31, 2012 and \$ 20,630 at December 31, 2011.

Additionally, the Authority has an account with the State of New Jersey Cash Management Fund (NJCMF). Cash deposits in this account totaled \$ 1,159 at December 31, 2012 and \$ 1,158 at December 31, 2011.

The Authority also maintains public funds money market accounts with a financial institution. Public funds balances on deposit, in excess of FDIC coverage are continuously collateralized by triple A rated mortgage backed securities. Cash deposits in these accounts totaled \$ 41,689 and \$ 1,361,384 at December 31, 2012 and 2011 respectively. These deposits represent the funds received by the Authority by the responders to the Authority's Request for Offers to Purchase Land and Request Proposals for the Lease of Real and Personal Property in 2011.

4. ESCROW DEPOSIT – PROPERTY SALE

At December 31, 2012, the Authority has an escrow deposit of \$ 917,609 from a third party purchaser per the contract to sell Parcel E.

5. GRANT AND OTHER RECEIVABLES

Included in grant and other receivables are Federal grant receivable balances of \$ 396,296 and \$ 860,271 at December 31, 2012 and 2011, respectively.

6. LAND - HELD FOR RESALE

At December 31, 2012, the Authority held title to Parcel E which was recorded at an estimated fair market value of \$ 5,900,000 based on a negotiated Purchase Sale Agreement. This transaction subsequently closed in January 2013.

7. LOAN ACQUISITION FEES

At December 31, 2012, the Authority incurred \$ 9,500 of loan acquisition fees in conjunction with a working capital facility from the NJ Economic Development Authority.

Such amount will be amortized over the term of the loan.

8. NOTES PAYABLE – NJ ECONOMIC DEVELOPMENT AUTHORITY

The Authority obtained a credit facility from the NJ Economic Development Authority in the amount of \$ 500,000. The balance outstanding at December 31, 2012 was \$ 100,000. The note bears interest at 4.25 % per year and is due on December 31, 2013.

The note is secured by a leasehold interest in certain property at Fort Monmouth subject to the Authority obtaining a leasehold interest in such property.

9. DEPOSITS – PROPERTY SALES

At December 31, 2012, the Authority received deposits aggregating \$ 941,156 for the initial payment for the sale of Parcel E and a bid deposit for the potential lease/sale of the Clinic Parcel.

At December 31, 2011, deposits represented funds received by the Authority by the responders to the Authority's Request for Offers to Purchase Land and Request for Proposals for the Lease of Real and Personal Property.

10. LAND CONVEYANCE LIABILITIES

In accordance with the Economic Development Conveyance Agreement, at December 31, 2012 the Authority had the following obligations from the acquisition of Parcel E which are payable at the time of a third party settlement:

- a. Due to the United States Army
20 % of Gross Sales Revenues (as defined by the Agreement)
- b. Due to FMERA Homeless Trust
\$ 20,055 per developable acre

Based on the above obligations, the Authority has recorded an aggregate of \$ 2,062,420 of land conveyance liabilities at December 31, 2012, consisting of \$ 959,395 due to the United States Army and \$ 1,103,025 due to the FMERA Homeless Trust.

These liabilities were subsequently satisfied upon the settlement of Parcel E during January 2013.

11. DUE TO NJ ECONOMIC DEVELOPMENT AUTHORITY

The balances due to the NJ Economic Development Authority at December 31, 2012 and 2011 for direct office support were \$ 308,677 and \$ 259,975. See Note 13(a).

12. NON-CURRENT LIABILITIES

- a. The balance due the NJ Economic Development Authority for Indirect Office Support Services at December 31, 2012 and 2011 is as follows:

	December 31	
	2012	2011
Non-Current Deferred Payment	\$ 432,585	\$ 312,500
Accrued Interest	7,339	5,156
Subtotal	439,924	317,656
Less: Current Portion	-	-
Non-Current Liabilities	<u>\$ 439,924</u>	<u>\$ 317,656</u>

See Note 13(b).

- b. As of December 31, 2012, the Authority had received a commitment for a \$ 502,000 term loan facility for borrowing to renovate an office building to be used by the Authority.

There is no balance outstanding at December 31, 2012.

Interest on this facility is 4.25 % and repayments of interest and principal are payable monthly over a 59 month period using a 120 month amortization schedule with the remaining interest and principal due on the sooner of the fifth anniversary of the loan or sale of certain properties.

13. RELATED PARTY TRANSACTIONS

a. Direct Office Support

The Authority is staffed by personnel employed by the New Jersey Economic Development Authority (NJEDA) in accordance with the Authority's enacting legislation. According to the terms of the Memorandum of Understanding between the Authority and NJEDA the direct office support expenses of payroll and fringe benefits incurred by NJEDA are payable to NJEDA on a quarterly basis no later than the last day of the month following the quarter, after which interest will accrue on the unpaid balance at an annual rate of 3%. Direct office support expense for the Fort Monmouth office support provided by NJEDA totaled \$ 1,181,591 for the year ended December 31, 2012 of which, \$ 308,677 is classified as a current liability, and \$ 53,664, the value of accrued vacation time and vested sick leave benefits is included in accrued liabilities. Direct office support expense for the Fort Monmouth office support provided by NJEDA for the year ended December 31, 2011 amounted to \$ 1,017,192 of which, \$259,975 is classified as a current liability, and \$ 48,063, the value of accrued vacation time and vested sick leave benefits is included in accrued liabilities.

b. Indirect Office Support Services

The New Jersey Economic Development Authority also provides office support services to the Authority. These services include such items as payroll and benefits administration, human resources support, technical guidance on compliance with procurement law and executive orders, information technology support and governance and public information support. In 2012, the Authority recorded the following quarterly amounts for office support services, classified with general and administrative expenses, based on invoices processed and remitted by the NJEDA:

	<u>2012</u>
1st Quarter	\$ 62,500
2nd Quarter	47,842
3rd Quarter	9,743
4th Quarter	<u>-</u>
Total 2012	<u><u>\$ 120,085</u></u>

Indirect office support services would have totaled \$250,000 plus interest of \$14,063 in 2012 if billed as outlined under the agreement under the Memorandum of Understanding (MOU) between the Authority and the NJ Economic Development Authority.

Indirect office support services for the year ended December 31, 2011 were \$250,000, and were classified with general and administrative expenses.

The payments of Office Support Services are deferred and as such are included in the Loan Payable – NJ Economic Development Authority. See Note 12(a).

Interest expense of \$10,967 and \$4,687 has been recorded for the years ended December 31, 2012 and December 31, 2011 which includes \$ 8,785 of amortized loan costs in 2012.

14. OPERATING LEASES AND SUBLEASES

a. Golf Course and Facilities

The Authority has an operating lease for non-federal use of real and personal property with the United States Army for the use designated in or consistent with the approved Reuse Plan covering the leased premises of the Fort Monmouth Suneagles Golf Course and associated banquet/restaurant facilities located in the Charles Wood Area of Fort Monmouth. The consideration for the lease of the facilities is the Authority's obligation to assume the operation and maintenance of the Leased Premises for the benefit of the United States and the general public. Since, the Authority entered into an agreement with a golf course operator for the professional management and maintenance of such golf course and facilities under terms that cause such contractor to absorb the Authority's obligation to assume the operation and maintenance costs of the leased premises, the Authority has recorded no rental expense for the leased premises for the year ended December 31, 2012 and 2011. The lease dated October 4, 2011, is for a period of one year with an option for one additional six-month period at the lessor's discretion. The Authority has extended the agreement on a month by month basis at the Authority's sole discretion.

b. Equipment

The Authority entered into an operating lease for the rental of certain equipment necessary for the operation of the golf course and facilities at a rental rate of \$ 10,000 per calendar quarter. Rental expense under this agreement was \$ 40,000 and \$10,000 for the years ended December 31, 2012 and 2011, respectively. The lease has been extended through June 30, 2014.

Future minimum payments under the equipment lease are as follows:

Year ending - December 31, 2013	\$ 40,000
Year ending - December 31, 2014	<u>20,000</u>
Total future minimum payments	<u>\$ 60,000</u>

c. Office Leases

The Authority leased office space at 2-12 Corbett Way, Eatontown, New Jersey, under two separate operating lease agreements.

The Authority was obligated for a five year lease agreement expiring on August 31, 2012 with an additional three year renewal option. The Authority did not exercise the renewal option and vacated the offices in September 2012. According to the terms of this lease, the Authority was responsible for its proportionate share of increases in common area maintenance and real estate taxes above the base year of 2007. Aggregate rent expense under this operating lease was \$ 67,029 and \$ 89,062 for the years ended December 31, 2012 and 2011, respectively.

The Authority was obligated for a second lease for additional office space which was entered into on November 3, 2010 for a one year period with a ten month renewal option, which was exercised on November 3, 2011. The Authority vacated this office in August, 2012. Aggregate rent expense, including utilities, under this operating lease was \$51,814 in 2012 and \$73,372 for the years ended December 31, 2012 and 2011, respectively.

OPERATING LEASES AND SUBLEASES – continued

The Authority leased office space at 15 Christopher Way, Eatontown, NJ under an operating lease agreement for a five month period which expired on January 31, 2013 which had a one month extension option. The Authority exercised the extension option. Aggregate rent expense, including utilities, under this operating lease was \$10,000 in 2012.

Future minimum payments under the office operating lease are as follows:

Year ending - December 31, 2013	\$2,500
---------------------------------	---------

d. Motor Pool Lease and Sublease

The Authority has an operating lease with the Army for use of Buildings 750, 753, 754, 756, 760, 761 and their associated parking area under a lease dated July 31, 2012, for a term of one (1) year, with an option for an additional six (6) month extension at the Army's discretion, or until the Army conveys the property. The consideration for the lease of the facilities is the Authority's obligation to assume the operation and maintenance of the Leased Premises for the benefit of the United States and the general public. Additionally, the Authority entered into an agreement with the County of Monmouth for the professional management and maintenance of such maintenance facilities under terms that cause the County to absorb the Authority's obligation to assume the operation and maintenance costs of the leased premises. Therefore, the Authority has recorded no rental expense for the premises for the year ended December 31, 2012.

e. Building 502 – Library

The Authority has an operating lease for use of the former Fort Library as an administrative building. The leased space is comprised of a 10,650 square foot building which is in the process of being converted from its former use as a library to administrative space for occupancy by the Authority. The lease dated July 31, 2012, is for a term of one (1) year, with an option for an additional four (4) one-year extensions at the Army's discretion, or until the Army conveys the property.

The consideration for the lease is the Authority's obligation to assume the operation and maintenance of the leased premises.

15. RISKS AND UNCERTAINTIES

a. Concentration of Revenue

Principally all of the Authority's operating revenues are from the conveyance of property in conjunction with the Economic Development Conveyance Agreement (Phase 1) dated June 25, 2012 with the United States Army and from Federal grants. The Authority's revenues are subject to the continued contract compliance and funding from these sources.

b. Grant Audits

The Authority's costs under the Department of Defense (DoD) Grant are subject to an independent follow-up audit. In the opinion of management, any adjustments resulting from subsequent audits are not expected to have an adverse effect on the accompanying financial statements.

RISKS AND UNCERTAINTIES – continued

c. Economic Dependence

The Authority is economically dependent on the United States Army's compliance with the Economic Development Agreement dated June 25, 2012, continuing Federal grants and the continuing direct and indirect support derived by annual appropriations from the State of New Jersey.

16. CONTINGENCIES & COMMITMENTS

a. Obligations from Economic Development Conveyance Agreement

In conjunction with the Economic Development Conveyance Agreement dated June 25, 2012, the Authority is obligated to:

1. Accept the conveyance of certain Phase 1 parcels totaling approximately 563 acres including buildings, improvements and personal property.
2. Sell or lease such parcels to third parties under competitive sales and leasing covenants or no cost covenants as agreed upon per particular parcel.
3. At the time of third party settlement, pay the United States Army 20 % to 80 % of Gross Sales Revenue, as defined, as agreed upon per particular parcel.
4. At the time of third party settlement, contribute \$ 20,055 for each developable acre sold to a FMERA Homeless Trust.
5. In the case of pre conveyance leasing and post conveyance leasing, as allowed, pay the United States Army 20 % of the Gross Lease Revenues, as defined, for the first three years of the lease and 63 % of Gross Lease Revenues thereafter until such properties are sold to third party buyers.
6. Reinvest the third party sale and lease proceeds net of the immediate obligations to the United States Army and the Homeless Accommodation Trust Fund to support the economic redevelopment of the former Fort Monmouth in twelve allowable expense categories as mandated in the Base Realignment and Closure Act (BRAC) within a seven year reinvestment period beginning on the date of the last United States Army conveyance

or

Remit proceeds not used for these purposes to the United States Army within 60 days after the seven year reinvestment period.

b. Construction Contract Obligations

During April 2012, the Authority entered into an agreement for a design-build contract with a construction company for the renovation of the former Fort Library. Construction commenced September 2012 and the Authority expects substantial completion of the project by May 2013. The total amount of the agreement is approximately \$690,700. As of December 31, 2012, \$54,930 was incurred and paid under this agreement.

17. SUBSEQUENT EVENTS

Events subsequent to December 31, 2012 were evaluated through June 19, 2013, the date when all necessary approvals for issuance of the financial statements were obtained.

a. Sale of Parcel E

In January 2013, the Authority closed on Parcel E per the terms of the purchase and sale agreement, as amended, for \$5,900,000. Proceeds after expenses were distributed as follows: (1) \$959,395 to the Department of the Army, (2) \$1,103,025 to the FMERA Homeless Trust and (3) \$3,837,580 to the Authority.

b. Leases and Subleases

At the February 2013 meeting, the Board approved the Agreement of Lease with the Department of the Army for the Teen Center and Pool and Sublease of the Property to the County of Monmouth; Agreement of Lease with the Department of the Army for the Lease of Buildings 410 and 418 and a Sublease of the Property to the County of Monmouth; and, Agreement of Lease with the Department of the Army for the former Provost Marshall's Office and Sublease of the Property to the New Jersey State Police (NJSP).

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

BALANCE SHEET BY FUND

	December 31, 2012				
	OEA Grant and Matching	Economic Development Conveyance	Other	Eliminations	Total
ASSETS					
CURRENT ASSETS					
Cash	\$ 1,860	\$ 57,498	\$ 194,378	\$ -	\$ 253,736
Escrow Deposit - Property Sale	-	917,609	-	-	917,609
Grant and Other Receivables	396,296	46,134	-	-	442,430
Interfund Receivable	-	-	60,735	(60,735)	-
Land - Held for Resale	-	5,900,000	-	-	5,900,000
Prepaid Expenses	15,372	1,655	-	-	17,027
Loan Acquisition Fees	-	9,500	-	-	9,500
Total Current Assets	<u>413,528</u>	<u>6,932,396</u>	<u>255,113</u>	<u>(60,735)</u>	<u>7,540,302</u>
CAPITAL ASSETS					
Leasehold Improvements - In Progress	<u>30,000</u>	<u>34,086</u>	<u>-</u>	<u>-</u>	<u>64,086</u>
Total Capital Assets	<u>30,000</u>	<u>34,086</u>	<u>-</u>	<u>-</u>	<u>64,086</u>
TOTAL ASSETS	<u><u>\$ 443,528</u></u>	<u><u>\$ 6,966,482</u></u>	<u><u>\$ 255,113</u></u>	<u><u>\$ (60,735)</u></u>	<u><u>\$ 7,604,388</u></u>
LIABILITIES AND NET ASSETS (DEFICIT)					
CURRENT LIABILITIES					
Note Payable - NJ Economic Development Authority	\$ -	\$ 100,000	\$ -	\$ -	\$ 100,000
Accounts Payable and Accrued Liabilities	104,851	75,861	53,829	-	234,541
Interfund Payable	-	60,735	-	(60,735)	-
Deposits - Property Sales	-	941,156	-	-	941,156
Land Conveyance Liabilities	-	2,062,420	-	-	2,062,420
Due to NJ Economic Development Authority	<u>308,677</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>308,677</u>
Total Current Liabilities	<u>413,528</u>	<u>3,240,172</u>	<u>53,829</u>	<u>(60,735)</u>	<u>3,646,794</u>
NONCURRENT LIABILITIES					
Deferred Payment Due to NJ Economic Development Authority	-	-	439,924	-	439,924
Total Noncurrent Liabilities	<u>-</u>	<u>-</u>	<u>439,924</u>	<u>-</u>	<u>439,924</u>
TOTAL LIABILITIES	<u>413,528</u>	<u>3,240,172</u>	<u>493,753</u>	<u>(60,735)</u>	<u>4,086,718</u>
NET ASSETS (DEFICIT)					
Unrestricted Net Assets (Deficit)	30,000	3,837,580	(238,640)	-	3,628,940
Temporarily Restricted Net Assets (Deficit)	<u>-</u>	<u>(111,270)</u>	<u>-</u>	<u>-</u>	<u>(111,270)</u>
Total Net Assets (Deficit)	<u>30,000</u>	<u>3,726,310</u>	<u>(238,640)</u>	<u>-</u>	<u>3,517,670</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u><u>\$ 443,528</u></u>	<u><u>\$ 6,966,482</u></u>	<u><u>\$ 255,113</u></u>	<u><u>\$ (60,735)</u></u>	<u><u>\$ 7,604,388</u></u>

The accompanying notes are an integral part of these statements.

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT) BY FUND

December 31 , 2012									
Unrestricted					Temporarily Restricted				
	OEA Grant and Matching	Economic Development Conveyance	Other	Total		OEA Grant and Matching	Economic Development Conveyance	Other	Total
									Total
OPERATING REVENUES									
Federal Grants	\$ 1,807,789	\$ -	\$ -	\$ 1,807,789	\$ -	\$ -	\$ -	\$ -	\$ 1,807,789
Economic Development Conveyance	-	3,837,580	-	3,837,580	-	-	-	-	3,837,580
Operating Fee	-	-	-	-	-	143,822	-	-	143,822
Subtotal	1,807,789	3,837,580	-	5,645,369	-	143,822	-	-	5,789,191
Net Assets Released from Restrictions	-	143,822	-	143,822	-	(143,822)	-	-	-
Total Operating Revenue	1,807,789	3,981,402	-	5,789,191	-	-	-	-	5,789,191
OPERATING EXPENSES									
Direct Office Support	1,167,836	8,154	5,601	1,181,591	-	-	-	-	1,181,591
General and Administrative - See Schedule	230,485	19,818	120,085	370,388	-	-	-	-	370,388
Interest	-	8,785	2,182	10,967	-	-	-	-	10,967
Program Costs	580,334	107,065	-	687,399	-	111,270	-	-	798,669
Total Operating Expenses	1,978,655	143,822	127,868	2,250,345	-	111,270	-	-	2,361,615
OPERATING REVENUE (LOSS)	(170,866)	3,837,580	(127,868)	3,538,846	-	(111,270)	-	-	3,427,576
NON-OPERATING REVENUE									
State Appropriation	200,866	-	62,134	263,000	-	-	-	-	263,000
Interest Income	-	-	342	342	-	-	-	-	342
Total Non-Operating Revenue	200,866	-	62,476	263,342	-	-	-	-	263,342
CHANGE IN NET ASSETS	30,000	3,837,580	(65,392)	3,802,188	-	(111,270)	-	-	3,690,918
Net Assets - Beginning of Period	-	-	(173,248)	(173,248)	-	-	-	-	(173,248)
Net Assets (Deficit) - End of Period	\$ 30,000	\$ 3,837,580	\$ (238,640)	\$ 3,628,940	\$ -	\$ (111,270)	\$ -	\$ (111,270)	\$ 3,517,670

The accompanying notes are an integral part of these statements.

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES BY FUND

	December 31, 2012			
	OEA Grant and Matching	Economic Development Conveyance	Other	Total
Equipment	\$ 38,779	\$ -	\$ -	\$ 38,779
Insurance	20,495	1,665	-	22,160
Office Rent	119,869	11,125	-	130,994
Legal Notices	10,281	-	-	10,281
Office Supplies and Postage	7,790	280	-	8,070
Moving Expenses	4,385	-	-	4,385
Communication	15,733	4,265	-	19,998
Temporary Office Staffing	-	-	-	-
Travel	7,984	95	-	8,079
Meetings and Seminars	5,169	2,388	-	7,557
Office Support Services	-	-	120,085	120,085
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL	<u>\$ 230,485</u>	<u>\$ 19,818</u>	<u>\$ 120,085</u>	<u>\$ 370,388</u>

The accompanying notes are an integral part of these statements

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2012

	Agreement Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Defense	CL0595-09-03	12-607	132,345
Planning the reuse of Fort Monmouth			
U.S. Department of Defense			
Implementation of the reuse of Fort Monmouth	CL1012-12-01	12-607	463,099
Implementation of the reuse of Fort Monmouth	CL1012-12-02	12-607	1,212,344
			<u>\$ 1,807,788</u>

The above schedule of expenditures of federal awards includes the federal grant activity of the Fort Monmouth Economic Revitalization Authority and is presented on the 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 basic financial statements.

SCHNEIDER & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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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

To the Audit Committee
Fort Monmouth Economic Revitalization Authority

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 Fort Monmouth Economic Revitalization Authority (the "Authority"), a component unit of the State of New Jersey, which comprise the balance sheets as of December 31, 2012 and 2011 and the related consolidated statements of operations and retained earnings, and cash flows for the years then ended and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as items number 2012-1 and 2012-2.

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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Schneider & Company

Schneider & Company
Certified Public Accountants, P.C.

Parsippany, New Jersey
June 19, 2013

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL
CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Audit Committee
Fort Monmouth Economic Revitalization Authority

Report on Compliance for the Major Federal Program

We have audited the compliance of Fort Monmouth Economic Revitalization Authority, a component unit of the State of New Jersey, (the "Authority") 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 major federal program for the year ended December 31, 2012. 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

Compliance with the requirements of laws, regulations, contracts and the grants applicable to its major federal program is the responsibility of the Authority's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the Authority's compliance based on our audit. 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 assurances 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 consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with these compliance requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item numbers 2012-3, 2012-4 and 2012-5. Our opinion on the major Federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

The management of Fort Monmouth Economic Revitalization Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on the major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purposes 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.

A deficiency in internal control over compliance 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 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 control 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

However, material weaknesses may exist that have not been identified.

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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Fort Monmouth Revitalization Authority as of and for the years ended December 31, 2012 and 2011 and have issued our report thereon dated June 19, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information 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 procedure 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 schedule of expenditures of federal awards is fairly states in all material respects in relation to the financial statements as a whole.

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

The report is intended solely for the information and use of the audit committee, management, others within the Authority, and the Federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

Schneider & Company
Schneider & Company
Certified Public Accountants, P.C.

Parsippany, New Jersey
June 19, 2013

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

STATUS OF PRIOR AUDIT REPORTS

AS OF DECEMBER 31, 2012

Findings and Questioned Costs – Major Federal Award Programs Audit

U.S. Department of Defense

Planning the reuse of Fort Monmouth – CFDA 12-607

Grant No. CL0595-07-01

Grant No. CL0595-09-03

Fiscal Year Ended June 30, 2010 and three months ended December 31, 2010

Prior Year Finding 2011-1

Condition and Criteria:

The Auditee failed to submit the required data collections forms (DCF) to the Federal Audit Clearinghouse (FAC) for the fiscal year ended June 30, 2010 of the Predecessor Authority and the three months ended December 31, 2010 of the Authority within nine months after the end of the audit period.

Auditor's Recommendation:

The Auditee should timely submit future data collection forms to the Federal Audit Clearinghouse.

Current Status:

The Auditee has filed subsequent data collections forms (DCF) to the Federal Audit Clearinghouse (FAC) in a timely manner.

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2012

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?

_____ Yes X No

- Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major program:

- Material weakness(es) identified?

_____ Yes X No

- Significant deficiency(ies) identified?

_____ Yes X None reported

Type of auditor's report issued on compliance for
major programs:

Unqualified

Any audit findings disclosed that are required to be
reported in accordance with section 510(a) of
Circular A-133?

 X Yes _____ No

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2012

Identification of major programs:

Agreement Number	Funding Agency	Major Program
CL0595-09-03	DoD, OEA	Planning the reuse of Fort Monmouth
CL1012-11-01	DoD, OEA	Implementation of the reuse of Fort Monmouth
CL1012-12-02	DoD, OEA	Implementation of the reuse of Fort Monmouth

Dollar threshold used to distinguish between
Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 Yes X No

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2012

Findings – Financial Statement Audit

Finding 2012 - 1 - Accruals

Criteria:

The Auditee should have a system to capture accrued liabilities when invoices are received and being reviewed outside of the accounting department.

Condition:

During the test work of the accrued expenses for the Authority, we noted that accrued expenses were understated when an invoice in an outside department was not accrued.

Cause:

The auditee's accounting department does not receive vendor invoices until they are approved by the department requesting the services.

Effect:

The auditee could have material unreported liabilities and could possibly have material unreported expenditures in its Schedule of Federal Expenditures.

Context:

The Auditee failed to accrue a liability and corresponding expense for \$22,530 for legal charges.

Auditor's Recommendation:

The Auditee should develop policies and procedures that require the accounting department be notified of all vendor invoices waiting for approval. The accounting department should then monitor the approval process and encourage prompt review of vendor invoices by responsible departments.

Views of Responsible Officials and Planned Corrective Actions:

The recommended procedures have been established. See attached Corrective Action Plan prepared by the Auditee.

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2012

Finding 2012-2 – Preparation of Financial Statements

Criteria:

The Auditee shall prepare financial statements including related footnote disclosures that reflect their financial position, the results of operations or changes in net assets and cash flows for the fiscal year audited.

Condition:

The Auditee has not devoted sufficient internal resources on a timely basis to the preparation of its financial statements and related footnotes.

Cause:

The growth of the Auditee 's operations changed dramatically in 2012.

Effect:

The financial statements and related footnotes did not meet the anticipated scheduling.

Context:

The preparation of financial statements and related footnotes required a more concentrated effort than planned.

Auditor's Recommendation:

The Auditee should devote more internal resources on a timely basis for the preparation of its financial statements and related footnotes.

Views of Responsible Officials and Planned Corrective Actions:

The recommended corrective procedures will be implemented in 2013. See attached Corrective Action Plan prepared by the Auditee.

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2012

Findings and Questioned Costs – Major Federal Award Programs Audit

U.S. Department of Defense
Planning the reuse of Fort Monmouth – CFDA 12-607
Grant No. CL0595-09-03
Grant No. CL1012-11-01
Grant No. CL1012-12-02
Year ended December 31, 2012

Finding 2012-3 – Grant Reporting Compliance

Criteria:

Financial reports must be complete, accurate, and prepared in accordance with the required accounting basis.

Condition:

The Auditee submitted inaccurate information on an interim Federal Financial Report (Form SF425) for the period April 1, 2011 to September 30, 2012 for Grant CL1012-11-01.

Questioned Costs:

None

Effect:

Failure to correctly report the financial status of the grant could result in the Auditee receiving more or less federal funds than the amount that was approved.

Cause:

The Auditee did not properly interpret the information requested on the form.

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2012

Context:

The Auditee incorrectly reported Federal cash disbursements for certain expenses on the accrual basis and for other expenses on the cash basis rather than reporting all federal cash disbursements on the cash basis.

The Auditee incorrectly reported the Federal share and recipient share of expenditures on the cash basis for some expenses and the accrual basis of other expenses rather than the accrual basis for all expenses.

The Auditee incorrectly reported the Federal share of unliquidated obligation as the difference between the amount authorized by the grant and the amount paid to the grantee as of the report date rather than the obligation of Federally authorized funds which have been incurred, but for which an expenditure has not yet been recorded, as of the end of the reporting period.

Auditor's Recommendation:

The Auditee should provide additional training for those responsible for submitting and reviewing financial reports.

Views of Responsible Officials and Planned Corrective Actions:

The recommended corrective procedures will be implemented in 2013. See attached Corrective Action Plan prepared by the Auditee.

Finding 2012-4 – Cash Management Compliance

Criteria:

Grant funds for contractual services will be disbursed on a reimbursement basis only and must first be paid for with entity funds.

Condition:

The Auditee incorrectly requested reimbursement for the same contract expenses twice on a Request for Advance or Reimbursement (Form SF270) for Grant CL1012-11-01 as of March 31, 2012.

Questioned Costs:

\$22,296

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2012

Effect:

Failure to correctly report the total program outlays for contract expenses could result in the Auditee receiving reimbursement for contract expenses prior to payment to the contractor by the Auditee with entity funds.

Cause:

The Auditee's accounting records are maintained on the accrual basis of accounting, however, contract program outlays must be reported to the grantor on the cash basis of accounting for reimbursement purposes. The process to convert such expenses from the accrual to the cash basis is a manual procedure and subject to human error.

Context:

The Auditee requested reimbursement of a certain contract expense in the amount of \$22,296, which had been paid for with entity funds, on a previous Form SF270 and then incorrectly requested reimbursement for the same contract expense on a subsequent Form SF270 for the period ended March 31, 2012. Therefore, the Auditee requested reimbursement for the same contract expense twice.

Auditor's Recommendation:

We recommend that the Auditee develop policies and procedures that require review of all Form SF270's and supporting transactions by someone other than the preparer.

Views of Responsible Officials and Planned Corrective Actions:

The recommended corrective procedures will be implemented in 2013. See attached Corrective Action Plan prepared by the Auditee.

Finding 2012-5 – Grant Reporting Compliance

Criteria:

Financial reports must be complete, accurate, and prepared in accordance with the required accounting basis.

Condition:

The Auditee submitted inaccurate information on Form a Request for Advance or Reimbursement (SF270) for Grant CL1012-11-01 as of March 31, 2012.

FORT MONMOUTH ECONOMIC REVITALIZATION AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2012

Questioned Costs:

None

Effect:

Failure to correctly report the total program outlays could result in the Auditee receiving more or less grant funds than it is entitled to.

Cause:

The procedures in place to compile the necessary information to complete the Form SF270 are partially a manual process and subject to human error.

Context:

The Auditee requested reimbursement of a certain contract expense in the amount of \$7,893, which had been paid for with entity funds, on a previous Form SF270 and then erroneously did not carry forward such amount in the cumulative contract program outlays on a subsequent Form SF270 for the period ended March 31, 2012. Therefore, the Auditee effectively returned such reimbursement back to the grantor.

Auditor's Recommendation:

We recommend that the Auditee develop policies and procedures that require review of all Form SF270's and supporting transactions by someone other than the preparer.

Views of Responsible Officials and Planned Corrective Actions:

The recommended corrective procedures will be implemented in 2013. See attached Corrective Action Plan prepared by the Auditee



Corrective Action Plan

Fort Monmouth Economic Revitalization Authority respectfully submits the following corrective action plan for the year ended December 31, 2012:

Finding 2012 — 1 — Accrual

The Authority's accounting personnel confirm legal invoicing monthly with a representative from the Attorney General's Office (AGO), which engages outside counsel and approves all legal bills. A Representative from the AGO provides a schedule of legal billing received to date. The Authority's accounting personnel compare the AGO schedule to their Authority's records noting exceptions, requesting copies of billing, when necessary, and determining an accrual amount for unbilled legal services when required.

Finding 2012 — 2 — Preparation of Financial Statement

The Authority has added additional staff to share accounting duties and responsibilities. The Authority's Director of Finance and Administration will meet with the Authority's Executive Director and review the annual operations schedule and confirm the 2013 financial reporting cycle, including schedule for the 2013 audit with specific milestones. Update meetings will be held on a bi-weekly basis.

Finding 2012 — 3 — Grant Reporting Compliance

All submittals, inclusive of all supporting documentation, will be reviewed by an accounting professional, other than the preparer, with input from state or federal resource(s) if/as necessary. Submission will then be reviewed with Executive Director prior to submission.

Finding 2012 — 4 — Cash Management Compliance

All submittals, inclusive of all supporting documentation, will be reviewed by an accounting professional, other than the preparer, with input from state or federal resource(s) if/as necessary. Submission will then be reviewed with Executive Director prior to submission.

Finding 2012 — 5 — Grant Reporting Compliance

All submittals, inclusive of all supporting documentation, will be reviewed by an accounting professional, other than the preparer with input from state or federal resource(s) if/as necessary. Submission will then be reviewed with Executive Director prior to submission.

Very truly yours,

By Ms. Beverlee Akerblom
Director — Finance & Administration