

Presidio Municipal Services Agency

Monterey, California

Independent Auditors' Reports and Basic Financial Statements

For the Year Ended June 30, 2020



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 the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Presidio Municipal Services Agency (the "Agency") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Agency as of June 30, 2020, and the respective changes in financial position for the year 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 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.

Management has omitted the Budgetary Comparison Schedule that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statement is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2021 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 solely 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 the effectiveness of the Agency’s 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.



Santa Ana, California
November 12, 2021



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 financial statements of the governmental activities and the major fund of the Presidio Municipal Services Agency (the "Agency") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 12, 2021.

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") as a basis for designing 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 financial statements. 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.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
November 12, 2021

**Presidio Municipal Services Agency
Management’s Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2020**

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, 2016.

On October 11, 2016 the Agency signed a new agreement with the United States Army. This agreement, effective January 1, 2017, transitions the contract from one based on the Federal Acquisition Regulation to an arrangement that takes advantage of the authority enacted in the fiscal 2013 defense authorization bill allowing military installations and their host communities to enter into intergovernmental support agreements (IGSAs) for base support services. The new contract is for one federal fiscal year, renewable for successive, one-year option periods for four additional years. 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 2019-20 FINANCIAL HIGHLIGHTS

Financial highlights of the year are the following:

	<u>FY2020</u>	<u>FY2019</u>	<u>FY2018</u>	<u>FY2017</u>
• Agency general revenues	\$17,213,446	\$12,995,893	\$11,037,040	\$12,554,468
• Agency general expenses	\$17,213,446	\$12,995,893	\$11,037,040	\$12,554,468

THE AGENCY-WIDE FINANCIAL STATEMENTS

The **Government-wide Financial Statements** provide a long-term view of the Agency’s activities as a whole, and comprise the *Statement of Net Positions* and the *Statement of Activities*. The *Statement of Net Position* provides information about the financial position of the Agency as a whole on the full accrual basis, similar to that used by corporations. The *Statement of Activities* provides information about all the Agency’s revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each the Agency’s programs. The *Statement of Activities* explains in detail the change in Net Position for the year.

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 Government-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 \$17.2 million.

Presidio Municipal Services Agency
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2020

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.

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, California 93940.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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Presidio Municipal Services Agency
Statement of Net Position
June 30, 2020

ASSETS	
Receivable from U.S. Army	\$ 2,014,693
Total assets	<u>2,014,693</u>
LIABILITIES	
Due to City of Monterey	1,855,397
Due to City of Seaside	<u>159,296</u>
Total liabilities	<u>2,014,693</u>
Total net position	<u><u>\$ -</u></u>

Presidio Municipal Services Agency
Statement of Activities
For the Year Ended June 30, 2020

	Governmental Activities
Expenses:	
Public works	\$ 17,213,446
Total expenses	17,213,446
Program revenues:	
Charges for services	17,213,446
Total program revenue	
Change in net position	-
NET POSITION:	
Beginning of year	-
End of year	\$ -

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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Presidio Municipal Services Agency
Balance Sheet
Governmental Fund
June 30, 2020

	<u>General Fund</u>
ASSETS	
Receivable from U.S. Army	\$ 2,014,693
Total assets	<u>\$ 2,014,693</u>
LIABILITIES	
Liabilities:	
Due to City of Monterey	\$ 1,677,963
Due to City of Seaside	336,730
Total liabilities	<u>2,014,693</u>

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Presidio Municipal Services Agency
Statement of Revenues, Expenses, and Change in Fund Balance
Governmental Fund
For the Year Ended June 30, 2020

	General Fund
REVENUES:	
Charges for services	\$ 17,608,282
Total operating revenues	17,608,282
 EXPENDITURES:	
Services and supplies - City of Monterey	16,023,508
Services and supplies - City of Seaside	1,189,938
Total expenditures	17,213,446
 Change in fund balance	 394,836
 FUND BALANCE:	
Beginning of year	(394,836)
End of year	\$ -

Presidio Municipal Services Agency
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Change
in Fund Balance to the Government-Wide Statement of Activities
For the Year Ended June 30, 2020

Net change in fund balances - total governmental funds:	\$ 394,836
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
Revenues in the Government-Wide Statement of Activities that do not provide current financial resources and are not reported as revenue in the governmental funds.	<u>(394,836)</u>
Change in net position of governmental activities	<u><u>\$ -</u></u>

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, 2020

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 accordance 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.

Government-Wide Financial Statements

The government-wide financial statements include a Statement of Net Position and a Statement of Activities. These financial statements present summaries of activities for the Agency.

The government-wide 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 Activities 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 Activities 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.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance for the governmental fund. The governmental fund is accounted for using the “*current financial resources*” measurement focus and modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The Agency reports General Fund as the major governmental fund. The General Fund is the main operating fund for the Agency to account the activities between the Agency and U.S. Army as well as the Agency and the City of Monterey and City of Seaside.

Presidio Municipal Services Agency
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are reported when received in cash, except that revenues subject to accrual (120 days after year-end) are recognized when due. Expenditures are reported in the accounting period in which the related fund liability is incurred.

Unavailable revenue arises when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenue arises when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the unavailable revenue and unearned revenue are removed from the balance sheet and revenue is recognized.