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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, 2009, 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 and the standards for 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 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, 2009, 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 30, 2009 on our consideration of the City of Monterey Joint Powers Financing Authority’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 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 and should be considered in assessing the results of our audit.

R.J. Ricciardi, Inc.
Certified Public Accountants
San Rafael, California
December 30, 2009
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MANAGEMENT’S DISCUSSION AND ANALYSIS

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 2008-09 FINANCIAL HIGHLIGHTS

Financial highlights of the year are the following:

<table>
<thead>
<tr>
<th></th>
<th>FY2009</th>
<th>FY2008</th>
<th>FY2007</th>
<th>FY 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency general revenues</td>
<td>$11,370,245</td>
<td>$11,202,661</td>
<td>$8,122,516</td>
<td>$11,989,615</td>
</tr>
<tr>
<td>Agency general expenses</td>
<td>$11,370,245</td>
<td>$11,202,661</td>
<td>$8,122,516</td>
<td>$11,989,615</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 $11.3 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.

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.
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, 2009

<table>
<thead>
<tr>
<th>ASSETS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivable from U.S. Army</td>
<td>$ 3,119,794</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$ 3,119,794</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payable to City of Monterey</td>
<td>$ 2,845,360</td>
</tr>
<tr>
<td>Payable to City of Seaside</td>
<td>274,434</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$ 3,119,794</td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements
PRESIDIO MUNICIPAL SERVICES AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

OPERATING REVENUES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges for services</td>
<td>$11,370,245</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td><strong>$11,370,245</strong></td>
</tr>
</tbody>
</table>

OPERATING EXPENSES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services and supplies - City of Monterey</td>
<td>$8,473,412</td>
</tr>
<tr>
<td>Services and supplies - City of Seaside</td>
<td>$2,896,833</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td><strong>$11,370,245</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements
PRESIDIO MUNICIPAL SERVICES AGENCY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from Presidio $ 11,829,697

Cash paid to:
   City of Monterey $ 9,207,298
   City of Seaside 2,622,399

Total cash paid $ 11,829,697

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, 2008.
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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

Board of Directors
Presidio Municipal Services Agency
Monterey, California

We have audited the basic financial statements of the Presidio Municipal Services Agency as of and for the year ended June 30, 2009, and have issued our report thereon dated December 30, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Presidio Municipal Services Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Presidio Municipal Services Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Presidio Municipal Services Agency's internal control over financial reporting.

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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Presidio Municipal Services Agency's basic financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Presidio Municipal Services Agency's basic financial statements are free of 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. However, we noted certain matters that we reported to management of the Presidio Municipal Services Agency in a separate letter dated December 30, 2009.
This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
December 30, 2009