# PERFORMANCE *and* ACCOUNTABILITY REPORT

THE PRESIDIO TRUST

Years Ended September 30, 2012 and 2011,
with Independent Auditors' Report

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Years ended September 30, 2012 and 2011

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Message from the Executive Director

The Trust has succeeded in its most fundamental task – saving the Presidio for public use. By achieving the self-sufficiency mandate that had conditioned the future of the Presidio as a national park site, the Trust, its tenants and organizational partners, and people who care about the Presidio have reason to celebrate a major milestone.

The Presidio Trust's (the "Trust") mission is to preserve the Presidio of San Francisco as an enduring resource for the American people. The Fiscal Year 2012 Annual Report marks an important milestone as the Trust completes fifteen years of successful stewardship of the Presidio and, in Fiscal Year 2013, enters into a new era, for the first time without Federal appropriation, while continuing to generate the funds to care for and improve the park. Indeed, the Trust has met its commitment to Congress and the American people which Congress enacted in the Presidio Trust Act.[1]

The Trust has received substantial public acclaim; it has overcome significant doubt that it could achieve financial self-sufficiency. It has stewarded the Presidio well – taking risks at times, always managing resources carefully, building alliances and business relationships that have brought millions of dollars of investment into the Presidio – and prides itself on its high level of professionalism and quality of work.

The preservation and enhancement of the Presidio continues; and the focus has begun to shift toward developing a community, bringing public life to key areas, and offering an exceptional experience for visitors. Remaining real estate, arrayed along the Main Parade and in splendid formation at Fort Scott will figure prominently in our efforts to create a public character and build national recognition for the Presidio and the Trust. The campus at Fort Scott offers an opportunity to use our "Trust model" – of leading across sectors and leveraging the talents and resources of partners to advance the public good – to deliver a new leadership asset to the American people.

There is growing interest in the Trust model and in its potential application to a wide array of public challenges. The White House has taken a keen interest in the Trust's success as an example of innovative public leadership, and the Trust has been asked to join discussions with companies, academics, foundations and federal government officials about how best to develop outcome-oriented leaders who can work across sectors to forge solutions to issues facing our communities and country.

We set out to preserve the Presidio – our success in doing so has resulted in an emerging prominence in areas beyond the Presidio itself. This development provides a tremendous opportunity to build the reputations of the Presidio and the Trust.

While organizational independence was essential to our success, and is always to be cherished and safeguarded, there is advantage in better defining and deepening our institutional relationships with existing partners, as well as with public-serving Presidio tenants and other organizations that will advance our Presidio-specific goals and our growing reputation as a leader in building partnerships for public good.

I am very excited about the progress we've achieved together. We have reason to look to the future with tremendous optimism.

Craig Middleton
November 15, 2012

[1] *P.L. 104-333, November 12, 1996, 16 U.S.C. 460bb appendix.*

## Overview

The Presidio Trust is the federal corporation created by Congress to preserve, protect, and enhance the Presidio of San Francisco, a National Historic Landmark District and a unique urban national park site.[2]

The Trust finances park improvements and operations through a variety of means: a direct appropriation that decreases each year, leasing revenue from both residential and commercial property, reimbursable agreements with other governmental agencies, and fees for services provided by the Trust. Federal appropriations are invested in projects that generate revenue that in turn reduces the need for appropriations in future years. The Trust Act mandates that the Trust become independent of annual federal appropriations by the end of FY 2012, and starting in FY 2013 the Trust will no longer receive appropriations.

Since FY 2004, the Trust's earned revenue has fully offset operating costs (excluding US Army-funded remediation activities). By investing federal appropriations effectively, the Trust has leveraged every federal dollar with four of private investment and has established strong sources of revenue to enhance and maintain the park.

The Presidio Trust Act directs the Trust to adhere to the general objectives of the 1994 *General Management Plan Amendment for the Presidio* (GMPA) developed by the National Park Service (NPS), and to abide by the Government Corporation Control Act. As an independent executive-branch agency, the Trust is also accountable to the Office of Management and Budget (OMB) and the Government Accountability Office (GAO). The Trust is required to submit annual reports to Congress, as well as monthly, quarterly, and annual financial reports to OMB and the Department of the Treasury.

## Mission, Goals, and Organizational Structure

### Mission and Goals

The Presidio Trust's mission is to preserve the Presidio as an enduring resource for the American people. To achieve this mission the Trust is building a community to support the park; is enhancing the Presidio's scenic, natural, and cultural resources; and is forging public-private partnerships to sustain the park financially and programmatically.

In 2002, the Trust adopted *The Presidio Trust Management Plan: Land Use Policies for Area B of the Presidio of San Francisco* (PTMP). The plan provides the framework for how the Trust integrates careful finance and stewardship of the park's resources. Within this framework, the Trust maintains a rolling Five-Year Capital Plan that sets out the Trust's preservation goals and identifies budgetary resources. Capital projects include:

- Building rehabilitation, stabilization, and long-term maintenance
- Landscape, streetscape and circulation improvements, parking management, signage, and other site improvements and maintenance
- Natural resource preservation, restoration, and protection
- Improvement and long-term maintenance of infrastructure – streets, outdoor lighting, utility systems, and communication and data services
- Remediation of environmental hazards which date back to the era of the U.S. Army's use of the Presidio

[2] *The Presidio Trust oversees the interior 1,100 acres of the Presidio, and the National Park Service manages the 300 coastal acres.*

**Organizational Structure**

The Presidio Trust was established by Congress as a wholly-owned corporation of the Federal Government. The Trust Act gives the Trust the flexibility to operate in the marketplace, make real-time decisions, and retain revenues to reinvest in the Presidio.

Authority is vested in a seven-member board of directors, six of whom are appointed by the President of the United States, and the seventh is the Secretary of the Interior or the Secretary's designee. An executive director oversees the organization that includes a chief operating officer, chief of planning, park projects and programs, chief financial officer, general counsel, director of external affairs, director of human resources, and other positions essential to operating this unique park. Each member of the current management team has been at the Trust for at least seven years, with three members having served the Trust since its earliest days.

## Performance – The First Fifteen Years

The *Fiscal Year 2012 Performance and Accountability Report (PAR)* presents a discussion of the goals identified in the FY 2012 Trust's *Budget Justification*. In the section that follows, Trust Management discusses the most significant results of the first fifteen years of operations and provides information about key performance and financial challenges facing the Trust.

The Presidio Trust began its operations in 1997 with limited federal funds and a mandate to become financially self-sufficient within 15 years. The challenges of preserving the Presidio included: reusing six million square feet of vacant and deteriorating buildings; replacing outmoded infrastructure; revitalizing open spaces; and creating amenities and programs to welcome the public.

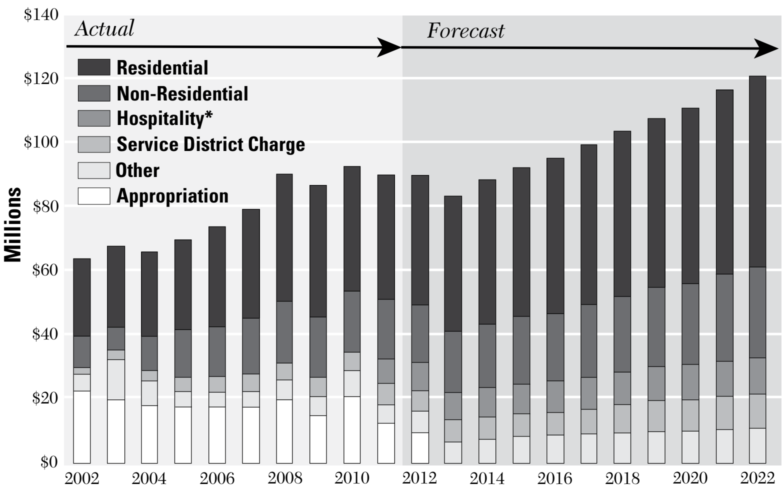
The Trust moved quickly in its early years to generate a steady revenue stream, to create multi-sector partnerships to facilitate its work, and to establish a solid fiscal foundation that would ensure the Presidio's preservation well into the future. Today, although much remains to be done, a strong and growing source of revenue is available to reinvest in the park.

While achieving financial self-sufficiency, the Trust has also transformed the Presidio from a historic military post into a great urban national park site that celebrates history, environment and community and that honors the Presidio's legacy of service. Today's Presidio is a vibrant place of growing national significance. The Presidio Trust is increasingly known nationally and internationally as a successful model for transforming important public places. Organizations from the Sydney Harbor Federation Trust in Australia to Fort Monroe in Virginia have looked to the Trust for leadership and guidance.

**Financial Health**

The Presidio Trust and its grantors have invested more than $416 million throughout the park since 1997, creating a revenue stream of $78.3 million in FY 12. Each year, as federal appropriations have decreased, the amount of private investment has increased, as has the number of rehabilitated and leased buildings. The Presidio is an active community today with 97% of its 1,155 residential units occupied, contributing $41.1 million in FY 12. Additionally, the Presidio's non-residential buildings contributed $28.2 million in FY 12, with hospitality and other revenues contributing $9.0 million.

**Chart 1 – Income FY 2012 – FY 2022 (Income from recurring operations, excluding gifts, grants and other one time payments)**




**Beginning in FY 2011, the capital Presidio Golf Course income shifted from non-residential to hospitality*

The financial success of the Presidio today is due in large part to the creation of successful partnerships that bring in additional resources to accomplish our goals. Partners range from the National Park Service (NPS) and the Golden Gate National Parks Conservancy (GGNPC) to master developers and philanthropic supporters. Through these partnerships, the Trust has been able to leverage resources effectively and achieve impressive results.

The Trust is proud that every federal dollar invested has been leveraged by four dollars of private investment. Today, the Trust's revenue fully offsets its operating costs and the agency has achieved financial self-sufficiency. While the Trust is well-positioned to make future investments in caring for the park and realizing its public potential, fully realizing that potential will depend on access to additional capital.

## Stewardship

### Historic Preservation

The Presidio is a National Historic Landmark District, the highest historic designation that the nation can bestow upon a property. Its historic buildings, landscapes, and artifacts tell the story of our nation and its people across two-and-a-half centuries. To care for these resources and enliven them for the next generation, the Presidio Trust is leading the largest and most ambitious historic preservation project underway in the United States.

The Trust adheres to the Secretary of the Interior's Standards for the treatment of historic properties in planning for and executing its preservation projects. The Trust has also taken a leadership role in "green building." In 1999, the Trust developed the Presidio Green Building Guidelines based on the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) criteria. The Trust also developed guidelines for the rehabilitation of historic structures using green methods, an uncommon practice at the time. In 2010, the Presidio Trust adopted LEED as a standard for all major projects. To date there are ten LEED certified projects in the park with an additional eight projects pending approval.

Preservation is core to the Trust's mission not only because it safeguards resources, but also because reuse gives new purpose and meaning to the Presidio as a relevant and lively destination.

**Public Health Service Hospital (Before & After)**

#### Results

The Trust and its partners have rehabilitated 350 of the park's 433 historic buildings. Historic landscapes, including gardens, historic forest and parade grounds have also been revived (see Landscape Restoration). Important features, such as the major park gateways, have been returned to their previous elegance. The Trust has also made significant strides in archaeology, which is closely tied to historic preservation.

**Chart 3 – Historic Building Progress – Area B**

| Area B Historic Buildings | Total | | Square Footage | |
|---|---|---|---|---|
| Rehabbed | 350 | (81%) | 2,689,883 | (76%) |
| Non-Rehabbed | 83 | (19%) | 857,661 | (24%) |
| **Total** | **433** | | **3,547,544** | |

#### Awards

The Trust and its partners have been recognized more than a dozen times for achievement in historic preservation, including receiving the 2011 Governor's Award from the California Office of Historic Preservation for the Public Health Service District rehabilitation.

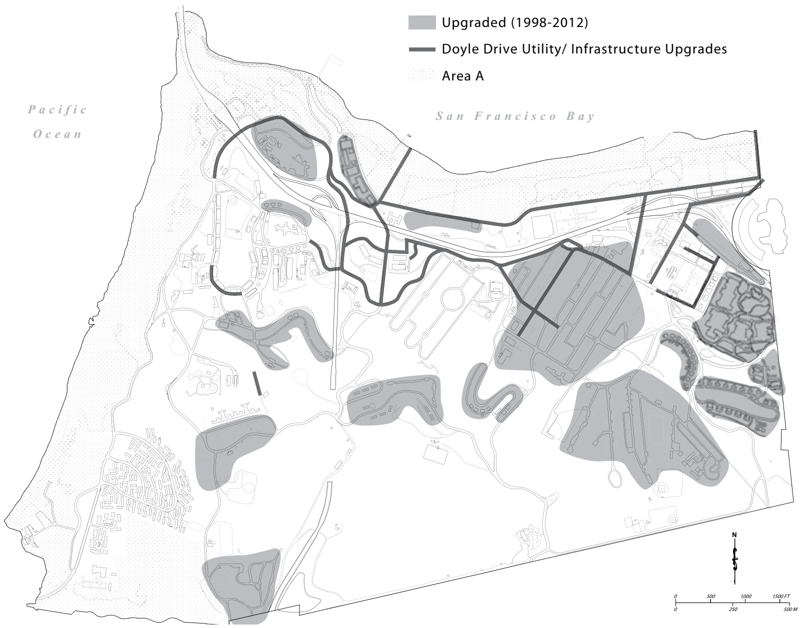
#### Infrastructure

Over the past 15 years, the Trust has converted the management of the Presidio's infrastructure from a military-style operation to a model of continual repair, maintenance, and capital replacement. The military-style management is characterized by a reactive approach that results in large scale periodic investments. In contrast, the Trust model is proactive, and is characterized by steady investments guided by long-range planning, with a goal of delivering reliable and cost-effective services.

The majority of the Presidio's infrastructure systems were developed prior to 1960, with some being constructed in the early 1900s (e.g. The Presidio water treatment plant was originally constructed in 1912, making it one of the oldest active water treatment plants in California). The infrastructure inherited from the Army was in varying states of disrepair, with much maintenance having been long deferred. For example, 90% of the Presidio's 31.6 miles of roadways ranked as fair or poor in 1999. Likewise, the sanitary/storm sewer systems were in need of immediate attention, as the Army's efforts to slip line sewers had been ineffective and many of the storm sewers outlets were non-functioning. On a positive note, upgrades to the historic water treatment plant and associated infrastructure were made in 1996, leaving the overall water system in good condition.

The Trust has made substantial progress towards upgrading the infrastructure system by strategically targeting the services most in need of repair and those that directly impact tenants and residents. To date,

**Map 1 – Infrastructure Progress**




significant upgrades have been completed in 12 districts/neighborhoods: Letterman Digital Arts Center, Gorgas Warehouses, South Hills Housing, Main Post, Funston/Queen Anne's, Infantry Terrance, West Crissy, Pilots' Row/Armistead, Storey, Kobbe, West Washington, and the Public Health Service District.

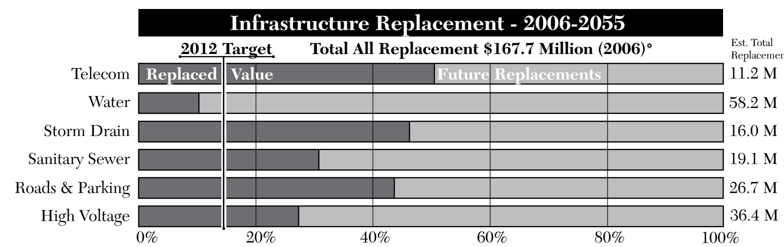
The Doyle Drive replacement project has provided a boost to the infrastructure system by replacing and/or upgrading many facilities within the highway corridor. The project will invest more than $50 million into Presidio infrastructure, including roads and utilities systems backbone.

In 2006, the Trust completed a comprehensive utility strategy that aims to replace or upgrade the infrastructure systems over a 50-year period.

In 2006, the estimated cost to replace all systems was calculated to be $167.6 million. The Trust has invested $51 million infrastructure. As a result of these investments, Presidio infrastructure is in better shape now than was anticipated. In fact, 26% of the replacement/upgrade cost has been invested, rather than the 14% that had been projected for 2012.

The Trust has also installed more than 1,506 utility service meters and now collects $5.2 million annually from tenants through water, sewer, electric, refuse, and telecom charges.

**Chart 4 – 50 Year Replacement Cycle – Presidio Infrastructure**




**Water Treatment plant, distribution systems, and reservoir upgrades were done in 2006-7.*

### Real Estate Development and Tenant Community

When the Presidio Trust assumed management of the park in 1998, the Presidio was underutilized and had little of the community life now in evidence. There were 33 non-residential leases, resulting in revenues of $3.6 million; just 13% of today's non-residential leasing revenue. The average rent per square foot in FY 99 was $4.94. Of the Presidio's 1,155 housing units, 363 were occupied, and residential leasing revenues were 20% of what they are today. While most of the 363 units were occupied by NPS and military families, they had not yet been rehabilitated.

Considerable investment was needed to rehabilitate the Presidio's buildings and infrastructure including: replacement of building systems, seismic upgrades, lead paint abatement, landscape enhancements, ADA accessibility improvements, and new parking and circulation infrastructure. The Trust focused on bringing in tenants and residents to generate revenue and develop the life of the Presidio.

**Non-Residential Leasing**

In the *Presidio Trust Management Plan* (PTMP), the Trust anticipated using half of the non-residential building space for a mix of cultural, educational, and public-serving uses; the other half would be devoted to office use. The Trust sought to create a diverse mix of tenants and a strong financial foundation for the long-term sustainability of the park.

The Trust has pursued a development strategy that includes rehabilitating and leasing buildings with its funds, as well as executing long-term building and ground leases with master tenants who fund their building improvements. This approach provides a mix of revenue sources that balances low-risk, long-term rents with market driven rents, providing greater certainty of revenues during downturns in the economy. These long-term leases provide lower initial rents in exchange for the tenant capital contributions. For many of these leases, large rent increases occur in later years after the amortization of the tenant's capital contribution is completed. Master tenants, in addition to having made substantial investments, have created some of the Presidio's most distinguished projects.

From 2005 to 2012, the Trust executed 276 leases for 1,155,871 square feet with a total nominal rental revenue value of $245 million over the life of the leases. (The Lucas Digital Arts lease for 863,000 square feet was executed in 2001.) Notably, average lease revenues from our non-master tenant leases have increased from $4.94 per square foot in FY 99 to $20.85 per square foot today and our multi-tenant projects – Buildings 36 & 37, 86/87, 220, 1806, and 1808 are currently at near full occupancy.

In addition to providing revenue to support the park, a number of tenants offer public programs and many partner with the Trust, such as the Presidio Community YMCA, Outward Bound, Crissy Field Center, Arion Press, the San Francisco Film Society, the Interfaith Center, Sports Basement, the Presidio Dance Academy, and the Walt Disney Family Museum. Tenants, like the Presidio Social Club, Planet Granite, La Petite Baleen, SenSpa, and House of Air, provide visitor amenities. Many tenants attract first time visitors, as well as the local community, to the park and complement other Presidio activities. The Trust is increasingly working with tenants to develop cross-marketing opportunities.

**Residential Leasing**

In the *Presidio Trust Management Plan* (PTMP), the Trust recognized housing as essential to the character of the Presidio as well as to its financial sustainability. Today, virtually all of the Presidio's 1,155

**Wyman Housing (Before & After)**

residential units in its 21 neighborhoods are leased, resulting in gross annual revenues of $41.1 million in FY 12.

The Presidio's beauty and historic character have long drawn people to become residents of the park, but new and improved trails and overlooks along with increased visitor programing and amenities offered to tenants are helping to increase leasing demand. Over 40% of residential households have lived in the park for more than five years. The Presidio also houses a larger percentage of families than the rest of San Francisco; 30 % of Presidio households have children, while only 17% of San Francisco households have children.

#### In Total

Today, the Presidio has a vibrant public character with 7,000 people who are living or working in the park. Approximately 80% of the building space in the park is occupied.

## Environmental Remediation

The Presidio Trust assumed responsibility for the Environmental Remediation Program in 1999 when it signed a Memorandum of Agreement (MOA) with the U.S. Army and NPS. The MOA outlined the Trust's responsibility for remediation of hundreds of sites, enumerated as part of the MOA, and established a budget ($99 million plus interest earned over the period), to complete required remedial actions. Under the MOA, the Army retained responsibility for contamination discovered at sites that were not identified in the MOA and for any unexploded ordinance. In 1999, the Trust also signed the Area A MOA with the NPS that transferred responsibility for remediation in Area A to the Trust.

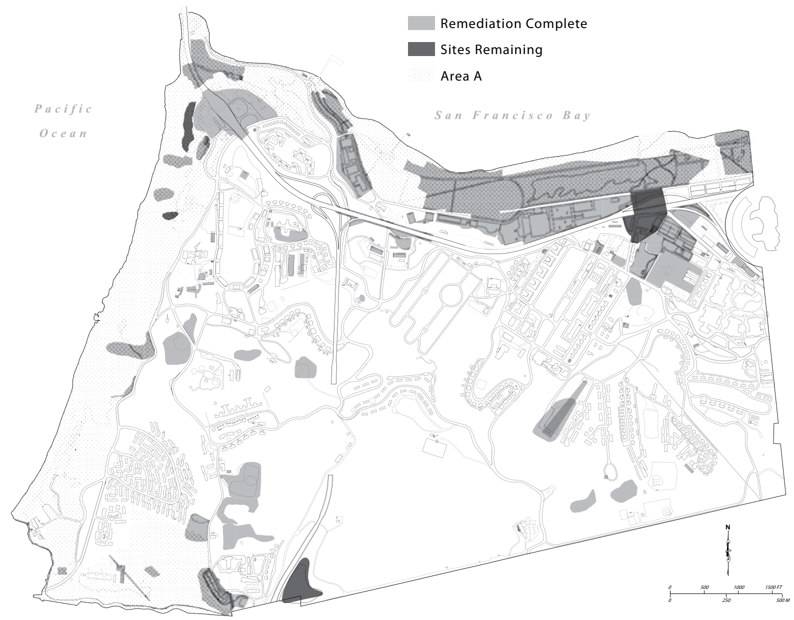
#### The Sites

More than 67 sites are listed in the Department of Toxic Substances Control (DTSC) Consent Agreement, including 11 major fill sites that are being cleaned-up under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). Additionally, DTSC is overseeing the clean-up of lead-based paint in soil around the drip lines of more than 800 buildings and structures at the Presidio.

**Chart 5 – Remediation Progress**

| Project Type | Total | Completed | % Completed |
|---|---|---|---|
| CERCLA | 76 | 66 | 87% |
| Petroleum | 29 | 28 | 97% |
| Tanks | 575 | 553 | 96% |
| Lead-Based Paint | 814 | 476 | 59% |

**Map 2 – Remediation Progress**




*Note: Map does not include Lead Based Paint projects.*

The Water Board identifies tasks and standards for cleanup of 35 defined sites and more than 500 former underground and above ground petroleum storage tanks and associated fuel distribution piping. The Trust continues to conduct public outreach by working with a Remediation Advisory Board (RAB), originally established in 1994 under CERCLA when the Army was implementing the remediation program at the Presidio.

#### Work Completed

Since 1999, the Trust has completed an estimated 90% of regulatory-required remedial actions. This includes the completion of 87% percent of CERCLA sites, 97 % of petroleum sites and 59% of lead based paint projects.

#### Zurich Insurance Policies and Remaining Work

In 1999, the Trust purchased two insurance policies from Zurich Insurance Company: one for cost overruns above $100 million for the cleanup of known sites and one for costs associated with the cleanup of unknown sites. The policies expire May 2014, although at that time the Trust has the right to extend the policy for unknown sites for an additional three years.

As of 2012, the Trust has expended the original budget for known remediation sites and is now recovering costs in excess of the original estimate. Outstanding known remediation projects to be completed by May 2014 include:

- Mountain Lake sediment cleanup
- Petroleum remediation adjacent to Halleck Street
- Cleanup along the bluffs near the future Golden Gate Bridge overlook
- Baker Beach slope cleanup
- Complete lead-based cleanup at various locations

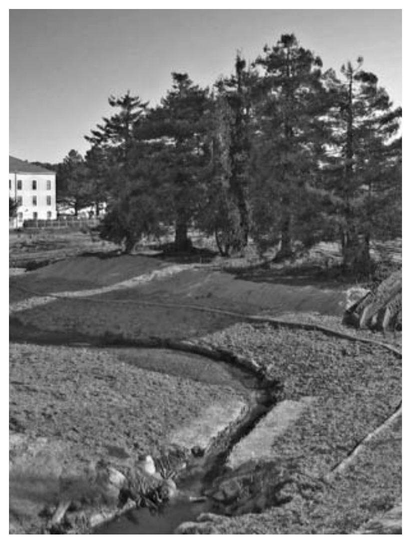
### Landscape Restoration

The Presidio is unique because of the density and diversity of landscapes in a 1,500-acre site. These include a 300-acre man-made historic forest; natural areas housing 13 different native plant communities, more than 330 native plant species and over 300 bird species; and a rich collection of historic gardens.

When the Presidio became a national park site, many of these landscapes and resources were highly degraded. More than half of the 300-acre historic forest was in an advanced state of maturity. Relic natural areas were highly impacted by adjacent development. The site's 16 special status plant species were threatened by invasive weeds and escaped horticultural species. Historic landscapes were overgrown and historic garden species were disappearing.

In 2001, the Presidio Trust and NPS adopted the *Presidio Vegetation Management Plan* (VMP), a joint effort to create a comprehensive,

**Thompson's Reach (Before & After)**



Presidio-wide strategy for managing its 1,500 acres of natural area, historic forest, and designed landscape. The VMP envisioned the incremental transformation of the Presidio landscape over several decades into a landscape that is healthier, easier to maintain, and more beautiful.

**Accomplishments**

Nearly 30 % of Area B's 1,167 acres is in improved condition. Twenty-two acres of dying forest have been removed and 3,100 new trees planted. Eight hundred trees have been pruned to correct structural defects and safety problems, extending their lives. Enhancement of Presidio water resources has begun with the restoration of the east shore of Mountain Lake, stream restoration at Dragonfly Creek, and the restoration Thompson's Reach and El Polín Spring within the Tennessee Hollow watershed. Populations of the Presidio's 16 special status species, including four endangered and one threatened plant species, are mostly stable and increasing. Designed landscapes,

**Chart 6 – Snapshot of Current Conditions (Area B)**

| Landscape Type | Acres Restored | Total Acreage in VMP | Percentage |
|---|---|---|---|
| Designed Landscape | 275 | 689 | 40% |
| Restored Areas | 109 | 523 | 21% |
| Golf Course | 143 | 143 | 100% |
| National Cemetery | 23 | 23 | 100% |
| Historic Forest | 123 | 259 | 47% |
| Restored Areas | 22 | 158 | 8% |
| Healthy Stands | 101 | 101 | 100% |
| Native Plants | 65 | 219 | 30% |
| Restored Areas | 42 | 196 | 21% |
| Remnant Areas | 23 | 23 | 100% |
| Grand Total | 340 | 1,167 | 29% |

including 11 of 13 historic residential neighborhoods, have been rehabilitated. Comprehensive integrated pest management, green waste recycling, and wildlife management programs have been implemented to ensure that landscape maintenance activities throughout the park protect the health of the Presidio environment.

**Upcoming Work**

Over the next several years implementation of the VMP will continue, leveraging other projects and outside sources of funding to improve the Presidio landscape. Projects include San Francisco International Airport-funded mitigation projects at Quartermaster Reach in Tennessee Hollow and at Mountain Lake; restoration following Trust remediation projects at Mountain Lake and in Tennessee Hollow; restoration of dune habitat in conjunction with the upgrade of Baker Beach housing; and restoration of the Doyle Drive corridor, including the new Main Post and Cemetery bluffs, after the roadway is complete in 2015.

## Welcoming the Public

Although Trust activities over the last 15 years have focused predominately on the rehabilitation of the post's buildings, infrastructure, and landscapes, the Trust and its partners have made significant progress in the creation of new visitor infrastructure, and have developed a number of new education and stewardship programs that welcome and serve the public.

**Visitor Infrastructure**

**Trails, Bikeways, and Overlooks**

The Presidio trails and overlooks system, accomplished in conjunction with the GGNPC and with generous support from the Haas Jr. Fund and other donors, is one of the most significant visitor improvements in the Presidio. The Trust and its partners have built or upgraded 14.1 miles of

**Park Trail (Before & After)**

in-road bike lanes and 19.7 miles pedestrian and multi-use trails as well as built seven scenic overlooks and one vista point in the Presidio.

**Visitor Orientation and Information**

The Trust has also installed visitor orientation kiosks at all major park entrances, and has begun a three-year program of vehicular directional, pedestrian directional, and tenant identification signage throughout the post. Since 1997, on-site visitor information has been dispensed primarily through facilities near Crissy Field (Warming Hut, Crissy Field Center) and at a temporary visitor center operated by the NPS in the Main Post. The Trust, NPS and the GGNPC are currently working on plans to develop a new joint visitor center to be located in Building 210, at the north end of the Main Post, near the emerging Main Post Bluff.

**Access/Transit**

In 2005, the Trust built a new transit center at the north end of the Main Post and launched the PresidiGo shuttle program. The shuttle supplements regional public transit, creating a vital connection between the Presidio and major regional transit systems (Caltrain, BART, MUNI, AC Transit, Golden Gate Transit), as well as facilitating movement to destinations around the park. The PresidiGo is very popular; ridership in 2012 totaled 415,000.

**Hospitality and Visitor Services**

Having accomplished a new Golf Course Clubhouse and invested into greens and course infrastructure, the Presidio Golf Course now welcomes a record number of visitors, and the restaurant serves golfers and other visitors. The Trust also operates several venues for conferences, meetings, weddings and parties (Golden Gate Club, Log Cabin, Observation Post, Officers' Club, Chapel) as well as the recently developed Inn at the Presidio. The Trust is currently focused on developing additional visitor services at the Main Post, including lodging, food service, and visitor-serving retail. The Main Parade and the Main Post Bluff will become venues for public events and celebrations, and the Commissary will become a key museum/cultural institution. The Trust is also working closely with the NPS and GGNPC to accomplish a Presidio Visitor Center and heritage programming.

**Education and Stewardship Programs**

In 1998, the Trust launched its programmatic effort by continuing to support two well-loved annual events from the Army – the Memorial Day commemoration and annual Holiday Lights tree-lighting ceremony. Over the past 15 years, the Trust has expanded the number of annual programs, concerts, films, talks and tours. Pasados del Presidio commemorates the Presidio's past every June with a week of events. In the fall Presidio Teachers' Night welcomes 400 teachers with educational resources to utilize the park. The Trust is currently engaged in a collaborative planning process with the NPS and GGNPC to increase the impact of our collective programs at the Presidio. Trust programs focus on four areas – history, community, environment, and service.

### Heritage Programs

As the Army prepared to depart the Presidio in the 1990s, the discovery of remnants of the original Spanish fort known as El Presidio reaffirmed that the Presidio is among the most significant historic sites in the country. The Presidio houses one of the most complete collections of historic military architecture in the United States and is associated with many of the pivotal events in the history of the American West, making it an ideal location for heritage programming. The Trust Heritage Program has begun to leverage this rich legacy by offering education, professional development, and stewardship programs focused on history, archaeology, and historic preservation.

Trust history programs focus on the history of the Presidio as well as the broader history of the American West. In 2012 Heritage Programs produced Before the Bridge: Sight and Sound at the Golden Gate is support of the Golden Gate Bridge's 75th Anniversary. Since 2000, the Presidio has hosted 23 natural and cultural heritage-focused exhibits, attracting over 200,000 visitors. The Trust has partnered with nearly 70 organizations to deliver these exhibits as well as new companion programming. One of our more recent exhibits, *War and Dissent: The U.S. in the Philippines, 1898 to 1915*, served more than 1,400 school children, attracted 10,000 visitors, travelled to the National Museum of the Philippines, and continues to be available to teachers online. Staff is currently working on a plan for new exhibits and public programs providing an in depth overview of Presidio history to be housed in the Officers' Club, which is currently under rehabilitation.

Archaeological research is part of nearly every project at the Presidio, and reveals who lived here and how things changed over the centuries. Archaeology education programs focus on introducing students to the Spanish colonial and Mexican eras of Presidio history by utilizing key sites, like the recently restored El Polín Spring, site of a Spanish colonial era settlement, and the El Presidio, as outdoor classrooms for visiting students and Presidio schools. The state-of-the-art archaeology lab and curation facility opened recently allows Trust archaeology programs to expand beyond the 1,500 students they serve each year, reaching a greater number of students and volunteers.

Sharing the knowledge acquired from the historic preservation work undertaken here, and learning from others, is a key component of the Trust's Heritage Program. During any given year, as many as 200 professionals and many students attend workshops, classes, seminars or lectures in historic preservation, archaeology, and other related topics at the Presidio. Because the Presidio is a living laboratory of historic preservation practice, projects here can often be used to illustrate subject matter, providing real-life examples that enliven these efforts.

### Natural Resource Programs

The Presidio's natural areas harbor vestiges of San Francisco's natural heritage – native plants, rare and endangered species, important wildlife habitat, and the last free-flowing stream in San Francisco. The Presidio's natural resource programs, which are carried out in close partnership with the NPS and the Parks Conservancy, provide a unique opportunity for students and visitors to learn about and care for the park's natural resources.

Tri-agency environmental education programs housed at the Crissy Field Center and the Presidio Nursery, as well as in the broader Presidio landscape, introduce thousands of urban youth to San Francisco's ecology and native plant communities through immersive educational experiences. Students served range in age from elementary school through post-secondary school. Through the Presidio Park Stewards program, thousands of youth and local residents are engaged in the process of restoring the Presidio's natural areas, from cleaning and processing seeds and growing native plants in the Presidio Nursery to outplanting and weeding native seedlings in the field at Presidio restoration sites. Resource education programs delivered in conjunction with Presidio restoration projects provide an opportunity for participants to develop a richer understanding of the natural systems they are restoring.

In 2003, the Trust launched *KIDS on Trails*, a program designed for youth (ages 5-10) and accompanying adults to encourage learning, discovery, and recreation in the Presidio. Since the first *Kids on Trails* launched in 2003, over 52,000 guides have been printed and distributed to teachers, students, and families, and more than 2,000 teachers and students have participated in guided fieldtrip experiences along the Anza Trail and Ecology Trail in the park.

The Trust has pioneered the use of place-based art to engage visitors in and interpret resources in a national park setting. Through our partnership with the non-profit FOR-SITE Foundation, artist Andy Goldsworthy came to the Presidio to create *Spire* (2008) and *Wood Line* (2011) which highlight the Presidio's historic forest. In 2010 and 2011, FOR-SITE and the Trust hosted *Presidio Habitats*, an outdoor exhibit featuring international artists, architects, and designers. Over 11,000 people visited the indoor exhibit and participated in companion lectures, educational programming, and immersive youth programming such as *Create with Nature*.

**Community Programs**

Trust community programs focus primarily on bringing together and engaging the community of 7,000 people who live and work in the park. Working with partners, the Trust has piloted several annual cultural programs, such as "Film in the Fog" and "Pasados del Presidio," to engage the community and to activate Presidio open spaces. The Trust has also offered an ongoing series of cultural programs focused on serving the local community. These include the *Concerts at the Presidio* series, highlighting young musicians and international artists performing through partnerships with the Italian, Spanish and Mexican consulates, as well as theater and theatrical workshops with groups such as *Shakespeare in the Park, Young Audiences of California*, and *Bindlestiff Studio*, who have premiered several original productions in the park, including Shadows of War in 2009.

Understanding the important role that teachers play in introducing young people to new experiences, in 2002 the Trust launched *Presidio Teachers Night* in partnership with the NPS, Parks Conservancy, and San Francisco Unified School District (SFUSD). This annual event attracts hundreds of educators with 50 exhibiting partners and introduces teachers to the array of programs available in the park for their students. At the other end of the spectrum is the *Camping at the Presidio* (CAP) program, which provides children and youth who traditionally have not visited national parks with a first overnight national park experience. CAP is a Trust-funded program delivered by staff of the Crissy Field Center (CFC), Trust, NPS, and Bay Area Wilderness Training (BAWT). Since its inception in 2007, 11,500 youth and 4,300 adults have participated in CAP with 400 community leaders have been trained. In 2012, 3,426 youth participated in CAP.

**Volunteer Programs**

Volunteers and participants in other Presidio service programs continue the long legacy of service at the Presidio. In 2012, 6,765 volunteers

**Rob Hill Campground (Before & After)**

contributed 65,046 hours stewarding the Presidio's natural areas, historic forest, designed landscapes, and trails. This is the equivalent of 37 full time employees (FTE) of labor, with an approximate value of $1.4 million. More importantly, volunteering in the park connects members of the public in a very direct and meaningful way to the park and its resources.

Presidio service-focused programs not only provide opportunities for volunteers to "give back" to the park, but also provide opportunities for young people to develop their academic and leadership skills. Every year the Presidio hosts dozens of young people from across the country in professional internships that provide a stepping stone to futures in park-related professions. In partnership with AmeriCorps, the Trust has begun to regularly host National Civilian Community Corps (NCCC) teams for six-week visits. These groups of young individuals develop their leadership skills while completing dozens of volunteer projects within the park.

**Conclusion**

The Trust's record after 15 years is one of notable accomplishment. The organization is proud of the financial outlook and our ability to attract stellar partners across sectors. We are optimistic about the health of the Presidio and feel confident that our early investments will continue to pay impressive dividends. We are also encouraged by the level of public benefit derived from our work and that of our partners – from high quality historic rehabilitations to natural resource protection and community programming. In the coming years, we look forward to continuing to establish the Presidio as a welcome place for all Americans.

## Analysis of Financial Statements

When the Trust assumed jurisdiction of the Presidio's interior 1,167 acres and 800 buildings, the value and costs of the building improvements and infrastructure, most of which was more than 40 years old, could not be determined. During FY 2011, using newly available accounting guidance, the Trust started a project to work on estimating the costs of the assets not previously valued in the financial statements. The Trust completed this work in FY 2012, restated its 2011 financial statements and now has an unqualified opinion on its financial statements. See Note 22 of the accompanying financial statements for more information.

The financial statements were audited by the independent accounting firm KPMG, LLP. One of the Trust's goals is to ensure sound financial management and to provide accurate information. Trust management is responsible for the integrity and objectivity of the information presented in the financial statements. The accompanying financial statements summarize the Trust's financial position, show the net cost of operations and changes in net position, provide information on budgetary resources and financing, and present the sources of revenues and expenditures during FY 2012 and 2011. Highlights of the financial information presented in the financial statements are shown below.

### Balance Sheet

This statement is designed to show the Trust's position as of September 30, 2012 and to compare it to the Trust's position the previous year.

### Assets

The Trust's total assets were $466.4 million at the end of FY 2012, and $445.2 million (restated) at the end of FY 2011 (See Note 22 of the accompanying financial statements). This growth of $21.3 million in assets is largely the result of the changes in property plant and equipment (PP&E).

In FY 2012 the Trust's assets increased $37.7 million which represents $28.9 million in Trust investments and a transfer in of $8.8 million in of utility infrastructure assets from the State of California due to the Presidio Parkway project. FY 2011 PP&E was restated to reflect an increase of $26.0 million to record the assets that should have been recorded in 1999 (See Note 22 of the accompanying financial statements). All asset amounts are net of depreciation. If assets that should have been recorded in 1999 had a net zero balance in FY2011 the Trust continued its accounting policy adopted in 1999 to use its alternate method of accounting for those assets and record them at net zero.

Cash and investments decreased $20.3 million due to outlays for environmental remediation and capital projects completed this year. The Trust expects that cash and investments will continue to decrease to an operational level over the next few fiscal years, excluding grants and gifts.

Other assets have increased or decreased largely due to timing. There are no trends that concern management beyond normal activity.

During FY 2012, the Trust invested and received an additional $55.1 million in building and land improvements, and in other property, plant, and equipment. In addition, the Trust retired plant and equipment and land improvements with a net book value of $1.4 million and recorded depreciation in the amount of $16.1 million.

### Liabilities

There were $181.0 million in liabilities at the end of FY 2012, and $187.7 million at the end of FY 2011, a decrease in liabilities of $6.7 million. The decrease is made up of fluctuations in several liabilities.

Other unearned revenue increased by $7.0 million largely due to the compensation received from the State of California for the Mt. Lake Overflow project and funds received for wetland mitigation projects.

The environmental remediation liability has decreased by $6.0 million due to work being performed on the remaining remediation projects. See Note 11 of the accompanying financial statements for further explanation.

Intra-governmental unearned revenues decreased by $4.4 million largely due to work being done and revenue being earned on Main Post Projects funded from Department of Defense grants for the Presidio Heritage Center and the Main Post.

Accounts payable decreased by $3.4 million. The decrease in accounts payable is largely due to a decrease in the accounts payable for remediation and large capital projects as a substantial portion of Trust capital projects were completed in FY 2010 and FY 2011.

Trust liabilities include $50.0 million in debt to the U.S. Treasury. Payments on this debt are for interest only until FY 2015, and the debt is to be repaid in full by FY 2029. Interest payments on this debt are partially offset by investments specifically designated for this purpose and held by the U.S. Treasury in the amount of $33.3 million. See Note 4 for more information on investments and Note 10 for more information on debt.

#### Net Position

The Trust's net position was $285.4 million at the end of FY 2012, and $257.5 million (restated – see note 22 of accompanying financial statements) at the end of FY 2011, an increase in net position of $27.9 million. This growing "equity" position of the Trust provides tangible and compelling evidence that the Presidio has become a self-sustaining National Park site.

#### Net Cost of Operations

This statement is intended to report net costs of the Trust as a component unit of the Federal Government and the net cost to the public. Costs reported on this statement are stated on a proprietary basis, including depreciation, future funded expenses, adjustments to actuarial estimates, and all remediation activities.

The statement demonstrates that the Trust had net revenue of ($13.1) million during FY 2012 and net cost of $4.7 million in FY 2011 (restated – see note 22 of the accompanying financial statements). As the Trust moves into financial self sufficiency, net cost should continue to decrease, but will not be fully reflective of amounts earned to operate the park as some entries are made for financial reporting purposes under Generally Accepted Accounting Principles (GAAP), while budgetary resources are available in a subsequent period. The net cost statement reflects all of the expenses incurred by Trust activities during FY 2012, including the remediation program and the depreciation of fixed assets.

#### Budgetary Resources

As an entity of the Federal Government, the Trust reports on the status of its budgetary resources, the extent to which obligations exist as claims on those resources, and the relationship of those obligations to outlays. The Trust receives most of its funding from revenues earned from residential and non-residential leasing. In addition, the Trust has received general government funding in the form of an appropriation as authorized by Congress with FY 2012 being the last year that appropriations will be received. Resources consist of the balance at the beginning of the year, appropriations received during the year, and spending authority from offsetting collections.

Budgetary resources amounted to $149.5 million for FY 2012, compared to $161.1 million in FY 2011. Of this amount, the Trust obligated $108.8 million in FY 2012 and $128.8 million in FY 2011. Unobligated balances at the end of FY 2012 and FY 2011 were $40.3 million and $32.3 million, respectively. This unobligated balance is due primarily to the funds held for capital improvements, tenant security deposits, and philanthropic gifts.

#### Risks and Uncertainties

The Trust has received appropriations since its first year of operations in FY 1999. FY 2012 was the last year the Trust received appropriations. The Trust has reached financial self sufficiency within its mandated timeframe and will no longer be receiving appropriations and will be completely reliant on earnings. The Trust has sound financial plans in place to ensure that Trust operations continue into the future and the park is preserved for the public. While Trust operations are expected to generate funds available to reinvest in the Park, the full realization of the Park's potential to serve the public will also depend on the availability of other forms of capital.

The Trust is responsible for environmental cleanup of the Presidio and uses standard industry practices to estimate the cost of the cleanup. Estimates are based on internal analysis as well as studies performed by consultants, and are updated as additional information becomes available. The Trust was advanced $99.0 million from the Department of the Army and earned $19.2 million in interest on the Army funding, all of which has been expended. The Trust is currently relying on insurance reimbursement to finalize the remediation work. External risk factors, such as regulatory requirements and increases in construction costs, will affect the final costs. See Note 11 to the accompanying financial statements for an in-depth discussion of the funding as well as risks and uncertainties related to the environmental cleanup as of September 30, 2012.

The Trust is also responsible for rehabilitation and maintenance of the Presidio's fixed assets, including infrastructure. Many of the assets have exceeded their depreciable lives; the life spans of the assets and the cost to replace them are uncertain. Annual budgetary constraints are considered in evaluating the replacement of assets. Regular and on-going maintenance of assets prolongs their useful life and reduces the likelihood of unexpected failures. Maintenance of one hundred percent of the assets is unfeasible, so the Trust evaluates deferred maintenance on an annual cycle and prioritizes the most important preventive maintenance for completion. Deferred maintenance data can be found in the required supplementary information accompanying the financial statements.

### Stewardship Investments

Stewardship assets are detailed in a Note to the financial statements as required by SFFAS 29, *Heritage Assets and Stewardship Land*. The Trust's reported values for property plant and equipment exclude stewardship assets because they are considered "priceless" and therefore monetary amounts cannot be assigned. For an in depth discussion regarding these assets please refer to Note 7.

## Limitations of the Financial Statements

Trust management has prepared the accompanying financial statements to report its financial position and results of operations pursuant to the requirements of Title 31 of the U.S. Code and the Trust Act.

These financial statements have been prepared from the Trust's general ledger and subsidiary reports in accordance with GAAP for federal entities and the formats prescribed by the Office of Management and Budget in Circular A-136, *Financial Reporting Requirements, as amended*. These statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. These statements should be read with the realization that the Trust is a federal corporation, a component of the United States Government, and therefore, liabilities cannot be liquidated without authorizing legislation.

The financial statements and footnotes have been prepared by Trust management. The accuracy of the information contained in the principal financial statements and the quality of internal controls rests with Trust management.

## Management Assurances

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to conduct an annual evaluation of their management controls and financial systems and report the results to the President and Congress. The Trust prepares an annual Statement of Assurance based on these internal evaluations.

**Statement of Assurance on Internal Controls over Financial Reporting**

Trust management is responsible for establishing and maintaining effective internal controls to support programmatic operations, financial reporting, and compliance with applicable laws and regulations. The Trust conducted its assessment of the effectiveness of its internal controls over financial reporting in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*.

Based on the results of this evaluation, the Trust can provide reasonable assurance that the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal control over financial reporting.

**Statement of Assurance on Financial Systems**

The financial management systems of the Trust conform to federal financial system requirements, Federal Accounting Standards Advisory Board (FASAB) standards, and the U.S. Standard General Ledger at the transaction level.

**Statement of Assurance on Internal Controls over Operations**

The Trust management is responsible for establishing and maintaining effective internal controls to support programmatic operations and compliance with applicable laws and regulations. Management certifies that these controls are in place and effective.

Craig Middleton
November 15, 2012

# FISCAL YEAR 2012 PERFORMANCE REPORT

The Budget Justification for FY 2012 was submitted to Office of Management & Budget (OMB) in February 2010 based on the Five Year Construction Plan for FY 2010 – 2014 as approved at that time. The actual capital projects executed in FY 2012 differed in important respects as plans and circumstances changed between the submission of the Budget Justification in 2010 and September 30, 2012.

The Trust obligated $30.3 million into Construction projects in FY2012 compared to a Budget Justification forecast of $27.8 million obligations. The ability to obligate a larger of amount of funding was due to changes in project schedules and available funds for construction projects. A summary of these changes and the variances related to the Budget Justification for the FY 2012 budgets are discussed in greater detail in the narrative and the tables below.

- Baker Beach is the largest residential neighborhood in the Park. In FY 2012 the Trust obligated $6.9 million (line 8) for continued external residential housing repairs and an environmental habitat restoration project in the area approved after the submission of the budget justification.

- The Trust shifted funding from the Montgomery Street Barracks Building 105 project (line 22) and Thornburgh project (line 32) to fund the completion of the Montgomery Street Barracks Building 103 project (Line 21) and the Inn at the Presidio (Line 80). Both buildings successfully opened for use in FY 2012. Building 103 is shared building space for the new headquarters for the Presidio Trust and for programmatic space open to the Public. The first public program was a tribute to the San Francisco Golden Gate Bridge in conjunction with the 75th Anniversary of the Golden Gate Bridge. The Inn at the Presidio is the first lodging to open in the Park to provide guests a place to stay overnight while experiencing the Park.

- The obligation of $4.0 million for rehabilitation of the Historic Presidio Officers' Club and Heritage Center (line 53), a savings of 10% from the Budget Justification forecast. The remaining funds are anticipated to be obligated in FY 2013 for the completion of the project.

- The infrastructure pool (line 66) at $2.0 million supports utility and infrastructure work in line with the Budget Justification forecast. The Trust continues its commitment to maintaining its current utilities and infrastructure.

- The first building rehabilitation in the Fort Winfield Scott district was completed in FY 2012 (Ft. Scott Building 1201, Line 69). The next rehabilitation project (Ft. Scott Building 1202, Line 70) in the district is under construction with an anticipated completion date in FY 2013.

It is the Trust's goal to complete the priority building rehabilitations, park projects and infrastructure improvements as rapidly and cost consciously as possible. The Trust had a very successful year achieving this goal, obligating $30.3 million on construction projects which further the Trust's mission to preserve and protect this National Park site and National Historic District.

| | Capital Projects ($ in thousands) | Budget per FY 2012 Budget Justification | Actuals as of September 30, 2012 | Actual Variance to FY 2012 Budget Justification $ | % |
|---|---|---|---|---|---|
| 1 | **Residential Real Estate Projects** | | | | |
| 2 | Buildings 340-342 - Infantry Terrace | | 322 | (322) | |
| 3 | Building 514 Simonds Loop | | 110 | (110) | |
| 4 | Building 1332 Renovation | | 2 | (2) | |
| 5 | Residential Unit Turns | 1,680 | 2,056 | (375) | (22.3%) |
| 6 | Cyclic & Preventive Maintenance | 1,765 | 1,174 | 591 | 33.5% |
| 7 | ADA Upgrades | | 281 | (281) | |
| 8 | Baker Beach Housing Repairs | | 6,857 | (6,857) | |
| 9 | **Subtotal - Residential Real Estate Projects** | **3,445** | **10,802** | **(7,356)** | **(213.5%)** |
| 10 | **Non-Residential Real Estate Projects** | | | | |
| 11 | Building 3 Rehabilitation | | 5 | (5) | |
| 12 | Building 4 Rehabilitation | | 16 | (16) | |
| 13 | Building 387 ADA Upgrades | | 10 | (10) | |
| 14 | Building 644 Warehouse | | 107 | (107) | |
| 15 | Building 662 – Cavalry Barracks | | 33 | (33) | |
| 16 | Building 640-641 (Japanese Heritage Center) | | 325 | (325) | |
| 17 | Building 99 – Presidio Theater | 392 | | 392 | 100.0% |
| 18 | Montgomery Street Barracks (Building 100) | | 4 | (4) | |
| 19 | Montgomery Street Barracks (Building 101) | | 61 | (61) | |
| 20 | Montgomery Street Barracks (Building 102) | | 3 | (3) | |
| 21 | Montgomery Street Barracks (Building 103) | | 3,029 | (3,029) | |
| 22 | Montgomery Street Barracks (Building 105) | 6,792 | | 6,792 | 100.0% |
| 23 | PHSH 1808 (Nurse's Quarters) | | 5 | (5) | |
| 24 | PHSH 1805 | | 6 | (6) | |
| 25 | Building 1051 – Office Space | | 34 | (34) | |
| 26 | Building 1162 – Office Space | | 0 | (0) | |
| 27 | Mason Street Warehouses (Buildings 1182-1188) | | 80 | (80) | |
| 28 | West Crissy Building 933B | | 0 | (0) | |
| 29 | West Crissy Building 934 | | 3 | (3) | |
| 30 | Cyclie & Preventive Maintenance | 629 | 642 | (13) | (2.1%) |

*Note: Project comparisons are in reporting format formally adopted after the 2012 budget justification submission.*

**Reporting format update causes line to reflect $0 Actual FY 2012*

| | Capital Projects ($ in thousands) | Budget per FY 2012 Budget Justification | Actuals as of September 30, 2012 | Actual Variance to FY 2012 Budget Justification $ | % |
|---|---|---|---|---|---|
| | **Non-Residential Real Estate Project (continued)** | | | | |
| 31 | Girard Road Corridor | | 0 | (0) | |
| 32 | Thornburgh | 3,705 | | 3,705 | 100.0% |
| 33 | Presidio Parkway Tenant Relocations | | 38 | (38) | |
| 34 | Building 1242 | | 134 | (134) | |
| 35 | **Subtotal – Non Residential Real Estate Projects** | **11,518** | **4,534** | **6,984** | **60.6%** |
| 36 | **Park Projects (Excludes Gift Funded Share)** | | | | |
| 37 | Marine Cemetery Commem. | | 17 | (17) | |
| 38 | Designed Landscapes | | 9 | (9) | |
| 39 | Montgomery Street Landscape | 925 | 1,139 | (215) | (23.2%) |
| 40 | Ball Field (Pop Hicks, Paul Goode) | | 97 | (97) | |
| 41 | MPG Greening Project | 175 | 137 | 37 | 21.4% |
| 42 | MPG Anza Esplanade | | 27 | (27) | |
| 43 | Infantry Terrace Landscaping | | 146 | (146) | |
| 44 | Gorgas Warehouses ADA | | (0) | 0 | |
| 45 | Arch/Ed Center (Building 44, 47, 48, 49) | | 8 | (8) | |
| 46 | Dragonfly Creek Restoration | | 37 | (37) | |
| 47 | Restoration of Remediation Sites | 523 | 402 | 121 | 23.1% |
| 48 | Playground Upgrades (safety) | 107 | 3 | 104 | 97.4% |
| 49 | El Presidio Landscape Improvements | | 17 | (17) | |
| 50 | Tennessee Hollow/Quartermaster Reach | | 137 | (137) | |
| 51 | Trails/Overlooks/Crissy Overlook | 127 | 151 | (25) | (19.5%) |
| 52 | Public Website Improvements | | 21 | (21) | |
| 53 | Building 50 (O Club) & Heritage Center | 4,492 | 4,036 | 456 | 10.2% |
| 54 | Capital Programs – Park* | 1,392 | | 1,392 | 100.0% |
| 55 | Park Programs Preservation Maintenance | | 277 | (277) | |
| 56 | **Subtotal – Park Projects** | **7,739** | **6,660** | **1,079** | **13.9%** |

*Note: Project comparisons are in reporting format formally adopted after the 2012 budget justification submission.*

**Reporting format update causes line to reflect $0 Actual FY 2012*

| | *Capital Projects ($ in thousands)* | *Budget per FY 2012 Budget Justification* | *Actuals as of September 30, 2012* | *Actual Variance to FY 2012 Budget Justification* | |
|---|---|---|---|---|---|
| | | | | *$* | *%* |
| 57 | **Municipal Services** | | | | |
| 58 | Stilwell Hall Streetscape/Parking | | 4 | (4) | |
| 59 | Non Residential Parking (Capital Equipment) | 448 | 340 | 108 | 24.2% |
| 60 | Reclaimed Water Plant | | 3 | (3) | |
| 61 | Main Post Parking (Street) | | 21 | (21) | |
| 62 | Parking Lot – Moraga – 230 Spaces | 442 | 0 | 442 | 99.9% |
| 63 | Parking – Taylor Street | | 388 | (388) | |
| 64 | CNG Station/Bus Yard | | 39 | (39) | |
| 65 | PresidiGo Shuttles | | 40 | (40) | |
| 66 | Infrastructure Pool (general) | 2,016 | 2,006 | 10 | 0.5% |
| 67 | **Subtotal – Municipal Services** | **2,906** | **2,842** | **64** | **2.2%** |
| 68 | **Fort Scott** | | | | |
| 69 | Fort Scott Building 1201 Rehabilitation | | 576 | (576) | |
| 70 | Fort Scott Building 1202 Rehabilitation | | 2,291 | (2,291) | |
| 71 | Fort Scott Building 1204 Rehabilitation | | (976) | 976 | |
| 72 | Fort Scott Building 1206 Rehabilitation | | 5 | (5) | |
| 73 | Fort Scott Site Improvements | | 145 | (145) | |
| 74 | **Subtotal – Fort Scott** | | **2,041** | **(2,041)** | |
| 75 | **Hospitality Management** | | | | |
| 76 | Building 93 – Reconfigure for Public Use | 200 | | 200 | 100.0% |
| 77 | Building 130 Interfaith Chapel | | 207 | (207) | |
| 78 | System Integration – Hospitality | | 80 | (80) | |
| 79 | Building 51 Funston Avenue House | | 821 | (821) | |
| 80 | Building 42 Inn at the Presidio | | 1,365 | (1,365) | |
| 81 | Building 211 Observation Post at the Presidio | | 159 | (159) | |
| 82 | Golf Course Improvements | | 238 | (238) | |
| 83 | **Subtotal – Hospitality Management** | **200** | **2,870** | **(2,670)** | **(1,335.0%)** |

*Note: Project comparisons are in reporting format formally adopted after the 2012 budget justification submission.*
**Reporting format update causes line to reflect $0 Actual FY 2012*

| | Capital Projects ($ in thousands) | Budget per FY 2012 Budget Justification | Actuals as of September 30, 2012 | Actual Variance to FY 2012 Budget Justification $ | % |
|---|---|---|---|---|---|
| 84 | **Overhead** | | | | |
| 85 | Building 34 – Demo (Trust Offices) | | 35 | (35) | |
| 86 | Building 385 – Demo (Herbst Hall) | | 3 | (3) | |
| 87 | Main Post Coordination | 97 | | 97 | 100.0% |
| 88 | Relocate Trust | | 507 | (507) | |
| 89 | Capital Programs – Operations* | 1,522 | | 1,522 | 100.0% |
| 90 | Technology Equipment Lifecycle Replacement | 200 | | 200 | 100.0% |
| 91 | Software License & System Integration | 200 | | 200 | 100.0% |
| 92 | **Subtotal – Overhead** | **2,019** | **545** | **1,474** | **73.0%** |
| 93 | **TOTAL TRUST FUNDED** | **27,827** | **30,294** | **(2,467)** | **(8.9%)** |

*Note: Project comparisons are in reporting format formally adopted after the 2012 budget justification submission.*

**Reporting format update causes line to reflect $0 Actual FY 2012*

# CHIEF FINANCIAL OFFICER LETTER

The Trust reached several milestones in FY 2012. The Trust celebrated fifteen years of operations and has many accomplishments to be proud of throughout the park. Since FY 2012 marks the fifteen year anniversary the management discussion and analysis section of the financial report provides a synopsis of the work accomplished by the Trust and its partners in that time.

The fifteenth anniversary also marks the last year that the Trust was to receive federal appropriations as the Trust Act reaches financial self-sufficiency. The Trust has achieved this Congressional mandate. Always a strong steward of financial resources, the Trust will continue that sound stewardship to ensure the continuity of the park far into the future.

In September 2010, the Federal Accounting Standards Advisory Board (FASAB) issued SFFAS No. 35 *Estimating the Historical Cost of Property Plant and Equipment* and in June 2011 the FASAB issued Statement of Federal Financial Accounting Technical Release 13, *Implementation Guide for Estimating the Historical Cost of General Property, Plant & Equipment*, guidance that allowed the Trust to correct the asset valuation issue that had caused the Trust to receive a qualified opinion. During, FY 2011 the Trust worked toward estimating the costs of assets not valued in accordance with accounting standards and the Trust completed this work in FY 2012, allowing the Trust to achieve an unqualified audit opinion. The Trust has restated its FY 2011 financial statements (See Note 22 of the accompanying financial statements) to remove the qualification that existed since the first fiscal year of operations. The achievement of an unqualified audit opinion is a further indication of the improvement in financial stewardship and reporting the Trust has achieved.

Michael Rothman
CFO
November 15, 2012

Carla Armstrong
Controller

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# INDEPENDENT AUDITORS' REPORT

KPMG

**KPMG LLP**
Suite 12000
1801 K Street, NW
Washington, DC 20006

## Independent Auditors' Report

The Board of Directors of
The Presidio Trust:

We have audited the accompanying balance sheets of the Presidio Trust (the Trust) as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as " financial statements") for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our report dated November 15, 2011, we expressed an opinion on the Trust's fiscal year 2011 financial statements qualified for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence supporting the recorded balances of improvements within the property, plant and equipment accounts. Since that date, the Trust has provided us with such evidence. As described in Note 22, the Trust restated to correct misstatements in its fiscal year 2011 financial statements in order to conform with accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the fiscal year 2011 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of September 30, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

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As discussed in Note 1.Q. to the financial statements, the Trust changed its presentation for reporting the statement of budgetary resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, the Trust's statement of budgetary resources for fiscal year 2011 has been adjusted to conform to the current year presentation.

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory 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 audits 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.

The information in the Other Accompanying Information section, and the information on pages 72 and 73, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 15, 2012, on our consideration of the Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 15, 2012

# FINANCIAL STATEMENTS

## Balance Sheets

| | AS OF SEPTEMBER 30, 2012 | 2011 (Restated) |
|---|---|---|
| **ASSETS** | | |
| Intragovernmental | | |
| Fund Balance with Treasury [NOTE 2] | $ 5,378,575 | $ 23,483,393 |
| Investments [NOTE 4] | 75,002,287 | 77,246,000 |
| Accounts Receivable, Net [NOTE 5] | 366,110 | 422,615 |
| **Total Intragovernmental** | 80,746,972 | 101,152,008 |
| Cash and Other Monetary Assets [NOTE 3] | 186,306 | 194,539 |
| Accounts Receivable, Net [NOTE 5] | 4,246,606 | 2,125,449 |
| General Property, Plant, and Equipment (PP&E), Net [NOTE 6, 22] | 360,246,778 | 322,476,576 |
| Stewardship PP&E [NOTE 7] | | |
| Other Assets | | |
| Prepayments [NOTE 8] | 962,802 | 743,960 |
| Deferred Rent Receivable [NOTE 8] | 19,788,333 | 18,213,943 |
| Other Deferred Real Estate Costs [NOTE 8] | 271,239 | 338,252 |
| | 385,702,064 | 344,092,719 |
| **TOTAL ASSETS** | **466,449,036** | **445,244,727** |
| **LIABILITIES** | | |
| Intragovernmental | | |
| Accounts Payable | $ 1,461,182 | $ 988,614 |
| Debt [NOTE 10] | 49,978,000 | 49,978,000 |
| Other Liabilities | | |
| Employer Contributions Payable [NOTE 12] | 106,164 | 218,598 |
| Other Post Employment Benefits Payable [NOTE 12] | 766,387 | 1,205,454 |
| Unearned Revenue [NOTE 12] | 6,463,837 | 10,821,172 |
| Prepaid Rents [NOTE 12] | 73 | 0 |
| **Total Intragovernmental** | 58,775,643 | 63,211,838 |
| Accounts Payable | 16,583,579 | 20,024,034 |
| Other Liabilities | | |
| Environmental Remediation Liability [NOTE 11] | 29,460,986 | 35,413,231 |
| Contingent Liabilities [NOTE 9, 12, 14] | 60,000 | 15,000 |
| Security Deposits [NOTE 12] | 4,789,095 | 4,510,039 |
| Unearned Revenue [NOTE 12, 21] | 56,274,621 | 49,279,464 |
| Payroll Payable [NOTE 12] | 1,849,247 | 1,821,936 |
| Annual Leave Liability [NOTE 9, 12] | 2,276,294 | 2,344,738 |
| Rent Credit Liability [NOTE 9, 12] | 3,334,092 | 3,710,721 |
| Prepaid Rents & Services [NOTE 12] | 1,212,394 | 2,207,406 |
| Accrued Interest Payable [NOTE 9, 12] | 599,121 | 477,039 |
| FECA Actuarial Liability [NOTE 9, 12] | 5,629,614 | 4,545,111 |
| Other Liabilities [NOTE 12] | 199,123 | 188,879 |
| | 122,258,166 | 124,537,598 |
| **TOTAL LIABILITIES** | **181,033,809** | **187,749,436** |
| **NET POSITION** | | |
| Unexpended Appropriation – Other Funds | 0 | 0 |
| Cumulative Results of Operations – Other Funds [NOTE 22] | 285,415,227 | 257,495,291 |
| **TOTAL NET POSITION** | **285,415,227** | **257,495,291** |
| **TOTAL LIABILITIES & NET POSITION** | **$ 466,449,036** | **$ 445,244,727** |

*The accompanying notes are an integral part of these financial statements.*

## Statements Of Net Cost

| | FOR THE YEARS ENDED SEPTEMBER 30, 2012 | 2011 |
|---|---|---|
| **PROGRAM COSTS** | | (Restated) |
| Intragovernmental Gross Costs **[NOTE 15]** | $ 16,684,790 | $ 15,862,868 |
| Less: Intragovernmental Earned Revenues **[NOTE 15]** | 7,233,231 | 9,014,612 |
| Intragovernmental Net Costs | 9,451,558 | 6,848,256 |
| Gross Cost with the Public | 81,690,280 | 83,506,141 |
| Less: Earned Revenues | 104,268,412 | 85,698,634 |
| Net Costs with the Public | (22,578,132) | (2,192,493) |
| **Total Net Cost** | (13,126,574) | 4,655,763 |
| **(NET REVENUE) OR NET COST OF OPERATIONS** | **($ 13,126,574)** | **$ 4,655,763** |

*The accompanying notes are an integral part of these financial statements.*

## Statements Of Changes In Net Position

| | FOR THE YEARS ENDED SEPTEMBER 30, 2012 | | 2011 | |
|---|---|---|---|---|
| | *Cumulative Results of Operations* | *Unexpended Appropriations* | *Restated Cumulative Results of Operations* | *Unexpended Appropriations* |
| **Beginning Balance** | $ 257,495,291 | $ 0 | $ 213,966,140 | $ 0 |
| Prior Period Adjustments, Correction of an Error **[NOTE 22]** | 0 | | 27,170,330 | |
| **Beginning Balance as Adjusted** | $ 257,495,291 | $ 0 | $ 241,136,470 | $ 0 |
| **Budgetary Financing Sources** | | | | |
| Appropriations Received | 0 | 12,000,000 | 0 | 15,000,000 |
| Other Adjustments (rescissions, etc.) | 0 | (19,200) | 0 | (30,000) |
| Appropriations Used | 11,980,800 | (11,980,000) | 14,970,000 | (14,970,000) |
| **Other Financing Sources** | | | | |
| Donations | 1,332,177 | | 2,548,036 | |
| Transfers-in/out without reimbursement (+/-) | 417,304 | | 2,178,848 | |
| Imputed Financing from Costs Absorbed by OPM | 1,063,081 | | 1,317,700 | |
| **Total Financing Sources** | **14,793,362** | **0** | **21,014,584** | **0** |
| **Net Cost of Operations** | **(13,126,574)** | | **4,655,763** | |
| **ENDING BALANCES** | **$ 285,415,227** | **$ 0** | **$ 257,495,291** | **$ 0** |

*The accompanying notes are an integral part of these financial statements.*

## Statements of Budgetary Resources

| | FOR THE YEARS ENDED SEPTEMBER 30, 2012 | 2011 |
|---|---|---|
| **BUDGETARY RESOURCES** | | |
| Unobligated Balance – Brought Forward, October 1 | $ 32,287,821 | $ 24,567,019 |
| Unobligated Balance from prior year budget authority, net | | |
| Appropriations (discretionary and mandatory) | 11,980,800 | 14,970,000 |
| Spending Authority from Offsetting Collections (discretionary and mandatory) | 105,241,500 | 121,578,002 |
| **TOTAL BUDGETARY RESOURCES** | **$ 149,510,121** | **$ 161,115,021** |
| **STATUS OF BUDGETARY RESOURCES** | | |
| Obligations Incurred | $ 108,802,665 | $ 128,827,200 |
| Unobligated Balances – End of Year | | |
| Apportioned | 40,707,456 | 32,287,821 |
| **Total unoblidated balance, end of year** | 40,707,456 | 32,287,821 |
| **TOTAL STATUS OF BUDGETARY RESOURCES** | **$ 149,510,121** | **$ 161,115,021** |
| **CHANGE IN OBLIGATED BALANCE** | | |
| Unpaid Obligations, brought forward, October 1 (gross) | $ 73,748,105 | $ 89,847,093 |
| Uncollected Customer Payments from Federal Sources, brought forward, October 1st | (5,306,533) | (8,452,806) |
| Obligated Balances start of the year (net) before adjustments | 68,441,572 | 81,394,287 |
| Adjustment to obligated balance, start of the year | | |
| **Obligation balance, start of the year (net) as adjusted** | **68,441,572** | **81,394,287** |
| Obligations Incurred Net **[NOTE 16]** | 108,802,665 | 128,827,200 |
| Outlays Gross | (132,229,021) | (144,926,188) |
| Change in Uncollected Customer Payments from Federal Sources | (7,359,097) | 3,146,273 |
| **Obligated Balance, End of Year** | | |
| Unpaid Obligations, end of year gross | 50,321,749 | 73,748,105 |
| Uncollected Customer Payments from Federal sources, end of year | (12,665,630) | (5,306,533) |
| **Obligated Balance End of Year, net** | **37,656,119** | **68,441,572** |
| **BUDGET AUTHORITY AND OUTLAYS, NET** | | |
| Budget Authority, gross (discretionary and mandatory) | 117,222,300 | 136,548,002 |
| Actual Offsetting Collections (discretionary and mandatory) | (97,882,403) | (124,724,275) |
| Change in Uncollected Customer Payments from Federal Sources | (7,359,097) | 3,146,273 |
| **Budget Authority, net** | **11,980,800** | **14,970,000** |
| Outlays Gross | 132,229,021 | 144,926,188 |
| Actual Offsetting Collections | (97,882,403) | (124,724,275) |
| **NET OUTLAYS** | **$ 34,346,618** | **$ 20,201,913** |

*The accompanying notes are an integral part of these financial statements.*

# NOTES TO THE FINANCIAL STATEMENTS

September 30, 2012 and 2011

## 1. The Presidio Trust and Summary of Significant Accounting Policies

### A. Reporting Entity

The Presidio Trust (the "Trust"), an executive agency, is a wholly-owned government corporation established by Congress in 1996 through enactment of the Presidio Trust Act (P.L. 104-333). The Trust's mission is to preserve and enhance the Presidio as an enduring resource for the American public. In this context the Trust will operate without appropriations after FY 2012.

From 1846 to 1994, the Presidio was used as a U.S. military installation. In 1994, the NPS assumed full control of the Presidio until 1998 when the Trust assumed responsibility for approximately 1,100 acres of non-coastal areas.

The Trust is guided by the Presidio Trust Act to operate in accordance with general objectives of the 1994 General Management Plan Amendment for the Presidio and the Government Corporation Control Act. The Trust currently finances operations through appropriations, which will have been eliminated for FY 2013, reimbursable agreements with other government agencies, and rental leases for both residential and non-residential property.

### B. Organization and Structure

The Trust is governed by a seven-member board of directors. Six members are appointed by the President of the United States. The seventh is the U.S. Secretary of the Interior or his designee. The head of agency for the Trust is an executive director who reports to the board and oversees a staff with expertise including environmental science, historic preservation, operations and maintenance, landscape design, planning, resource management, real estate development, public affairs and programs, law, and finance. An overview of the Trust's operating performance may be found in the Management Discussion & Analysis (MD&A) section of this report.

### C. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost, changes in net position, and budgetary resources of the Trust as required by the Trust Act. These financial statements were prepared from the Trust's accounting records in accordance with accounting principles generally accepted in the United States of America (GAAP), and the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements* revised August 3, 2012. GAAP for Federal entities are the standards designated by the Federal Accounting Advisory Standards Board (FASAB) the official standards setting body for the Federal Government.

These financial statements present budgetary and proprietary information. The Trust presents comparative FY 2012 statements for the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and the Statement of Budgetary Resources.

The Trust accounts for its assets, liabilities, net position, revenues, expenses, and other financing sources in accordance with the requirements of the U.S. Government Standard General Ledger. The use of sub-accounts allows transactions to be recorded at a more detailed level and provide relevant management information.

Although, the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are on an accrual basis, underlying transactions are recorded using both the accrual basis of accounting and a budgetary basis of accounting. The Statement of Budgetary Resources is on a budgetary basis. Under the accrual method, expenses are recognized when resources are consumed and revenues are recognized when earned without regard to the payment or receipt of cash. Budgetary accounting recognizes the obligation of funds according to legal requirements, which in many cases is prior to the occurance of an accrual based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

#### D. Fund Balance with Treasury and Cash

The Trust maintains all cash accounts with the US Department of Treasury except for petty cash accounts maintained at the Trust, by the Trust's Residential Property Manager, and by the Trust's Inn Operator as well as one security deposit refund account maintained by the Trust's Residential Property Manager. All banking activities are conducted in accordance with the directives issued by the Department of the Treasury – Financial Management Service (FMS). Treasury processes cash disbursements and receipts on behalf of the Trust and the Trust's accounting records are reconciled with those of Treasury on a monthly basis. The Trust currently only has funds designated as revolving funds with the Treasury. Revolving funds are funds that conduct continuing cycles of business-like activity in which the fund charges for the sale of a service and uses the proceeds to finance its spending. The Trust's accounting records are such that internal segmentation occurs to ensure that funds are tracked to appropriate activities or requirements.

#### E. Investment, Net

Trust investments in non-marketable, market based U.S. Treasury securities are traded through and held in book entry form at the Department of the Treasury - Bureau of the Public Debt (BPD). The Trust is required by Public Law 104-333 to invest excess cash only in non-marketable, market based Treasury securities issued by the BPD. Non-marketable, market based securities are Treasury securities that are not traded on any securities exchange but mirror the prices of marketable securities with similar terms.

#### F. Accounts Receivable, Net

Accounts Receivable consists of amounts owed to the Trust by other federal agencies and the public. Receivables generally arise from rental properties, service district charges, utilities, reimbursable contracts, and other miscellaneous services.

An allowance for doubtful accounts is established based upon a review process. The Trust reviews accounts over 90 days past due and identifies collectable accounts. If an account is identified as collectable the Trust does not record any bad debt expense for that account; conversely if an account is deemed to be uncollectible prior to 90 days of age a bad debt expense is recorded. For the remaining receivables over 90 days old, the Trust reserves 75% of the balance as an allowance for uncollectible accounts.

As a federal agency, the Trust has the full force of the United States government to facilitate collecting past due amounts. The Trust has an interagency agreement with the US Treasury, Debt Management Services (DMS) for debt collection, and once a debt is deemed uncollectible, and the Trust has taken appropriate collection action, the debtor information is sent to DMS for collection. Debts that are given to DMS for collection are not written off until DMS deems the debt as uncollectible.

#### G. Direct Loans and Loan Guarantees

The Trust is empowered to provide direct loans to non-Federal borrowers and to guarantee loans to non-Federal borrowers for construction and renovation. The Trust has not exercised this authority.

### H. General Property, Plant, and Equipment, Net

**General Property, Plant, & Equipment**

PP&E includes fixed assets owned by the Trust as the result of purchases by the Trust and/or transfers from other governmental entities, primarily the NPS. General PP&E consists of buildings, improvements to buildings, structures and facilities, land improvements, equipment, vehicles, capital leases, and construction in progress.

In general, the Trust capitalizes fixed assets valued in excess of $25,000 with a useful life of two or more years and depreciates assets using the straight-line amortization method over the assigned useful lives of the property. All assets are assigned a useful life between three to ninety years dependent upon the asset category. For financial statement purposes, a pro-rated share of depreciation expense for the asset is recorded in the year of acquisition or project completion depending on the month the asset is placed into service.

Additionally, the Trust capitalizes expenditures for improvements to infrastructure and buildings based upon the following criteria:

- costs exceed $25,000
- are not considered to be repairs and maintenance
- have a useful life of two or more years

Assets may include, in addition to direct costs, an assigned indirect cost component. Indirect costs are determined in accordance with the guidelines set forth in OMB Circular A-11, *Preparation Submission and Execution of the Budget*, of the Budget and the SFFAS No. 6, and are comprised of those indirect costs incurred to bring the PP&E to a form and location suitable for its intended use. The Trust identified these costs based upon a review of its operating activities. Indirect costs are allocated to capital assets using systematic methods approved by management.

Land is considered to be general PP&E and, in accordance with SFFAS No. 6, is to be recorded at cost. The Trust has no land, other than roadbeds (see **Note 22**) recorded as part of General PP&E.

**Construction in Progress**

Construction in Progress (CIP) is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. The assets are transferred out of CIP when the project is substantially completed.

**Stewardship Assets**

Stewardship Assets consist of the public domain land of the Presidio. Heritage assets exist throughout the Presidio and consist of such items as historic buildings, monuments, and historic sites. Both stewardship assets and heritage assets have been entrusted to the Trust to maintain in perpetuity for the benefit of current and future generations. The land comprising the Presidio was acquired by the United States in 1846 as an outcome of the resolution of hostilities with the government of Mexico in the mid-19th century.

The stewardship land and heritage assets are considered priceless and irreplaceable. As such the Trust assigns no value to them and the PP&E on the balance sheet excludes these assets.

### I. Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

### J. Deferred Rent Receivable, Real Estate Assets, and Other Direct Costs

Rental revenue is recognized using the straight-line method over the term of the lease. Any amounts deferred that are not payable by the lessee until future years are included in deferred rent receivable.

Broker commissions and other direct costs associated with leasing revenue are placed into a deferred asset account and amortized over the life of the lease.

**K. Liabilities**

Liabilities represent the amount of monies or other resources that are likely to be paid by the Trust as the result of a transaction or an event that has already occurred. No liability can be paid by the Trust absent an appropriation or spending authority (authority to spend revenues as granted by the Trust Act) granted by the Congress and OMB.

Future liabilities for which current year spending authority will not be used are disclosed as liabilities not covered by budgetary resources or unfunded liabilities. In addition, if other resources or advances that would allow for future spending authority to be designated for the particular liability are not available the liability will be disclosed as a liability not covered by budgetary resources or an unfunded liability. The liquidation of liabilities not covered by budgetary or other resources is dependent on funding.

The Trust estimates accounts payable on a current assessment of services and goods received but not paid.

**Environmental Disposal Liabilities**

The Army closed its base at the Presidio in September 1994 and transferred administrative jurisdiction of the Presidio to the NPS through the DOI for incorporation into the Golden Gate National Recreation Area.

Executive Order 12580 delegated the responsibility to conduct the environmental cleanup of the Presidio to the Army. Under an interagency agreement with the DOI, the Army retained this responsibility as one of the terms of the jurisdictional transfer and initiated certain actions to address environmental conditions at the Presidio.

When Congress created the Trust in 1996, it separated the administrative jurisdiction of the Presidio into two areas: Area A, over which DOI retained authority, and Area B, which was transferred to the Trust in July 1998.

Under a Memorandum of Agreement (the Presidio MOA) among the Trust, DOI, and the Army, the Trust assumed the Army's responsibilities as lead agent for the environmental cleanup in both Area A and Area B. The Army provided $99 million to the Trust in exchange for the Trust's assumption of such responsibilities. All of the Army funds have been spent and the remaining liability is unfunded. As discussed in **Note 11**, the Trust obtained two environmental liability policies related to liabilities in excess of the Army funds.

Changes in cleanup cost estimates are developed in accordance with agency procedure which provides for a systematic process for cost estimating and places emphasis on development and retention of supporting documentation. Changes in cleanup cost estimates are based upon progress made in and revision to cleanup plans, assuming current technology, laws, and regulations. Changes result in an increase or decrease to the Environmental remediation liability and are calculated in current year dollars as prescribed by accounting standards.

**Contingent Liabilities**

Contingent Liabilities are liabilities where the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The Trust recognizes contingent liabilities when the liability is probable and reasonably estimable. The Trust discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met and when the outcome of the future events is more than remote.

#### Other Liabilities

Other liabilities on the Trust's balance sheet arise largely from Trust payroll, normal leasing transactions, and monies received for projects throughout the park. Liabilities such as security deposits and rent credits are directly related to leasing activity with both commercial tenants and residential tenants. Such monies would generally be refundable to the tenants and are therefore shown as a liability. The accrued interest payable is related specifically to an agreement with a tenant that has a rent credit that was not intended be given or used for several years. The accrued interest is unfunded as it will not be paid but will be depleted by applying it as a rent credit against future earnings of the Trust. Unearned revenues are those monies advanced to the Trust for venue rentals and special park uses as well as monies received for projects which are at various stages but not yet complete. The Trust recognizes revenue related to these liabilities as the revenue is earned.

### L. Revenues and Financing Sources

The United States Constitution prescribes that no money may be expended by a federal agency unless and until funds have been appropriated by Congress. Appropriations are considered to be a financing source. The Trust has received the last of its declining appropriations in FY 2012 and will no longer receive an appropriation beginning in FY 2013.

The Trust Act allows the Trust to retain funds earned for its own use and those funds are considered spending authority. Spending authority is subject to apportionment by OMB. The Trust provides services to the public and other government entities which are priced at market value.

#### Appropriations

Congress provides the Trust's appropriation from the general receipts of the Treasury. The Trust's appropriation is in a revolving fund and is available until expended. Appropriations are reflected as a financing source entitled "Appropriation Used" on the Statement of Changes in Net position. FY 2012 is the last fiscal year the Trust will receive appropriated funds. The Statement of Budgetary Resources presents information about the resources appropriated to the Trust as well as spending authority from offsetting collections that the Trust has earned.

#### Exchange and Non-Exchange Revenue

All receipts and revenues of the Trust are classified as either exchange or non-exchange revenue. Exchange revenues are those that are derived from transactions in which the Trust and the other party receive value, including: rent, service district charges, utilities, permits, venue rentals, and reimbursement for services performed for other federal agencies and the public, etc. These revenues are presented on the Trust's Statement of Net Cost and serve to offset the costs of the goods and services received by the Trust.

Non-exchange revenues result from donations to the government. These revenues are those that are considered not to reduce the cost of the operations of the Trust and are reported on the Statement of Changes in Net Position.

With a few minor exceptions, all receipts or revenues by the Trust are retained by the Trust to fund Trust operations. The Trust deposits all funds received in the Treasury General Account and these funds are designated for Trust use through Treasury's accounting process.

Reporting entities that provide goods and services to the public or another government entity should disclose specific information related to their pricing policies. Prices set for the various revenue activities are designed to recover full costs or market value of those activities and maintain operations of the park as a self sufficient entity to include insuring funds are available for capital asset replacement and capital renovations.

**Imputed Financing Sources**

In certain instances operating costs of the Trust are paid out of funds appropriated to other federal agencies. For example, the Office of Personnel Management (OPM), by law pays certain costs of retirement programs. The Trust recognizes these costs as an operating expense and also recognizes an imputed financing source on the Statement of Changes in Net Position.

**Other Financing Sources**

From time to time the Trust works on projects in partnership with the National Park Service (NPS), and the Golden Gate National Parks Conservancy (GGNPC) on Trust owned assets. These amounts are recorded as transfers in without reimbursement or donations of property.

**M. Personnel Compensation and Benefits**

**Annual and Sick Leave Program**

Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefits cost. An unfunded liability is recognized for earned but unused annual leave since from a budgetary standpoint this annual leave will be paid from future funding sources when the leave is used by employees. The amount accrued is based upon current pay rates of the employees. Sick leave is expensed when used and no liability is recognized as employees do not vest in that benefit.

**Federal Employees Workers' Compensation Program (FECA).**

FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job related injuries or occupational diseases. The FECA program is administered by the Department of Labor (DOL) which pays valid claims and subsequently seeks reimbursement from the Trust for these claims.

The FECA liability consists of two components. The first component is based on actual claims paid by DOL but not yet reimbursed by the Trust. There is generally a two to three year lag between payment by DOL and reimbursement by the Trust. The Trust recognizes a liability for the actual claims paid by DOL that are to be reimbursed by the Trust. The second component is the estimated liability for future benefit payments as a result of past events.

This liability includes death, disability, medical, and miscellaneous costs. The Trust determines this component annually, as of September 30, using a method that considers historical benefit patterns and other variables. The DOL provides non-CFO Act agencies a model to use to calculate this liability. The Trust recognizes an unfunded liability to DOL for these estimated future payments.

**Federal Employees Group Life Insurance Program (FEGLI)**

Most Trust employees are entitled to participate in the FEGLI program. Participating employees can obtain "basic life" term insurance, with the Trust reimbursing the employees the cost of the basic life insurance biannually. Additional coverage is optional and is to be paid fully by the employee. The basic life coverage may be continued into retirement if certain requirements are met. OPM administers this program and is responsible for the reporting of liabilities. For each FY, OPM calculates the U.S. Government's service costs for the post retirement portion of the basic life coverage. The Trust's contributions are fully allocated by OPM to the preretirement portion of coverage, so the Trust has recognized the entire service cost of the post retirement portion of basic life coverage as an imputed cost and an imputed financing source.

### Retirement Plans

There are two primary retirement systems for Federal employees. Employees hired prior to January 1, 1984, may participate in the Civil Service Retirement System (CSRS), and employees hired after that date are eligible to participate in the Federal Employee Retirement System (FERS). The Trust Act affords the Trust the ability to manage the payroll process outside of the laws governing civil service retirement; however, the Trust has elected to use the retirement systems in place for federal employees. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. Although the Trust hired its first employees in 1999, the Trust does have some employees in CSRS as these employees have transferred to the Trust from other federal agencies and have prior federal service. The majority of employees participate in FERS.

A primary feature of FERS is that it offers a savings plan to which the Trust contributes one percent of employees' pay and matches any employee contribution up to four percent of pay. For FERS employees the Trust also contributes the employer's matching share of Social Security. The Trust does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the OPM. The Trust does report as an imputed financing source and a program expense, the difference between its contributions to Federal employee pension and other retirement benefits and the estimated actuarial costs as computed by the OPM. The amounts reported as of September 30, 2012 and 2011 are $1,063,081 and $1,317,700 respectively.

### N. Federal Government Transactions

The Trust's financial activities interact with the financial activities of the centralized management functions of the Federal Government. These activities include public debt and cash management activities and employee retirement, life insurance, and health benefits. The financial statements of the Trust do not include the costs of centralized activities performed for the benefit of the entire government.

### O. Income Taxes

As an agency of the federal government, the Trust is generally exempt from all income taxes imposed by any governing body, whether it is a Federal, State, commonwealth, local, or foreign government.

### P. Estimates

Preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates in the financial statements include environmental liabilities, allowance for doubtful accounts, the historical cost of assets acquired from NPS, and useful lives of general PP&E. Actual results may differ from those estimates.

### Q. Reclassifications

In fiscal year 2012, changes to the presentation of the Statements of Budgetary Resources were made, in accordance with Guidance provided in OMB Circular No. A-136, and as such, fiscal year 2011 activity and balances reported on the Statement of Budgetary Resources have been reclassified to conform to the presentation in the current year.

## 2. Fund Balance with Treasury

Fund Balance with Treasury, which consists entirely of revolving funds, is $5,378,575 and $23,483,393 as of September 30, 2012 and 2011 respectively.

Status of Fund Balance with Treasury on September 30, 2012 and 2011 are as follows:

| | *2012* | *2011* |
|---|---|---|
| Available Fund Balance with Treasury and Overnight Investments | $ 45,119,575 | $ 67,485,393 |
| Less Invested Unpaid Obligated Balance | (39,741,000) | (44,002,000) |
| Fund Balance | $ 5,378,575 | $ 23,483,393 |

The fund balance was obligated and unavailable as of September 30, 2012 and 2011 respectively.

## 3. Cash and Other Monetary Assets

Various cash accounts exist to assist in operations around the park:

| | *2012* | *2011* |
|---|---|---|
| Trust Petty Cash | $ 1,000 | $ 1,000 |
| Residential Property Management Petty Cash | 600 | 600 |
| Residential Property Management Security Deposits | 28,460 | 43,412 |
| Inn at the Presidio Petty Cash | 1,500 | 0 |
| Deposits in Transit | 154,746 | 149,527 |
| Total Cash | $ 186,306 | $ 194,539 |

## 4. Investments

**INVESTMENTS AS OF SEPTEMBER 30, 2012**
**INTRAGOVERNMENTAL SECURITIES**

| | *Maturity Date* | *Interest Rate* | *Cost/ Par Value* | *Unamortized Discount* | *Net Value* |
|---|---|---|---|---|---|
| Non-marketable/Market Based | 10/01/12 | .050% | $ 39,741,000 | $ 0 | $ 39,741,000 |
| Non-marketable/Market Based | 9/30/29 | 5.52% | 2,978,000 | 0 | 2,978,000 |
| Non-marketable/Market Based | 9/30/29 | 6.12% | 30,266,000 | 0 | 30,266,000 |
| | | | 72,985,000 | 0 | 72,985,000 |
| Interest Receivable | | | 2,017,287 | 0 | 2,017,287 |
| **TOTAL INVESTMENTS** | | | **$ 75,002,287** | **$ 0** | **$ 75,002,287** |

Both of the investments with a September 30, 2029 maturity date are investments of the proceeds from Trust borrowings from the Treasury (see **Note 10**). The BPD invests these proceeds with the agreement that the borrowing and investment net to zero unless the Trust needs access to the cash. As of September 30, 2012, the Trust was owed $2,017,287 of interest on the investment of the proceeds from the borrowing and on the investments with a maturity date of October 1, 2012. The amount of $2,017,287 was paid in full to the Trust by the BPD on October 1, 2012.

**INVESTMENTS AS OF SEPTEMBER 30, 2011**
**INTRAGOVERNMENTAL SECURITIES**

| | *Maturity Date* | *Interest Rate* | *Cost/ Par Value* | *Unamortized Discount* | *Net Value* |
|---|---|---|---|---|---|
| Non-marketable/Market Based | 10/01/11 | 0% | $ 44,002,000 | $ 0 | $ 44,002,000 |
| Non-marketable/Market Based | 9/30/29 | 5.52% | 2,978,000 | 0 | 2,978,000 |
| Non-marketable/Market Based | 9/30/29 | 6.12% | 30,266,000 | 0 | 30,266,000 |
| | | | 77,246,000 | 0 | 77,246,000 |
| Interest Receivable | | | 0 | 0 | 0 |
| **TOTAL INVESTMENTS** | | | **$ 77,246,000** | **$ 0** | **$ 77,246,000** |

There was no interest owed to the Trust at the end of FY 2011. For all investments fair market value approximates the net value at both September 30, 2012 and 2011.

## 5. Accounts Receivable, Net

Accounts receivable as of September 30, 2012, is comprised of the following:

| | *Intra-Government* | *Non-Government* | *Total* |
|---|---|---|---|
| Gross Accounts Receivable | $ 366,110 | $ 5,326,466 | $ 5,692,576 |
| Less Allowance for Uncollectible Accounts | 0 | (1,079,860) | (1,079,860) |
| **NET ACCOUNTS RECEIVABLE AT SEPTEMBER 30, 2012** | **$ 366,110** | **$ 4,246,606** | **$ 4,612,716** |

Accounts receivable as of September 30, 2011, is comprised of the following:

| | *Intra-Government* | *Non-Government* | *Total* |
|---|---|---|---|
| Gross Accounts Receivable | $ 422,615 | $ 3,291,777 | $ 3,714,392 |
| Less Allowance for Uncollectible Accounts | 0 | (1,166,328) | (1,166,328) |
| **NET ACCOUNTS RECEIVABLE AT SEPTEMBER 30, 2011** | **$ 422,615** | **$ 2,125,449** | **$ 2,548,064** |

## 6. General Property, Plant and Equipment

Property Plant and Equipment (PP&E) consists of property used in operations:

| *Classification* | *Estimated Useful Life* | *Cost* | *Accumulated Depreciation* | *Net Balance at 9/30/12* | *Restated (Note 22) Net Balance at 9/30/11*[4] |
|---|---|---|---|---|---|
| Land and Land Rights[1] | N/A | $ 2,915,800 | N/A | $ 2,915,800 | $ 2,915,800 |
| Improvements to Land | [3] | 38,081,981 | 12,864,340 | 25,217,641 | 21,388,324 |
| Construction-in-Progress | N/A | 35,860,741 | N/A | 35,860,741 | 34,386,431 |
| Buildings, Improvements, Renovations & Rehabilitations | 40 years[2] | 305,243,329 | 63,037,435 | 242,205,894 | 219,839,673 |
| Other Property, Plant and Equipment (including furnishings, equipment, and software) | [3] | 88,663,265 | 34,616,563 | 54,046,702 | 43,946,348 |
| | | **$ 470,765,116** | **$ 122,518,338** | **$ 360,246,778** | **$ 322,476,576** |

1 *The land asset classification cost is the cost of road beds*

2 *Buildings, Improvements and Related Renovations and Rehabilitations have useful lives of 40 years or less for improvements and renovations depending on remaining building life. Tenant Improvements are amortized over the life of the tenant's lease.*

3 *Other Property, Plant and Equipment and Land Improvements are depreciated using a straight line method over their estimated useful lives ranging from three to ninety years.*

4 *Asset value for fiscal year 2011 was restated to correct the PP&E amounts not previously recorded – See* **Note 22** *for additional explanation*

## 7. Stewardship Property Plant & Equipment

The mission of the Trust is to preserve and enhance the Presidio as an enduring resource for the American public. The Trust will achieve its mission by transforming the Presidio into a park of lasting distinction by: 1) building a community to support the park and to preserve its character as a place where people have lived and worked for more than two centuries, 2) enhancing the Presidio's scenic, natural, cultural, and recreational resources for public enjoyment and edification, 3) forging public/private partnerships to finance the park and provide public programs and 4) becoming a model of sustainable park management. The heritage and stewardship assets are natural resources and historic buildings that are directly related to preserving the historical integrity of the Presidio and meeting the Trust's mission.

The Trust's stewardship policies are outlined in several key documents such as: the Presidio Trust Management Plan (PTMP) and the Vegetation Management Plan (VMP). The PTMP proposes a focused and realistic vision which ensures that the Presidio's cultural, natural, scenic, and recreational resources are preserved while at the same time ensuring that the Presidio's historic buildings are rehabilitated. This vision provides that preservation of the Presidio's assets be a goal that is integrated with financial self sufficiency. The stewardship and heritage assets are an integral part of the park and the PTMP commits the Trust to preserving open space within the park. The VMP describes how the historic forest will be rehabilitated, how wetlands will be enhanced, and how native plant and wildlife species will be protected. Further, the PTMP outlines how the Trust will preserve its National Historic Landmark Status.

Heritage and Multi-Use Heritage assets are the historic buildings. Heritage assets are the buildings that will never be occupied by a tenant but will be preserved to ensure that historic integrity remains intact. Multi-use heritage assets, while historical in nature, are buildings that are leased to tenants.

A building can only be added to the heritage category if it is deemed that the building will not ever be occupied.

Stewardship assets consist primarily of historic forest and restoration of lands within the boundaries of the park. There has been no acquisition of new land. Land stewardship consists of forestry acreage added and withdrawn; this represents reforestation activities which results in a turnover of approximately two acres of forest each year.

The following table depicts the number of physical units at the end of FY 2011, additions and withdrawals during FY 2012 and the ending number of units at the end of FY 2012.

| *Classification* | *Beginning Balance* *Number of Buildings* | *Additions* | *Withdrawals* | *Ending Balance* *Number of Buildings* |
|---|---|---|---|---|
| Heritage | 11 | 0 | 0 | 11 |
| Multi-Use Heritage | 411 | 0 | 1 | 410 |
| | *Number of Acres* | *Acres Added* | *Acres Withdrawn* | *Number of Acres* |
| Land Stewardship (1 park) | 868.9 | 2.1 | 2.0 | 869.0 |

The following table depicts the number of physical units at the end of FY 2010, additions and withdrawals during FY 2011 and the ending number of units at the end of FY 2011.

| *Classification* | *Beginning Balance* *Number of Buildings* | *Additions* | *Withdrawals* | *Ending Balance* *Number of Buildings* |
|---|---|---|---|---|
| Heritage | 11 | 0 | 0 | 11 |
| Multi-Use Heritage | 413 | 0 | 2 | 411 |
| | *Number of Acres* | *Acres Added* | *Acres Withdrawn* | *Number of Acres* |
| Land Stewardship (1 park) | 864.2 | 6.8 | 2.1 | 868.9 |

As part of ongoing improvements, the Trust continues to acquire and preserve heritage assets. In FY 2011 the Trust acquired artwork, through a donation, known as "Woodline" which is valued at $550 thousand.

## 8. Other Assets

Other assets as of September 30, 2012 and 2011 are comprised of the following:

| | *2012* | *2011* |
|---|---|---|
| Prepayments | $ 962,802 | $ 743,960 |
| Deferred Rent Receivable | 19,788,333 | 18,213,943 |
| Other Deferred Real Estate Assets | 271,239 | 338,252 |
| Total Other Assets | $ 21,022,374 | $ 19,296,155 |

## 9. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources are those liabilities that may be funded from future resources. Liabilities not covered by budgetary resources as of September 30, 2012 and 2011 are comprised of the following:

| | *2012* | *2011* |
|---|---|---|
| FECA Actuarial | $ 5,629,614 | $ 4,545,111 |
| Contingent Liabilities **[NOTE 14]** | 60,000 | 15,000 |
| Environmental Remediation Liability **[NOTE 11]** | 29,450,986 | 35,413,231 |
| Annual Leave Liability | 2,276,294 | 2,344,738 |
| Rent Credit Liability | 3,334,092 | 3,710,721 |
| Accrued Interest Payable | 599,121 | 477,039 |
| **TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES** | **41,350,107** | **46,505,840** |
| Liabilities Covered by Budgetary Resources | 139,683,702 | 141,243,596 |
| **TOTAL LIABILITIES** | **$ 181,033,809** | **$ 187,749,436** |

## 10. Debt

The Trust has the following debt to Treasury as of September 30, 2012 and 2011:

| | *Maturity Date* | *2012* | *2011* |
|---|---|---|---|
| **DEBT TO THE TREASURY** | | | |
| **Note C** (dated 9/29/00) | 9/30/2029 | $ 20,000,000 | $ 20,000,000 |
| **Note C** (dated 9/28/00) | 9/30/2029 | 20,000,000 | 20,000,000 |
| **Note C** (dated 9/29/01) | 9/30/2029 | 9,978,000 | 9,978,000 |
| **TOTAL PRINCIPAL** | | **$ 49,978,000** | **$ 49,978,000** |

The Presidio Trust Act granted the Trust the authority to borrow from the U.S. Treasury. The aggregate amount of outstanding obligations at any one time is limited to $150 million. These borrowings financed building and infrastructure rehabilitation by the Trust. Borrowing was contingent on the Secretary of the Treasury determining that the projects to be funded from the proceeds were creditworthy. In 1999, the Trust and the Secretary of the Treasury established a written borrowing agreement to advance funds for capital improvement projects. The Trust executed a promissory note for the requested amount to evidence the obligation of the Trust to repay the Treasury the sum borrowed, together with any late charges that might be incurred.

The Trust was granted $49,978,000 in borrowing authority. The terms surrounding the Trust's borrowing authority have been described below. The debt the Trust has incurred is all related to the borrowing authority granted to the Trust.

The Trust has issued the following promissory notes to the BPD:

1) **NOTE C** (dated 9/29/00)
Principal amount is $20 million. The amount was used for the capital improvement projects activities in, on, or in support of particular Trust assets, specifically the Baker Beach Apartments, Building 220 and Building 36. The note includes a pledge by the Trust to the Treasury of all rents, revenues, income, and proceeds arising out of the Trust's administration, operation, and leasing of the Baker Beach Apartments, Building 220, and Building 36 that have been improved. The note carries an interest rate of 6.122% requires principal payments starting in 2015 and matures on September 30, 2029.

2) **NOTE C** (dated 9/28/00)
Principal amount is $20 million. The amount of the request was used for the capital improvement projects activities in, on, or in support of any Trust assets. The note includes a pledge by the Trust to the Treasury of all rents, revenues, income, and proceeds arising out of the Trust's administration, operation, and leasing of the Baker Beach Apartments, Building 220 and Building 36. The note carries an interest rate of 6.122% requires principal payments starting in 2015 and matures on September 30, 2029.

3) **NOTE C** (dated 9/29/01)
Principal amount is $9,978,000. The amount of the request was used for the capital improvement projects activities in, on, or in support of any Trust assets. The note includes a pledge by the Trust to the Treasury of all rents, revenues, income, and proceeds arising out of the Trust's administration, operation, and leasing of the Baker Beach Apartments, Building 220 and Building 36. The note carries an interest rate of 5.515% requires principal payments starting in 2015 and matures on September 30, 2029.

The Trust incurred $2,999,087 in interest cost in both FY2012 and FY2011 all of which was included in program costs.

In FY 2012, no additional debt obligations were issued and there was no borrowing authority available at September 30, 2012 or September 30, 2011. Debt repayment on the current borrowings is $0 in FY 2013 and FY 2014, $2,192,191 in FY 2015, $2,317,726 in FY 2016, $2,450,454 in FY 2017 with the remainder in years thereafter.

## 11. Other Liabilities – Environmental Remediation

**Agent Responsibilities for Environmental Cleanup**

As discussed in Note 1, Significant Accounting Policies, the Trust is the lead agent for environmental cleanup of the Presidio.

Cleanup includes enumerated sites where a potential environmental threat (Substance and Condition) is presently known or may exist based on past Army studies or records. Cleanup also includes unknown contamination which is any environmental threat at or from the Presidio other than an enumerated site that existed at the Presidio before October 1, 1994 (Presidio base closure) or was the result of an Army act or omission on or after October 1, 1994.

The Trust performs all cleanup work at enumerated sites and is the point of contact for all regulatory agencies and the public. The Army retained responsibility to fund and/or to perform all environmental cleanup work of unknown contamination as well as sole responsibility for the clean up of radioactive materials, chemical and biological warfare agents, and unexploded ordnance if discovered at the Presidio.

If cleanup costs for the enumerated sites exceed $100 million plus insurance proceeds (see discussion of the Trust's environmental insurance policies below) by $10 million, the Army must seek additional appropriated funds for the enumerated sites. The Army is released from this requirement if the Trust's mismanagement or inefficient use of funds causes the cost overrun.

The Trust obtained two environmental insurance policies: a Remediation Stop Loss (RSL) policy and a Real Estate Environmental Liability (REEL) policy:

> The RSL policy provides the Trust with insurance against cost overruns in implementing environmental remedies that have been approved by the appropriate regulatory agencies for known contamination at enumerated sites. The RSL policy pays for remediation costs in excess of $100 million (self-insured retention) spent by the Trust for "necessary and reasonable" costs. The RSL policy has a liability limit of $100 million. The RSL policy
>
> is set up so that the Trust pays the first $100 million of remediation costs and the RSL policy would pay for the second $100 million. The Army and DOI are each named as an additional insured on the RSL policy. Allowable cleanup exceeded the $100 million self insured retention in FY 2012. The REEL policy provides coverage for unknown contamination. The REEL policy has a limit of $10 million (with a $25,000 deductible per claim) and a $50 million total for all claims.
>
> DOI is a named insured under the REEL policy. At present, the Trust has claims pending against the REEL coverage but the amount of recovery cannot be determined at this time.

**Liability for Environmental Cleanup Costs**

Changes in cleanup cost estimates are developed in accordance with agency procedure which provides for a systematic process for cost estimating and places emphasis on development and retention of supporting documentation. This total estimated cost to complete has been updated to reflect the estimates as of September 30, 2012.

The table below identifies the Trust's costs from inception of the environmental cleanup program to date and sets forth the current total estimated cost at completion. The table separately identifies the costs related to the cleanup of contaminants known and inventoried at the time the Army turned the cleanup over to the Trust and contaminants identified by the Trust subsequent to the Army's turnover.

| | ***Known Contaminants As of 9/30/2012*** | | ***Unknown Contaminants As of 9/30/2012*** | | | |
|---|---|---|---|---|---|---|
| | ***Spent*** | ***At Completion*** | ***Spent*** | ***At Completion*** | ***Total Spent As of 9/30/2012*** | ***Total Estimated Cost At Completion*** |
| Allowable Costs* | 109.8 | 139.9 | 7.8 | 11.4 | 117.6 | 151.3 |
| Other Costs* | 20.4 | 20.4 | | | 20.4 | 20.4 |
| **TOTAL COSTS*** | **130.2** | **160.3** | **7.8** | **11.4** | **138.0** | **171.7** |
| Environmental Remediation Liability per Balance Sheet* | | | | | 29.4 | |
| Less Resources | | | | | | |
| Army/Other (Reimbursement)* | | 119.5 | | 7.1 | (7.1) | 126.6 |
| Insurance/Other (Estimate)* | | 2.4 | | | | 2.4 |
| **TOTAL AFTER RESOURCES*** | | **38.4** | | **4.2** | | **42.7** |
| **TOTAL OF KNOWN CONTAMINANTS AT COMPLETION*** | | | | | **$160.3** | |
| Interest Income* | | **19.2** | | | | **19.2** |

**Dollars Noted in Millions*

The Trust's financial statements reflect a liability for environmental remediation clean up costs of $29.4 million which is unfunded as of September 30, 2012. This represents the total estimated cost at completion less the expected Army and insurance reimbursements (claims filed). The actual cost at completion may vary from the current estimated cost at completion. The Trust has earned $19.2 million of interest income which was recognized as revenue by the Trust in the year in which it was earned. The change in liability as of September 30th from FY 2012 to FY 2011 is reflected in the chart below:

| ***Liability per Balance Sheet (in millions)*** | ***2012*** | ***2011*** |
|---|---|---|
| Beginning Balance | $ 35.4 | $ 35.4 |
| Costs Applied, net | (11.8) | (12.6) |
| Change in Estimated Cost to Complete | 5.8 | 12.6 |
| **TOTAL LIABILITY** | **$ 29.4** | **$ 35.4** |

The total estimated cost at completion could increase further in the future due to inflation and the timing of implementing the various remedies. Annually, management will update the total estimated cost at completion and will periodically enlist third party expertise to assist management in formulating detailed projections based on a thorough review of the remediation program.

## 12. Other Liabilities

Other liabilities as of September 30, 2012 and 2011 are comprised of the following:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | *Non-Current* | *Current* | *Non-Current* | *Current* |
| **INTRAGOVERNMENTAL** | | | | |
| Employer Contributions Payable | $ 0 | $ 106,164 | $ 0 | $ 218,598 |
| Other Post Employment Benefits | 161,921 | 604,466 | 650,017 | 555,437 |
| Prepaid Rents & Services | 0 | 73 | 0 | 0 |
| Unearned Revenue | 0 | 6,463,837 | 0 | 10,821,172 |
| **TOTAL INTRAGOVERNMENTAL** | **161,921** | **7,174,540** | **650,017** | **11,595,207** |
| Enviornmental Remediation Cleanup Cost Liability **[NOTE 11]** | 0 | 29,450,986 | 27,746,231 | 7,667,000 |
| FECA Actuarial **[NOTE 9]** | 5,068,024 | 561,590 | 4,067,111 | 478,000 |
| Contingent Liabilities **[NOTE 14]** | 0 | 60,000 | 0 | 15,000 |
| Security Deposits | 4,789,095 | 0 | 4,510,039 | 0 |
| Unearned Revenue | 39,697,119 | 16,577,502 | 35,588,096 | 13,691,368 |
| Payroll Payable | 0 | 1,849,247 | 0 | 1,821,936 |
| Annual Leave Liability **[NOTE 9]** | 0 | 2,276,294 | 0 | 2,344,738 |
| Rent Credit Liability **[NOTE 9]** | 3,154,750 | 179,342 | 3,382,676 | 328,045 |
| Prepaid Rents & Services | 0 | 1,212,394 | 0 | 2,207,406 |
| Accrued Interest Payable **[NOTE 9]** | 599,121 | 0 | 477,039 | 0 |
| Other Liabilities | 15,573 | 183,550 | 0 | 188,879 |
| **TOTAL OTHER LIABILITIES** | **$ 53,485,603** | **$ 59,525,445** | **$ 76,421,209** | **$ 41,654,314** |

## 13. Leases

### Trust as Lessee

***Operating Leases***

The operating leases are for equipment. The Trust currently leases multiple copiers which are under agreements that do not have a definitive lease period that exceed one year. The Trust also leases government vehicles from General Services Administration (GSA), but such leases do not have a definitive lease period that exceed one year.

### Trust as Lessor

***Operating Leases***

**Description of Lease Arrangements:**

The Trust's properties are leased under terms from one month up to 70 years. The Trust expects that these leases will be renewed or replaced by other leases in the normal course of business. In addition, fourteen leases are operated under contingent rental agreements wherein the monthly rental revenue is either a percent of the lessees' monthly revenue or base rent plus additional rent based upon a percent of the lessees' monthly revenue.

The Trust also provides free rent or reduced rental rates to certain employees of the Trust, other Presidio based employees, and other governmental agencies.

Minimum future lease payments to be received under non-cancelable operating leases are as follows:

| *Fiscal Year* | *Total* |
|---|---|
| 2013 | $ 15,542,424 |
| 2014 | 12,315,572 |
| 2015 | 11,333,979 |
| 2016 | 10,625,155 |
| 2017 | 9,927,718 |
| Thereafter | $ 366,099,661 |
| **TOTAL** | **$ 425,844,509** |

## 14. Commitments and Contingencies

From time to time, the Trust is involved in legal matters, including tort and employment-related claims. Currently the Trust has pending three claims of workplace discrimination. The Trust is actively pursuing each of these claims and has assigned a contingent liability of $60,000 to all of the claims, in the aggregate. Trust management does not expect other pending legal matters to have a material impact on its financial condition or net costs.

## 15. Intragovernmental Costs & Exchange Revenues

### Exchange Revenue

The Trust provides services to the public and other government entities. Revenue earned from the US Treasury is from earnings on investments. Revenue earned from the Department of the Interior was related to work on a reimbursable project and other miscellaneous services that the Trust provides. Revenue earned from the Department of Defense is primarily related to a grant for work on the Main Post. Revenues earned from the Department of the Army are primarily related to the Environmental remediation program.

| | *Amount of Revenue Earned* | |
|---|---|---|
| *Agency* | *2012* | *2011* |
| U.S. Treasury | $ 2,046,198 | $ 2,065,390 |
| Department of Defense | 3,331,971 | 3,949,187 |
| Department of the Army | 315,048 | 281,797 |
| Department of Interior | 1,299,917 | 2,314,252 |
| Other | 240,097 | 403,986 |
| **TOTAL** | **$ 7,233,231** | **$ 9,014,612** |

The Trust also incurs costs for services provided by other government agencies or for programs run by other government agencies. Costs incurred with the OPM are for employee benefits. The Department of Interior provides public safety, payroll, and other miscellaneous services to the Trust. Costs incurred with the US Treasury are for interest on loans.

| | *Amount of Cost Incurred* | |
|---|---|---|
| *Agency* | *2012* | *2011* |
| Office of Personnel Management | $ 6,852,778 | $ 7,078,698 |
| Department of Interior | 5,333,998 | 4,417,867 |
| U.S. Treasury | 2,999,087 | 2,999,087 |
| Department of Labor | 674,063 | 659,928 |
| General Services Administration | 685,384 | 662,614 |
| Other | 139,480 | 44,674 |
| **TOTAL** | **$ 16,684,790** | **$ 15,862,868** |

## 16. Apportionment Categories of Obligations Incurred: Direct Vs. Reimbursable Obligations

All obligations are under reimbursable authority. The amount of obligations incurred as of September 30, 2012 and 2011 was $108,802,665 and $128,827,200 respectively.

## 17. Permenent Indefinite Appropriations

The Trust has a permanent indefinite appropriation which is used to finance operations, maintenance, and capital improvements in Area B of the Presidio. An indefinite appropriation is one that does not have a specific amount but is determined from sources specified in the appropriations act. In the Trust Act the Trust is able to retain revenues to fund operations.

## 18. Undelivered Orders at End of Period

Undelivered orders represent amounts for which funds were obligated but the goods and/or services related to those specific orders have not been received. The balance of undelivered orders at September 30, 2012 and 2011 were $29,392,715 and $49,489,469, respectively.

## 19. Contributed Capital

The Trust is granted the authority to accept donations in the Trust Act. In FY 2012 the Trust received $14 thousand dollars in direct donations. The Trust also receives grants and other funding for various projects within the park. The Trust received $1.6 million in funds related to land improvements and historical renovations, and $4.0 million in funds for wetland mitigation projects. Further, the Trust in coordination with various partners worked on constructing the Rob Hill Connector Trail, the El Polin Spur Trail, an addition of a shade house for the Presidio Nursery and the renovation and improvements of two existing buildings which resulted in $1.3 million in improvements.

## 20. Reconciliation of Net Cost of Operations (Proprietary) to Budget (Formerly the Statement of Financing

The following schedule has been prepared in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, and represents reconciliation between the proprietary accounts and the budgetary accounts, and is a reconciliation of the proprietary statements to the Statement of Budgetary Resources. This schedule was formerly known as the Statement of Financing. Accrual basis accounting standards used in the Statements of Net Cost, Statements of Changes in Net Position, and Balance Sheets differ from the budgetary basis used in the Statement of Budgetary Resources, especially in the treatment of liabilities. A liability not covered by budgetary resources may not be recorded as a funded liability in the budgetary accounts of the Trust's general ledger, which supports the Statement of Budgetary Resources. Liabilities are considered "funded" for purposes of the Balance Sheets, Statements of Net Cost and Statements of Changes in Net Position.

The reconciliation between budgetary and proprietary includes a section depicting the change in certain unfunded liabilities. The amounts in this section may not correlate exactly with the amounts shown in Note 9 – Liabilities not covered by Budgetary Resources. Differences primarily result from Treasury requirements related to where the changes in these liabilities are reported in the Reconciliation of Net Costs of Operations. These requirements are dependent upon whether the change resulted in an increase or a decrease to the liability account.

# RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

| | FOR THE YEARS ENDED SEPTEMBER 30, 2012 | 2011 |
|---|---|---|
| **RESOURCES USED TO FINANCE ACTIVITIES** | | (Restated) |
| **Budgetary Resources Obligated** | | |
| Obligations Incurred | $ 108,802,665 | $ 128,827,200 |
| Less: Spending Authority from Offsetting Collections and Recoveries | 105,241,500 | 121,578,002 |
| Net Obligations | 3,561,165 | 7,249,198 |
| **Other Resources** | | |
| Donations Non-Financial Resources | 1,332,177 | 2,548,036 |
| Transfers in/out without Reimbursement | 417,304 | 2,178,848 |
| Imputed Financing from Costs Absorbed by Others | 1,063,081 | 1,317,700 |
| Net Other Resources Used to Finance Activities | 2,812,561 | 6,044,584 |
| **TOTAL RESOURCES USED TO FINANCE ACTIVITIES** | **6,373,726** | **13,293,782** |
| **RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS** | | |
| Change in Budgetary Resources Obligated for Goods, Services, and Benefits Not Yet Provided | 15,829,258 | 36,903,396 |
| Resources that Fund Expenses Not Recognized in Prior Periods | (11,714,563) | (12,890,755) |
| Other | (595,472) | (104,002) |
| Resources that Finance the Acquisition of Assets | (45,982,270) | (61,900,864) |
| **TOTAL RESOURCES USED TO FUND ITEMS NOT PART OF THE NET COST OF OPERATIONS** | **(42,463,047)** | **(37,992,224)** |
| **TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS** | **(36,089,322)** | **(24,698,443)** |
| **COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD** | | |
| **Components Requiring or Generating Resources in Future Periods** | | |
| Increase/Decrease in Annual Leave Liability | (68,444) | 53,280 |
| Increase/Decrease in Environmental Remediation Cleanup Cost Liability | 5,752,317 | 12,579,586 |
| Other | 1,763,120 | 1,202,626 |
| **Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods** | 7,446,993 | 13,835,492 |
| **Components Not Requiring or Generating Resources** | | |
| Loss on Disposition of Assets | 1,418,050 | 2,699,042 |
| Depreciation and Amortization | 16,051,909 | 13,113,023 |
| Other | (1,954,205) | (293,351) |
| **TOTAL COMPONENTS NOT REQUIRING OR GENERATING RESOURCES** | **15,515,755** | **15,518,714** |
| **NET COST OF OPERATIONS** | **($ 13,126,574)** | **$ 4,655,763** |

## 21. Doyle Drive (Presidio Parkway Project)

In October 2009, the Trust, the State of California (State) represented by its Transportation Department (CALTRANS), and the San Francisco County Transportation Authority (SFCTA) finalized a Right of Entry Agreement related to the construction to replace the south access road to the Golden Gate Bridge known as Doyle Drive (Route 101).

Doyle Drive is located within the Presidio of San Francisco and provides access to historic and cultural landmarks including the Golden Gate National Recreation Area, the Presidio, the Golden Gate Bridge and the Palace of Fine Arts. The Presidio Parkway was identified as the Preferred Alternative for the Doyle Drive replacement. It will replace the existing roadway that, when constructed, will improve the seismic, structural and traffic safety of Doyle Drive.

As a major highway construction project within the boundaries of a National Park significant consideration has been given to the historical and environmental fabric of the Presidio. The Right of Entry specifically allows ingress and egress by the State for the duration of the project. It also recognizes the impact to the historic assets of the Presidio and allows for mitigation and compensation for impacts of the project.

Work on the Doyle Drive project commenced late in FY 2009 and has continued through FY 2012. The State has performed significant tree removals and utility infrastructure relocations and reestablishments to make way for construction of the parkway. In FY 2011 and FY 2012, the State performed heavy construction on the high viaduct, demolition of the low viaduct, and has rerouted traffic through one of the new tunnels that will remain part of the permanent roadway.

The Trust has received cash compensation under the Right of Entry agreement, and will receive assets since the project must relocate, rebuild, and restore Trust assets in order to build the parkway. To date the Trust has accepted some sidewalks and utility infrastructure assets, and the dollar amount of these assets is discussed below along with other compensation. Further, the project is resulting in the demolition of multiple buildings and other Trust improvements. The Trust is actively engaged in supporting the implementation of the project in our jurisdiction working closely with Caltrans staff. The Trust is being reimbursed for the cost of the support under a reimbursable agreement with the State, and a previous agreement with the SFCTA.

The cash compensation and fair market value of the assets will be recognized as unearned revenue as they are received, and the revenue will be earned over time in accordance with SFFAS No. 7. The State currently has the use of a temporary construction easement and a Trust owned building; revenue will be recognized over the life of the right of entry agreement for the State's use of these items. All other revenue will be recognized over the estimated life of the new roadway.

The Trust has received a total of cash compensation in the amount of $63.3 million and $9.1 million in fixed assets. The Trust recognized earned revenue in the amount of $10.1 million in FY 2012 and $8.9 million in FY2011, leaving a balance of $46.0 million in unearned revenue.

The Trust has also recognized earned revenue of $1.6 million in both FY 2012 and FY 2011 due to reimbursement for project support.

## 22. Restatement

In July 1998, the Trust assumed jurisdiction over approximately 1,100 acres of federal land and over 800 buildings from the NPS. The United States Army previously administered the property. Many of the structures were greater than 40 years old and pursuant to Trust depreciation policies were fully depreciated at the date of transfer. Statement of Federal Financial Accounting Standards (SFFAS) No. 6 – *Accounting for Property, Plant and Equipment (PP&E)* – requires PP&E to be recognized when title passes to the entity. Additionally, SFFAS No. 6 requires that the cost of general PP&E transferred from other federal entities be at the cost recorded by the transferring entity, net of accumulated depreciation; if such amounts cannot be reasonably ascertained, the cost of the PP&E is to be its fair value at the time transferred.

Due to the lack of available information from the NPS and the United States Army, the Trust recorded buildings less than 40 years old by using appropriate construction industry indices, less an accumulated depreciation adjustment to ascertain net asset value at the date of the Trust's formation. However, improvements made to land and to buildings over 40 years old and infrastructure were valued at zero net book value, but some still had a net value and should have been recorded at fair value.

In September 2010, the Federal Accounting Standards Advisory Board (FASAB) issued SFFAS No. 35 *Estimating the Historical Cost of Property Plant and Equipment* and in June 2011 the FASAB issued Technical Release (TR) No. 13, *Implementation Guide for Estimating the Historical Cost of General Property, Plant & Equipment*, which clarified that reasonable estimates of original transaction data historical cost may be used to value general property, plant, and equipment. The Trust has applied the provisions of SFFAS No. 35 and FASAB TR 13 to estimate the historical cost and net book value of the assets not previously recorded.

To correct the PP&E amounts not previously recorded, the Trust recorded the estimated historical cost of assets that still have a net book value as of October 1, 2010; assets that have a net book value of zero were recorded at net zero consistent with the approach taken in 1999. The correction results in a restatement of the 2011 Balance Sheet, Statement of Net Cost, and Statement of Change in Net Position as follows

| | ***FY 2011 As Reported*** | ***Adjustment*** | ***FY 2012 As Restated*** |
|---|---|---|---|
| Property, Plant & Equiment, Net | $ 296,454,127 | $ 26,022,449 | $ 322,476,576 |
| Cumulative Results of Operatons | 231,472,842 | 26,022,449 | 257,495,291 |
| Gross Cost with the Public | 82,358,260 | 1,147,881 | 83,506,141 |
| Net Cost | $ 3,507,882 | $ 1,147,881 | $ 4,655,763 |

# REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

September 30, 2012 and 2011

## 1. Deferred Maintenance

Deferred maintenance is maintenance or repairs not performed when it was scheduled to be performed, essentially maintenance delayed until a future time. Maintenance is described as the act of keeping fixed assets in an acceptable condition. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the Trust's assets so that the asset continues to provide acceptable service and achieve its expected life.

Trust deferred maintenance is determined, through use of staff expertise, using a total life-cycle cost method for all deferred maintenance categories of major assets. This effort was worked on throughout the year and during preceding fiscal years. The major categories of infrastructure and grounds were refined in FY 2010 and have been calculated consistently over the last two fiscal years.

Heritage assets and multi-use heritage assets that have deferred maintenance are a subset of the building category. The Trust is currently in the process of renovating buildings throughout the Presidio. Buildings that are renovated are maintained to ensure that the renovated condition is maintained. Buildings that have not been renovated are maintained to a level to ensure that they are preserved until such time as they can be rehabilitated.

Stewardship assets are included in the grounds category. Stewardship Lands consist primarily of forested lands and trails. The Trust is currently rehabilitating the forest through several reforestation projects, and reforests approximately two acres per year.

The Trust has determined that there is deferred maintenance in the following categories of assets:

| | *2011 Ending Balance* | *2012 Scheduled Maintenance* | *2012 Actual Maintenance* | *Adjustment* | *2012 Ending Balance* |
|---|---|---|---|---|---|
| **CATEGORY** | | | | | |
| Infrastructure | $ 1,075,618 | $ 1,556,441 | $ 423,839 | $ 295,086 | $ 837,516 |
| Stewardship and Landscape | 1,172,769 | 2,022,556 | 892,701 | 202,222 | 927,633 |
| Golf Course | 3,050 | 113,890 | 94,200 | 16,640 | 3,050 |
| **Total Non-Buildings** | **2,251,437** | **3,692,887** | **1,410,740** | **513,948** | **1,768,199** |
| **Buildings:** | | | | | |
| Heritage | 89,790 | 103,008 | 0 | 0 | 103,008 |
| Multi-Use Heritage | 3,868,427 | 4,883,086 | 887,731 | 0 | 3,995,355 |
| Non-Historic | 1,557,708 | 2,784,650 | 1,540,084 | 0 | 1,244,566 |
| **Total Buildings** | **5,515,925** | **7,770,744** | **2,427,815** | **0** | **5,342,929** |
| **GRAND TOTAL** | **$ 7,767,362** | **$ 11,463,631** | **$ 3,838,555** | **$ 513,948** | **$ 7,111,128** |

**2012 beginning balance is not equal to 2011 ending balance as additional items become scheduled at the beginning of the fiscal year*

# OTHER ACCOMPANYING INFORMATION

## SUMMARY OF FINANCIAL STATEMENT AUDIT

| Audit Opinion | Unqualified | | | | |
|---|---|---|---|---|---|
| Restatement | No | | | | |
| Material Weakness | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
| None | NA | NA | NA | NA | NA |

## SUMMARY OF MANAGEMENT ASSURANCES

| EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING | | | | | | |
|---|---|---|---|---|---|---|
| Statement of Assurance | | Unqualified | | | | |
| Material Weakness | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| None | NA | NA | NA | NA | NA | NA |
| EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS | | | | | | |
| Statement of Assurance | | See Below | | | | |
| Material Weakness | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| None | NA | NA | NA | NA | NA | NA |
| CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS | | | | | | |
| Statement of Assurance | | See Below | | | | |
| Non-Conformances | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| None | NA | NA | NA | NA | NA | NA |

| CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT | | |
|---|---|---|
| Statement of Assurance | Agency | Auditor |
| Overall Substantial Compliance | Yes or No | N/A |
| System Requirements | Yes | NA |
| Accounting Standards | Yes | NA |
| USSGL at Transaction Level | Yes | NA |

Management certifies to the effectiveness of internal control over operations and conformance with management system requirements.

# INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

## Independent Auditors' Report on Internal Control Over Financial Reporting

The Board of Directors of
The Presidio Trust

We have audited the balance sheets of the Presidio Trust (the Trust) as of September 30, 2012 and 2011 and the related statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated November 15, 2012, which explained that the Trust has restated the fiscal year 2011 historical cost of general property, plant and equipment, and accordingly, our present opinion on the fiscal year 2011 financial statements is different from that expressed in our previous report and that the Trust has changed its presentation for reporting the statement of budgetary resources based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*.

We conducted our audits 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 Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Trust is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our fiscal year 2012 audit, we considered the Trust's internal control over financial reporting by obtaining an understanding of the Trust's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2012 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain additional matters that we have reported to management of the Trust in a separate letter dated November 15, 2012.

This report is intended solely for the information and use of the Trust's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 15, 2012

# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS

KPMG

**KPMG LLP**
Suite 12000
1801 K Street, NW
Washington, DC 20006

## Independent Auditors' Report on Compliance and Other Matters

The Board of Directors of
The Presidio Trust:

We have audited the accompanying balance sheets of the Presidio Trust (the Trust) as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated November 15, 2012, which explained that the Trust has restated the fiscal year 2011 historical cost of general property, plant and equipment, and accordingly, our present opinion on the fiscal year 2011 financial statements is different from that expressed in our previous report and that the Trust has changed its presentation for reporting the statement of budgetary resources based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. We conducted our audits 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 Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Trust is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Trust. As part of obtaining reasonable assurance about whether the Trust's financial statements are free of material misstatement, we performed tests of the Trust's 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 the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Trust. 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 of compliance described in the preceding paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the Trust's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 15, 2012