PRESIDIO MUNICIPAL SERVICES AGENCY
BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008
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INDEPENDENT AUDITORS’ REPORT

Board of Directors
Presidio Municipal Services Agency
Monterey, CA

We have audited the basic financial statements of the business type activities and the major fund of the Presidio Municipal Services Agency, as of and for the year ended June 30, 2008, which collectively comprise the Presidio Municipal Services Agency’s basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Presidio Municipal Services Agency’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business type activities and the major fund of the Presidio Municipal Services Agency as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

Management’s Discussion and Analysis is supplementary information required by the Governmental Accounting Standards Board, but is not a required part of the basic financial statements. We have applied certain limited procedures to this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information, but we did not audit this information and we express no opinion on it.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
December 19, 2008
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 Agency has no employees. The City of Monterey provides approximately 85% 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 2007-08 FINANCIAL HIGHLIGHTS

Financial highlights of the year are the following:

<table>
<thead>
<tr>
<th></th>
<th>FY2008</th>
<th>FY2007</th>
<th>FY2006</th>
<th>FY 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency general revenues</td>
<td>$11,202,661</td>
<td>$8,122,516</td>
<td>$11,989,615</td>
<td>$5,493,320</td>
</tr>
<tr>
<td>Agency general expenses</td>
<td>$11,202,661</td>
<td>$8,122,516</td>
<td>$11,989,615</td>
<td>$5,493,320</td>
</tr>
</tbody>
</table>

The Agency-wide Financial Statements

The Agency-wide Financial Statements provide a long-term view of the Agency’s activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets 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 Assets for the year.
FINANCIAL ACTIVITIES OF THE AGENCY

This analysis focuses on the net assets and changes in net assets of the Agency’s Governmental Activities in the Agency-wide Statement of Net Assets and Statement of Activities that follow.

- The Agency’s net assets increase remained at zero, as operating revenues and operating expenses equaled $11.2 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 currently is in the second of four option years, extending through May 2011.

The Presidio Facility has received a valuable and cost effective service from the Agency, which was supported by the findings of a federal audit in FY 2000 that the Army realized savings of $2.5 million through this contract.

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 at City Hall, Monterey, CA 93940.
AGENCY-WIDE FINANCIAL STATEMENTS

The Agency-wide Financial Statements comprise of the Statement of Net Assets and the Statement of Activities as required by Government Accounting Standards Board Statement 34. 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. This is known as the full accrual basis—the effect of all the Agency’s transactions is taken into account, regardless of whether or when cash changes hands.

STATEMENT OF NET ASSETS

The Statement of Net Assets 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 Assets 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 assets, by subtracting total liabilities from total assets.

STATEMENT OF ACTIVITIES

The Statement of Activities reports increases and decreases in the Agency’s net assets. 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.
PRESIDIO MUNICIPAL SERVICES AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2008

ASSETS
Receivable from U.S. Army $ 3,429,259

Total Assets $ 3,429,259

LIABILITIES
Payable to City of Monterey $ 3,274,331
Payable to City of Seaside $ 154,928

Total Liabilities $ 3,429,259

See accompanying notes to basic financial statements
OPERATING REVENUES
Charges for services $11,202,661
Total operating revenues $11,202,661

OPERATING EXPENSES
Services and supplies - City of Monterey $9,708,421
Services and supplies - City of Seaside 1,494,240
Total operating expenses $11,202,661

See accompanying notes to basic financial statements
CASH FLOWS FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash received from Presidio</td>
<td>$ 11,352,648</td>
</tr>
<tr>
<td>Cash paid to:</td>
<td></td>
</tr>
<tr>
<td>City of Monterey</td>
<td>$ 9,588,580</td>
</tr>
<tr>
<td>City of Seaside</td>
<td>$ 1,764,068</td>
</tr>
<tr>
<td>Total cash paid</td>
<td>$ 11,352,648</td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements
A. Basis of Presentation

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

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall Agency. These statements contain only business-type activities of the Agency. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Agency. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The primary function of the Agency is Public Works programs. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

B. Major Funds

The Agency contains only one fund.

C. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

D. Reporting Entity

The Agency is an integral part of the City. It provides services to the Army whose Presidio base resides within the City limits. In addition, the Agency’s governing body is the City Council. Therefore, the financial data of the Agency has been included as a blended component unit within the City’s comprehensive annual financial report for the year ended June 30, 2007.
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