

Presidio Municipal Services Agency

Monterey, California

Independent Auditors' Reports and Basic Financial Statements

For the Year Ended June 30, 2016



Presidio Municipal Services Agency

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Presidio Municipal Services Agency
Monterey, California

Report on Financial Statements

We have audited the accompanying basic financial statements of the Presidio Municipal Services Agency (the "Agency"), which comprise the Statement of Net position as of June 30, 2016, and the related Statement of Revenues, Expenses and Change of Net position, and Cash Flows for the year then ended, and the related notes to the basic 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 audit 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 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 respective financial position of the Agency as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
of the Presidio Municipal Services Agency
Monterey, California
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 to 6 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 we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2017 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the testing, and not to provide an opinion on 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 Agency's internal control over financial reporting and compliance.

The PwC Group, LLP

Santa Ana, California
February 21, 2017



**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***

Independent Auditors' Report

To the Board of Directors
of the Presidio Municipal Services Agency
Monterey, California

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 Statement of Net Position of the Presidio Municipal Services Agency (the "Agency") as of and for the year ended June 30, 2016, and the related Statement of Revenues, Expenses, and Change of Net Position and Cash Flows and the related notes to the basic financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated February 21, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
of the Presidio Municipal Services Agency
Monterey, California
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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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The PwC Group, LLP

Santa Ana, California
February 21, 2017

**Presidio Municipal Services Agency
Management’s Discussion and Analysis
For the Year Ended June 30, 2016**

Please read this overview in conjunction your reading of the accompanying Basic Financial statements.

THE PURPOSE OF THE AGENCY

At the request of the U.S. Army in 1997, the Cities of Monterey and Seaside formed the Presidio Municipal Services Agency (“Agency”) under the Joint Exercise of Powers Act of the State of California. The Agency coordinates the provision of services by each member city in the operation and maintenance of the U.S. Army's Presidio facilities in Monterey. The original contract expired in August 2006 and a new contract was negotiated for services through May 31, 2007 with four option years, ending May 31, 2011. The Army extended the contract through multiple “bridge contracts”, with the last one ending December 31, 2017.

The Agency has no employees. The City of Monterey provides approximately 80% of the services required, along with the entire Agency’s administrative and financing requirements. The City of Seaside provides the remainder. The governing body of the Agency consists of two members, one appointed by each member city. As a separate legal entity, the Agency exercises full powers and authorities within the Joint Powers Agreement. Obligations of the Agency are not those of the member cities.

The United States Army contracts with the Agency for municipal services, such as building maintenance, street maintenance, sewer and water line maintenance, storm drain maintenance and other special projects. The Agency purchases the needed services and supplies from the Cities of Monterey and Seaside, and charges the Army at the Agency’s cost. The Agency records a receivable from the Army and a payable to the Cities when services are provided and invoiced to the Army. As cash is collected from the Army, the Agency repays the Cities.

FISCAL YEAR 2015-16 FINANCIAL HIGHLIGHTS

Financial highlights of the year are the following:

	<u>FY2016</u>	<u>FY2015</u>
• Agency operating revenues	\$12,840,857	\$8,630,801
• Agency operating expenses	\$12,840,857	\$8,630,801

The Agency performs municipal services for the U.S. Army under contracts for scheduled maintenance and unscheduled maintenance (ie. special projects). The extent of unscheduled maintenance services performed can vary significantly from year to year due to funding and timing of projects. In FY2016, the Agency performed five unscheduled maintenance projects over \$200,000 each, one of which exceeded \$800 thousand, as compared to FY2015 in which only one unscheduled maintenance project was performed that exceeded \$200,000.

Agency Basic Financial Statements

The Agency-Basic Financial Statements comprise of the Statement of Net Position, the Statement of Revenues, Expenses and Change of Net Position, and the Statement of Cash Flows. Their purpose is to summarize the entire Agency’s financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the Agency’s assets and all its liabilities, as well as all its revenues and expenses on a full accrual basis—the effect of all the Agency’s transactions is taken into account, regardless of whether or when cash changes hands.

**Presidio Municipal Services Agency
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016**

Statement of Net Position

The Statement of Net Position reports the difference between the Agency's total assets and the Agency's total liabilities, including all the Agency's capital assets and all its long-term debt. The Statement of Net Position presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the Agency's net position, by subtracting total liabilities from total assets.

Statement of Revenues, Expenses, and Change of Net Position

The Statement of Revenues, Expenses, and Change of Net Position reports increases and decreases in the Agency's net position. It is also prepared on the full accrual basis, which means it includes all the Agency's revenues and all its expenses, regardless of when cash changes hands.

Financial Activities of the Agency

This analysis focuses on the net position and changes in net position of the Agency's Governmental Activities in the Agency-wide Statement of Net Position and Statement of Activities that follow.

- The Agency's net position remained at zero, as operating revenues and operating expenses equaled \$12.8 million.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The Agency's sole revenue source is from the U.S. Army's Presidio Facility for base maintenance. Therefore, the life of the Agency is dependent on the continuance of its contract with the U.S. Army, which extends through December 2017.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

These financial statements are intended to provide citizens, taxpayers, investors and creditors with a general overview of the Agency's financial condition and results of operations. Questions should be directed to the Finance Department 735 Pacific St. Ste. A, Monterey, CA 93940

BASIC FINANCIAL STATEMENTS

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Presidio Municipal Services Agency
Statement of Net Position
June 30, 2016

ASSETS	
Receivable from U.S. Army	<u>\$ 3,410,936</u>
Total assets	<u>3,410,936</u>
LIABILITIES	
Due to City of Monterey	3,278,672
Due to City of Seaside	<u>132,264</u>
Total liabilities	<u>3,410,936</u>
NET POSITION	
Total net position	<u><u>\$ -</u></u>

Presidio Municipal Services Agency
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2016

OPERATING REVENUES:

Charges for services	\$ 12,840,856
Total operating revenues	12,840,856

OPERATING EXPENSES:

Services and supplies - City of Monterey	11,916,596
Services and supplies - City of Seaside	924,260
Total operating expenses	12,840,856

Operating income	-
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Change in net position	-
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NET POSITION:

Beginning of year	-
End of year	\$ -

Presidio Municipal Services Agency
Statement of Cash Flows
For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from U.S. Army	\$ 10,410,921
Cash paid to City of Monterey	(9,408,601)
Cash paid to City of Seaside	<u>(1,002,320)</u>
Net cash flows provided by operating activities	<u>-</u>
Net change in cash and cash equivalents	<u>-</u>

CASH AND CASH EQUIVALENTS:

Beginning of year	<u>-</u>
End of year	<u><u>\$ -</u></u>

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ -
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Changes in operating assets and liabilities:	
(Increase) decrease in due from U.S. Army	(2,429,936)
Increase (decrease) in due to the City of Monterey	2,507,996
Increase (decrease) in due to the City of Seaside	<u>(78,060)</u>
Net cash flows provided by operating activities	<u><u>\$ -</u></u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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Presidio Municipal Services Agency
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

At the request of the U.S. Army in 1997, the City of Monterey and the City of Seaside formed the Presidio Municipal Services Agency (the “Agency”) under the Joint Exercise of Powers Act of the State of California. The sole function of the Agency is to coordinate the provision of services by each member City in the operation and maintenance of the U.S. Army’s Presidio facilities in Monterey. The Agency has no employees; the City of Monterey provides approximately 80% of the services required along with the entire Agency’s administrative and financing requirements; the City of Seaside provides the remainder 20%.

The governing body of the Agency consists of two members, one appointed by each member city. As a separate legal entity, the Agency exercises full powers and authorities within the Joint Powers Agreement. Obligations of the Agency are not those of the member cities.

B. Basis of Accounting, Measurement Focus, and Financial Statements Presentation

The Agency’s Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (“U. S. GAAP”). The Governmental Accounting Standards Board (“GASB”) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

The financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position, and a Statement of Cash Flows.

The financial statements are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Receivables have been reported and recognized as revenue.

The Statement of Revenues, Expenses, and Change in Net Position presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change accrues, regardless of the timing of related cash flows. The statement of cash flows presents information showing the sources and uses of cash related to operating activities.

C. Cash and cash Equivalents

The Agency’s cash are pooled with the City of Monterey. For purposes of the statement of cash flows, the Agency considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. At June 30, 2016, the Agency did not have cash and cash equivalents.

Presidio Municipal Services Agency
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Subsequent Event

In October, 2016, the Agency and U.S. Army signed an Intergovernmental Support Agreement to enter into a new five year contract for base operations support services and facilities maintenance and repair beginning January 1, 2017.